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June 3, 2010 Via E-Mail: comments@pcaobus.org

J. Gordon Seymour
General Counsel and Secretary
Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street N.W.
Washington, DC 20006-2803

Re: **PCAOB Release No. 2010-001 Rulemaking Docket Matter No. 030**
"Proposed Auditing Standard Related to Communications with Audit Committees and related Amendments to Certain PCAOB Auditing Standards"

Dear Mr. Seymour and Board Members:

I am writing on behalf of the California Public Employees' Retirement System (CalPERS), the largest public pension fund in the United States with approximately $201 billion in global assets and equity holdings in over 9,000 companies. CalPERS provides retirement benefits to over 1.5 million public workers, retirees, and their families and beneficiaries.

As a significant institutional investor with a long-term investment horizon, CalPERS has a vested interest in maintaining the integrity and efficiency of the capital markets. CalPERS philosophy is to promote best practices that facilitate integrity in financial reporting. The financial interests of CalPERS beneficiaries are most effectively served in an environment where investors can confidently utilize financial statements to evaluate the risk and reward of an investment. Auditors play a key role in decreasing the risk of material misstatements in financial reports whereas Audit Committees play an important role in protecting the interest of investors and in overseeing the integrity of the company's financial reporting.

CalPERS appreciates the opportunity to provide comment to the Public Company Accounting Oversight Board (Board) on the proposed new auditing standard that will replace AU sec 380, Communication with Audit Committees and AU sec 310, Appointment of the Independent Auditor. CalPERS supports the Board's proposed standard to integrate the auditor's appointment and communications with the Audit Committee into one standard. We also agree with Acting Chairman Goelzer's statement on March 29, 2010, that emphasizes communication is a two-way street and from the perspective of the auditor, the Audit Committee is likely to be aware of matters that may affect the audit, including complaints or concerns that have come to the Audit Committee's attention regarding accounting or internal controls. More broadly, we uphold Mr. Goelzer's statement that "As more time elapses since the crisis that led to the enactment of the Sarbanes-Oxley Act it is important that auditors and Audit Committees not lose their focus on the importance of candid and timely communication. "

Objectives of the Auditor

CalPERS supported auditor independence as a core principle underlying the Sarbanes-Oxley Act of 2002 and agree with Board member Steven Harris' statement on March 29, 2010, that "Independence of the auditor is essential to the integrity of an audit of financial statements and the financial reporting process." We agree that the objectives of the auditor are:

- Communicating to the Audit Committee the responsibilities of the auditor in relation to the audit and establishing a mutual understanding of the terms of the audit engagement with the Audit Committee;
- Communicating to the Audit Committee an overview of the audit strategy; and timing of the audit;
- Providing the Audit Committee with timely observations arising from the audit that are significant and relevant to the financial reporting process; and
- Evaluating the adequacy of the two-way communications between the auditor and the Audit Committee to support the objectives of the audit.

Mutual Understanding of the Terms of the Audit

We believe and support that a written annual engagement letter should be a requirement in establishing a mutual understanding by the auditor and Audit Committee of the terms of the audit. We believe the engagement letter should annually provide a statement by the auditor on the independence of the auditor and whether any services provided throughout the year compromised its independence since issuance of the previous engagement letter to the client, the Audit Committee. In 2007, CalPERS focused on the independence and objectivity of the external auditor as a major component of its Financial Market Reform. Today, in 2010 we continue to believe significant financial market reform hinges on disclosure, transparency, the independence of the auditor, and the commitment of Audit Committees to carry out its fiduciary role in overseeing the financial reporting process in the interests of its shareowners and investors.

We also maintain the importance that auditors should define its role in determining and identifying fraud. We do not necessarily believe that inherent limitations exist in determining fraud, but rather cost-benefit limitations exist that should be addressed and decided by the Audit Committee. We reiterate that engagement letters should not be used to limit the liability of the auditors.

Obtaining Information Related to the Audit – Identifying and Assessing Risks of Material Misstatement

Robust and substantive discussions between the auditor and Audit Committee should include inquiry on whether there are matters that may be relevant to the audit, the risks of material misstatement, including complaints or concerns during a client's enterprise risk management assessment and issues brought forward that may impact internal controls.

Overview of the Audit Strategy and Timing of the Audit

CalPERS believes the proposed auditing standard should ensure that auditors are provided adequate direction in its communications role to the Audit Committee. As outlined in the proposed standard, communication should include a robust and substantive overview of the audit strategy, including a discussion of the significant risks identified by the auditor, risks identified through various sources as outlined above, the timing of the audit, and additional matters that include:

- The auditor's determination of whether persons with specialized skill or knowledge are needed to apply the planned audit procedures or evaluate the audit results;
- The auditor's consideration of and planned use of the company's internal audit function to perform audit procedures in the audit of financial statements;
- The auditor's consideration of the extent to which the auditor plans to use the work of internal auditors, company personnel (in addition to internal auditors), and third parties working under the direction of management or the Audit Committee when conducting an audit of internal control over financial reporting;
- The roles, responsibilities, and locations of firms participating in the audit; and
- The basis for the auditor's determination that he or she can serve as principal auditor.

CalPERS agrees that care is required when communicating the audit strategy and timing of the audit so not to compromise the effectiveness of the audit procedures. We suggest the Board consider whether this type of communication should be between the Audit Committee and the auditor independent of management. We believe this may facilitate a more open robust dialogue on how audit strategy and procedures will address risks outlined.

Accounting Policies, Practices and Estimates

CalPERS agrees with the importance of the auditor determining whether matters related to accounting policies, practices and estimates are adequately described by management and if not, that the auditor should communicate any omitted or inadequately described matters required by the proposed standard to the Audit Committee. We also agree that an accurate application of authoritative accounting pronouncements in the financial statements often either requires or would be more informative if accompanied by, appropriate and clear disclosures that facilitate an investor's understanding of the company's accounting and financial condition. We support that the proposed standard includes a new requirement of the auditor to communicate, or determine that management has adequately communicated to the Audit Committee, the anticipated application of new accounting or regulator pronouncements that are not yet effective, but which may upon adoption, have a significant effect on the company's financial reporting.

Further, we support the proposed standard include new requirements for the auditor to communicate, or to evaluate whether management has adequately communicated, the following matters

- How management subsequently monitors critical accounting estimates;
- Management's significant assumptions used in critical accounting estimates that have a high degree of subjectivity;
- A discussion of any significant changes to assumptions or processes made by management to the critical accounting estimates in the year under audit, a description of the reasons for the changes, the effects on the financial statements, and the information that supports or challenges such changes; and
- When critical accounting estimates involve a range of possible outcomes, how the recorded estimates relate to the range and how various selections within the range would affect the company's financial statements.

CalPERS believes it is critical that the proposed standard requires the auditor to communicate his or her evaluation regarding the reasonableness of the process used by management to develop critical accounting estimates and the basis for the auditor's conclusions regarding the reasonableness of those estimates. In addition, the proposed standard should require the auditor to communicate to the Audit Committee situations where the auditor determines that potential bias exists in management's accounting estimates. We also agree that it would be helpful to include in the proposed standard the audit communications required by the SEC relating to accounting matters.

Management Consultations with Other Accountants – Expanded to include consultations with non-accountants such as consulting firms or law firms

CalPERS believes that additional consultations with non-accountants , such as consulting firms or law firms should be included in the Board's expanded requirements for disclosure to the Audit Committee by the auditor.

Going Concern

With the challenges posed by financial market instability over the last 18 months, CalPERS believes the proposed standard requiring the auditor to communicate to the Audit Committee the company's ability to continue as a going concern as critical to investors. We also agree that although doubt of going concern may be mitigated, we support that the standard requires the auditor to communicate the conditions and events that, when considered in the aggregate, indicate there could be substandial doubt about the company's ability to continue as a going concern as well as the information that mitigates the auditor's doubt.

Corrected and Uncorrected Misstatements

CalPERS would suggest that a matrix – table format be used to provide the Audit Committee with a schedule of uncorrected misstatements relating to accounts and disclosures that were presented to management. Providing a clear picture of the quantitative and qualitiative factors should assist Audit Committees in viewing the overall impact of corrected and uncorrected misstatement and the risks these pose to the overall financial reporting process.

Other Matters

With recent accounting scandals and events, CalPERS suggests the Board emphasize the need for the auditor to communicate to the Audit Committee other matters arising from the audit that are signicant to the oversight of the financial reporting process, including situations where the auditor is aware of complaints or concerns raised regarding accounting or auditing matters.

Form and Content of Communications

Investor's reliance upon and trust in the integrity of public financial statements should not be taken for granted. The form and content of the auditors communication to the Audit Committee allows for effective communication, which in written format may facilitate communication of highly complex information. CalPERS agrees that robust dialogue on key matters is the most important factor in effective communications with the Audit Committee.

Timing

Financial reports have many different users but their main objective should be to provide information that is useful to present and potential equity investors as the providers of risk capital and bearers of residual risk. Financial information that is material is only useful if disclosed in a timely manner. Information is material if its omission or misstatement could influence users' decisions based on that information.

Adequacy of the Two-way Communication Process

While CalPERS agrees that effective two-way communications between the auditor and the Audit Committee benefits the audit process. We also feel similar to the observation by Board Member Charles D. Niemeier that the proposed standard takes on the challenging task of encouraging open, forthright and robust discussions; however, the problem with ensuring this robust communication is not in the existing standard but in the existing culture in the auditor-audit committee relationship. Again, we suggest the standard allow for independent communication between the auditor and Audit Committee to facilitate robust discussion without management present.

Other Communication Requirements

CalPERS supports retaining requirements for the auditor to communicate significant issues discussed with management prior to appointment or retention as the auditor. We also agree that discussions occurring throughout the auditor's relationship with the company may be pertinent and relevant information that should also be shared with the Audit Committee. It may be helpful for the auditor to color code other information such as disagreements with management or difficulties encountered in performing the audit.

Additionally, CalPERS believes companies should consider asking auditors to provide enhanced reporting to the Audit Committee, which in summary format is shared with investors. The Audit Committee and investors should explore whether the scope of an audit should be expanded. Full disclosure of audit and non-audit fees should be provided both in the notes to the accounts and in the Audit Committee's own report with explanations where appropriate.

The primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management and it is important that they place a strong emphasis on fraud prevention, reducing opportunities for fraud and increasing the likelihood of detection. Auditors could have a role in this subject to cost considerations.

Making the Standard Auditor's Report more informative should be an ongoing objective and auditors may consider implementing additional disclosure through auditors' discussion and analysis.

Thank you for considering our comments. If you would like to discuss any of these points, please do not hesitate to contact me at (916) 795-4129.

Sincerely,

Mary Hartman Morris

MARY HARTMAN MORRIS
Investment Officer
Global Equity

cc: Joseph A. Dear, Chief Investment Officer – CalPERS
Eric Baggesen, Senior Investment Officer – CalPERS
Anne Simpson, Senior Portfolio Manager – CalPERS