



Agenda Item 5a

November 19, 2013

ITEM NAME: External Auditor's Report

PROGRAM: Audit Services

ITEM TYPE: Action

RECOMMENDATION

Accept the Auditor's Report on the Draft Basic Financial Statements for the year ended June 30, 2013 and accompanying required communications, and approve the letter of transmittal.

EXECUTIVE SUMMARY

This agenda item presents the Independent Auditor's Report on the Draft Basic Financial Statements and the accompanying report on required communications from the auditor to the Risk and Audit Committee. The Risk and Audit Committee's powers reserved include overseeing and approving the financial statement audit.

STRATEGIC PLAN

This item is not a specific product of the Strategic Plan. It is required by Government Code Section 20228 that the Board annually employs a certified public accountant to audit the financial statements.

BUDGET AND FISCAL IMPACTS

The fee for the basic financial statement audit is anticipated to total \$437,894, of which \$394,866 has been expended as of September 30, 2013. Funding was already identified within budgetary resources and is consistent with the Board-approved contract.

BACKGROUND

Management is responsible for accurate preparation of the financial statements in accordance with generally accepted accounting principles, and presents the draft Basic Financial Statements to the Finance and Administration Committee for approval. The external auditor is responsible for planning and performing the audit to obtain reasonable assurance that financial statements are fairly stated in all material respects. The Board of Administration's independent external financial statement auditor, Macias Gini & O'Connell LLP, performed the audit of CalPERS financial statements as of and for the year ended June 30, 2013 (FY 2012-13). The auditor provides an opinion on the financial statements based on their audit (Attachment 1), as well as a report on required communications to the Risk and Audit Committee (Attachment 2). Please see Attachment 3 for an informational graphical depiction of

the financial statement preparation and audit processes and the roles and responsibilities of management and the auditor.

ANALYSIS

- The external auditors, Macias Gini & O'Connell, will present the Independent Auditor's Report and report on required communications with this agenda item (Attachments 1 and 2).
- The audited basic financial statements will then be incorporated into CalPERS upcoming Comprehensive Annual Financial Report (CAFR).
- CalPERS staff also provides the audited basic financial statements to the State Controller's Office and the California State Auditor's Office for incorporation into the State of California's CAFR.
- Government Code Section 20228 provides that the Board shall file a copy of the audit report with the Governor of California, Secretary of the Senate, and the Chief Clerk of the Assembly (Draft transmittal letter is attached as Attachment 4.)

BENEFITS/RISKS

Approval of the auditor's report and accompanying financial statements will result in compliance with Government Code Section 20228, fulfill a power reserved by the Risk and Audit Committee, and promote transparency and accountability to the public. Not providing the audited financial statements would result in lack of compliance with the law, non-exercise of a power reserved, and lack of transparency and accountability to the public.

ATTACHMENTS

Attachment 1 – Independent Auditor's Report with the Basic Financial Statements
Attachment 2 – Report to the Risk and Audit Committee (Required Communications)
Attachment 3 – Financial Statement Preparation and Audit Process
Attachment 4 – Letter of Transmittal

MARGARET JUNKER, Chief
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