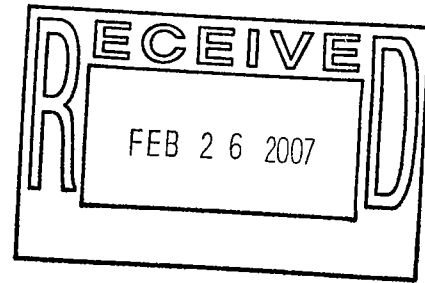




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February 26, 2007

J. Gordon Seymour
Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, D.C. 20006-2803

RE: Rulemaking Docket Matter No. 021- An Audit of internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements, Considering and Using the Work of Others In An Audit

Dear Mr. Seymour:

I am writing you on behalf of the California Public Employees' Retirement System (CalPERS). CalPERS is the largest US Public Pension Fund with total assets of \$231.1 billion and more than 1.5 million members. CalPERS is pleased to provide the Board with comment regarding its proposed audit standard on internal controls and financial statement reporting which would supersede Auditing Standard No. 2.

CalPERS supports both section 404 of the Sarbanes-Oxley Act of 2002 and the Public Company Accounting Oversight Board's efforts to enforce adherence to its requirements through issuing this proposed auditing standard which would integrate the audit of internal control over financial reporting with an audit of financial statements. CalPERS submits this comment letter to assist the PCAOB with understanding the interest a large institutional investor has in the proposed standard.

In the fall of 2006, CalPERS provided the SEC some recommendations to ensure adherence by all public companies with the requirements of Section 404. We believe Section 404 of the Sarbanes-Oxley Act of 2002 contributes to the establishment of certainty necessary for investors to maintain confidence in the integrity of a public company's financial statements. CalPERS believes the PCAOB proposed standard is integral for ensuring the integrity of a public company's financial statements. We support the PCAOB with this proposed standard and agree with:

- Emphasizing the importance of risk assessment - emphasizing a top-down, risk-based approach. We strongly agree that auditors should apply the appropriate focus on controls to prevent and detect fraud. We agree with the Board that auditors should evaluate the risk of management override and mitigating actions and determine whether a material weakness exists.
- Clarifying the definitions of significant deficiency and material weakness. We believe this will assist in eliminating any inconsistencies of evaluation and application among audit firms.
- Clarifying the role of materiality by illustrating that the auditor should plan and perform the audit of internal control using the same materiality measures used in the audit of the annual financial statements.
- Permitting consideration of knowledge obtained during previous audits since the auditor will be emphasizing a top-down, risk-based approach adjusting the nature, timing and extent of testing in subsequent years commensurate with the risk.
- Allowing the independent auditor to rely more on the work of others, particularly after the initial audit of internal controls has been completed.
- Adopting proposed Rule 3525 which requires Audit Committee pre-approval of services related to internal control. Just as CalPERS strongly supported the provisions in the proposed rule requiring additional emphasis on the Audit Committee to ensure the independence of the external auditor regarding tax services; CalPERS fervently supports:
 - Describing in writing to the Audit Committee the scope of the proposed service on internal control;
 - Discussing with the Audit Committee the potential effects of the proposed service on internal control on the firm's independence; and
 - Documenting the substance of the firm's discussion with the Audit Committee.

CalPERS believes that having greater transparency in the decisions made by the Audit Committee permits greater investor oversight as well as improves confidence in the capital markets.

Internal Controls are designed and owned by management of a company. We continue to support SEC rules implementing Section 404 of the Act requiring management to evaluate the effectiveness of internal controls. CalPERS does not believe the auditor evaluating management's annual evaluation process is redundant of the opinion on internal control itself or that it contributes to the complexity of the standard and confusion regarding the scope of the auditor's work. Rather, this evaluation of management's review ensures the integrity of a robust review by management and assists the auditor in determining the "tone at the top." Additionally, in our fall 2006 letter to the SEC, we

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supported the annual certification of processes directly related to the risk of a material weakness and of processes that contribute to the restatement of financial statements.

We encourage the PCAOB not to include dollar limits on the size of a company. This conflicts with a principle based approach and could lead to a tiered approach. We believe one standard is needed for all companies.

CalPERS is prepared to provide assistance to the PCAOB at its request. Please contact Dennis Johnson, Senior Portfolio Manager—Corporate Governance at (916) 795-2731 if there are questions or if we can be of further assistance.

Sincerely,



Russell Read
Chief Investment Officer

Cc: Fred Buenrostro, Chief Executive Officer, CalPERS
Anne Stausboll, Assistant Executive Officer, CalPERS
Christy Wood, Senior Investment Officer, CalPERS
Peter Mixon, General Counsel, CalPERS
Dennis Johnson, Senior Portfolio Manager, CalPERS