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September 14, 2009

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

RE: **PCAOB Release No. 2009-005 Rulemaking Docket Matter No. 029**
Concept Release on Requiring the Engagement Partner to Sign the Audit Report

Dear Mr. Seymour:

I am writing you on behalf of the California Public Employees' Retirement System (CalPERS). CalPERS is the largest public pension fund, managing pension and health benefits for more than 1.6 million California public employees, retirees and their families. CalPERS manages approximately $198.5 billion in assets. Acting as fiduciaries to the members of the system, the CalPERS Board of Administration and its staff invest the pension funds of its members over the long term throughout the global capital markets.

CalPERS, which holds equity shares in more than 7,000 publicly-traded companies, views the integrity of financial reporting as an issue of vital importance to all investors and thanks the Public Company Accounting Oversight Board (Board) for the opportunity to provide public comment on rulemaking docket 029, which evaluates whether it should require the auditor with final responsibility for the auditor to sign the audit report.

As a long-term shareowner, CalPERS has a significant financial interest in seeking improvements in the integrity of financial reporting. We believe that accurate and reliable audited financial statements are critical to investors in making informed decisions and maintaining confidence in the marketplace. As reflective in the current financial market melt-down, public and investor confidence and stability are essential to the success and effective functioning of the capital markets. CalPERS' Global Principles of Accountable Corporate Governance stresses the importance of the integrity of Financial Reporting, link at "Adopt Corporate Governance Principles": http://www.calpers-governance.org/

CalPERS is supportive of the Board and its efforts to continuously improve the quality of the audit report. We agree and support proposed amendments to paragraph .08 of AU sec. 508, *Reports on Audited Financial Statements*, of the Board's interim standards and paragraph 85 of Auditing Standard No. 5, A*n Audit of Internal Control Over Financial Reporting That is*

Integrated with an Audit of Financial Statements, each of which describes the elements of the standard audit report.

We strongly believe that change is necessary to ensure the sustainability of a strong and vibrant auditing profession. CalPERS participated, testified and supported the US Treasury, Advisory Committee on the Auditing Profession's (ACAP) recommendations on increasing transparency requiring auditing firms to produce a public annual report incorporating information such as the firm's financial results on statutory audits, directly related services on a comparable basis and required disclosure of key performance indicators to foster greater audit quality.[1] CalPERS also stated that the ACAP should include the requirement as outlined in the European Union's Eighth Directive, Article 40 Transparency Report, that audit firms provide a description of their quality control system and a statement on the effectiveness of the quality control system.[2]

In this letter dated 13 June 2008 (attachment 1), CalPERS agreed and supported ACAP's recommendation that the PCAOB undertake a standard-setting initiative to consider mandating the engagement partner's signature on the auditor's report. CalPERS is convinced that such signatures will foster greater accountability of the individuals signing the auditor's report, will enhance transparency, and may improve audit quality. We continue to support the certification requirement of the CEO and CFO of companies under Section 302 of Sarbanes-Oxley and directors' signatures on public company annual reports and liken this proposed recommendation to these requirements and to the inherent benefits this may produce.

With this in mind, investors like CalPERS view the Board's evaluation of whether it should require the auditor with final responsibility for the auditor to sign the audit report as critical, timely and as an additional basis of the integrity of financial reporting. We offer the following comments:

<u>Reasons to Support a Signature Requirement</u>:

Although CalPERS agrees that the skill of the audit firm as a whole is represented and stated in the opinion of the audit report, we believe requiring the engagement partner to sign the audit report will enhance audit quality by increasing the engagement partner's sense of accountability to financial statement users (providers of capital), lead to greater care in performing the audit and possibly provide better investor protection. CalPERS believes as outlined above that similar positive effects of personal accountability and sense of responsibility through certification can also improve audit quality with the engagement partner's signature. We concur that requiring the engagement partner's identity through a signature will motivate investors, companies' boards, and the audit firms to evaluate:

- the extent of an engagement partner's experience and the firms' policy on developing and enhancing engagement partner's expertise as well as oversight of engagement partners;
- the quality, expertise and better supervision of the audit team and the entire audit process;

[1] CalPERS written and oral testimony to the US Treasury Advisory Committee on the Auditing Profession. Panel on General Sustainability, 4 February 2008

[2] CalPERS written response to the US Treasury Advisory Committee on the Auditing Profession's Addendum to Section VI. Firm Structure and Finances, issued on May 30, 2008, dated 13 June 2008

- whether auditors' biases in information processing is reduced; and
- whether there is enhanced auditors' consensus and effort.

<u>Signature Requirement – Part of the Audit Is Performed by Another Auditor</u>:

Although, currently standard references to other auditors do not even contain the name of the other audit firm, it would seem more likely that once an engagement signature is necessary that audit firms will be more likely to refer to other auditors by firm name. We encourage and support this additional transparency.

CalPERS supports the Board's Concept Release and its efforts to improve the audit report. CalPERS believes these proposed changes will enhance transparency and accountability. 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, CalPERS Corporate Governance

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

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June 13, 2008

Advisory Committee on the Auditing Profession
(ACAP)
Office of Financial Institutions Policy
Room 1418
Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

Chairman Levitt and Chairman Nicolaisen and Members of the ACAP:

I am writing on behalf of the California Public Employees' Retirement System (CalPERS). As the largest public pension system in the U.S., CalPERS manages approximately $247 billion in assets providing retirement and health benefits for nearly 1.5 million members.

This letter is CalPERS' response to the ACAP's Addendum to Section VI. Firm Structure and Finances, issued on May 30, 2008. CalPERS' comments on the addendum are as follows:

<u>Auditor's Report</u>

CalPERS supports the Committee's recommendation to improve the auditor's reporting model. As a long term investor, we believe the Auditor's Report should include identification of key risk areas, significant changes in risk exposures and provide specific information on how the audit opinion was reached, specifically in areas where significant assumptions and uncertainty in measurement require a higher level of professional judgment.[1] As outlined in CalPERS' written testimony on February 4, 2008, of critical importance to investors is that auditors accept

[1] CalPERS' written and oral testimony to the Securities and Exchange Commission, Advisory Committee on Improvement to Financial Reporting, Panel Regarding Materiality, Restatements and Professional Judgment, 13 March 2008.

responsibility for detecting fraud and improving the timely communication of these frauds to investors and shareowners.[2]

CalPERS believes the auditor's judgments about accounting principles and critical accounting policies and practices should be incorporated into the auditor's report. CalPERS agrees with the ACAP's conclusion that an improved auditor's report would likely lead to more relevant information for users of financial statements and would clarify the role of the auditor in the audit of financial reporting.

Engagement Partner Signature

CalPERS agrees with ACAP's consideration to recommend that the PCAOB revise the auditor's report standard to mandate the engagement partner's signature on the auditor's report to affirm the accountability of the auditor. CalPERS' testimony on February 4, 2008, also recommended public access to all firm-specific inspection reports even if potential defects in the audit firm's quality control systems are addressed. Making these inspection reports available to the public would provide an incentive for audit firms to continuously strive to improve audit quality.

Transparency

CalPERS supports ACAP's recommendation that the PCAOB require auditing firms to produce a public annual report incorporating information such as the firm's financial results on statutory audits, directly related services on a comparable basis and required disclosure of key performance indicators to foster greater audit quality. CalPERS believes the ACAP should also include the requirement as outlined in the European Union's Eight Directive, Article 40 Transparency Report, that audit firms provide a description of their quality control system and a statement on the effectiveness of the quality control system. Similarly, CalPERS applauds the recent action by the PCAOB which requires registered public accounting firms to submit an annual report requiring two types of additional reporting obligations. This includes basic information about the audit firm and the firm's issuer-related practice over the most recent 12-month period. The second requirement would include specific reportable events that must be

[2] CalPERS' written and oral testimony to the US Treasury, Advisory Committee on the Auditing Profession, Panel on General Sustainability, 4 February 2008.

disclosed within 30 days The PCAOB will make each firm's annual and special reports available to the public.[3]

CalPERS supports the ACAP's recommendation that required key performance indicators include average headcount, staff turnover, diversity, client satisfaction, audit and non-audit work, proposal win rate, revenue, profit, profit per partner, engagement team composition, the nature and extent of training programs and the nature and reason for client restatements. CalPERS also suggested in its February 4, 2008 testimony other key performance indicators such as average experience of staff, partner time allocated to each audit and percent of training dollars spent on staff as a percentage of the fees received for the audit. Audit firms should also consider strengthening peer reviews as well as sharing key performance indicators during these reviews to facilitate and strengthen audit quality throughout the industry.

ACAP is considering whether the PCAOB beginning in 2011 require auditing firms to file on a confidential basis, its audited financial statements prepared in accordance with either GAAP or IFRS, allowing the PCAOB to (1) determine, based on broad consultation, whether these audited financial statements be made public in consideration of their utility to audit committee members and investors in assessing audit quality, or alternative 2, which would require audit firms' audited financial statements be made available publicly. To ensure better transparency and provide audit committees and investors the ability to assess audit quality, CalPERS supports alternative 2, that all audited financial statements of audit firms be available on the PCAOB's website publicly.

When there is a change in the external auditor, the Audit Committee of companies should publicly disclose to shareowners the reasons for the change in greater detail then what is required by the SEC and within four days of the change. CalPERS also has the position that the independent external auditor should be ratified by shareowners annually.

<u>Litigation</u>

ACAP should not recommend that Congress provide federal courts with exclusive jurisdiction over some categories of claims, which presently may be brought in state courts against auditors, when such claims are related to audits of public company financial statements. CalPERS believes that federal jurisdiction

[3] PCAOB will submit to the SEC for approval adoption of rules for annual and special reporting requirements by audit firms, 10 June 2008.

over the public company auditing profession would weaken plaintiffs' rights and remedies.

Thank you for considering our comments in response to the Advisory Committee on the Auditing Profession's draft report and addendum. Please contact me at (916) 795-2731 if you have any questions or if I may be of further assistance.

Regards,

Dennis A. Johnson

Dennis Johnson, CFA
Senior Portfolio Manager
Corporate Governance