



California State Teachers'  
Retirement System  
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Public Company Accounting Oversight Board  
Attention: Office of the Secretary  
1666 K Street, NW  
Washington, D 20006-2803

**VIA EMAIL: [comments@pcaobus.org](mailto:comments@pcaobus.org)**

**Re: PCAOB Rulemaking Docket Matter No. 034 – Proposed Auditing Standards on the Auditor's Report and the Auditor's Responsibilities Regarding Other Information and Related Amendments**

Dear Members of PCAOB:

This letter is sent to you on behalf of the California State Teachers' Retirement System (CalSTRS). CalSTRS is a public pension fund that was established for the benefit of California's public school teachers over 100 years ago. CalSTRS serves the investment and retirement interests of approximately 865,000 plan participants. As of January 31, 2014, the CalSTRS portfolio was valued at approximately \$180 billion with about \$100 billion of the fund's assets being invested in the public equity markets, on both a domestic and an international basis. With such a large part of our investment portfolio exposed to the risks of the public equity markets, CalSTRS is supportive of the work done by the Public Company Accounting Oversight Board (PCAOB) that helps to promote investor protection.

The work performed by a corporation's external auditor is an extremely valuable means through which shareholders receive reasonable assurance that the company's financial statements are fairly presented. CalSTRS believes it is critical that the information provided by the external auditor enhances investor's confidence in the financial statements. It is for this reason that we are writing to you today concerning the PCAOB's efforts at improving auditor communications with shareholders. In particular, we would like to comment on the proposed revised auditing standards identified as *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion; the Auditor's Responsibilities Regarding Other Information in Certain Documents Containing Audited Financial Statements and the Related Auditor's Report; and Related Amendments to PCAOB Standards (Proposal)*.


We generally believe that the Proposal requiring the auditor to communicate critical audit matters (CAM) in the auditor's report is an improvement compared to the current auditor's reporting model that merely states a pass or fail opinion. CalSTRS believes investors and other users of the financial statements will benefit from improved meaningful disclosure in the auditor's report. However, we have some concerns regarding what issues might constitute CAM. The Proposal defines CAM as a matter that involved the most difficult, subjective, or complex auditor judgments, posed the most difficulty to the auditor in obtaining sufficient appropriate evidence or posed the most difficulty to the auditor in forming an opinion on the financial statements. It appears the definition of CAM provides the auditors with significant latitude in determining what audit matters to communicate in the auditor's report. Instead of relying on the auditor's professional judgment in determining which CAM to report, we would suggest that the PCAOB consider providing more clarity and/or guidance in regards to what CAM to report, and in doing so, making the audit reporting process less subjective.

We think an alternative approach might include having the PCAOB establish a list of specific issues or topics for consideration as CAM for inclusion in the auditor's report. The list of potential audit issues or topics may include the following: areas involving significant estimates and judgments, an assessment of the management's critical accounting judgments and estimates; significant unusual or one-time transactions; non-routine issues communicated to the audit committee; and/or accounting policies and practices. Such a list would serve the purposes of being useful for investors in analyzing companies as well as being helpful for auditors in doing their jobs. CalSTRS believes that investors would find the list useful because they would be getting information deemed as a high concern or as a high risk area related to the company, and would be getting consistent information that allows comparability between companies. The auditors may find the list helpful because it removes some of the guesswork in determining what audit matters are deemed CAM. Thus, they may also be less inclined to purposely underreport or overload information in the auditor's report as they determine what to communicate.

To reiterate, we support improved meaningful disclosure in the auditor's report but suggest that the PCAOB offer further clarification or guidance regarding what specific CAM to communicate in the auditor's report. Without additional clarification, we are concerned that the Proposal may potentially result in voluminous disclosure that investors may not find useful, defeating the intended purpose of having the enhanced communication.

CalSTRS appreciates the opportunity to comment on the Proposal. If you have any questions please do not hesitate to contact me.

Sincerely,



Anne Sheehan  
Director of Corporate Governance