



CaIPERS

Risk and Audit Committee

November 17, 2015

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Certified
Public
Accountants

SCOPE OF WORK – Perform an audit of CalPERS financial statements for the fiscal year ended June 30, 2015.

REPORTS TO BE ISSUED:

- Independent Auditor's Report
- Report to Risk and Audit Committee
- Report on Management Comments and Recommendations

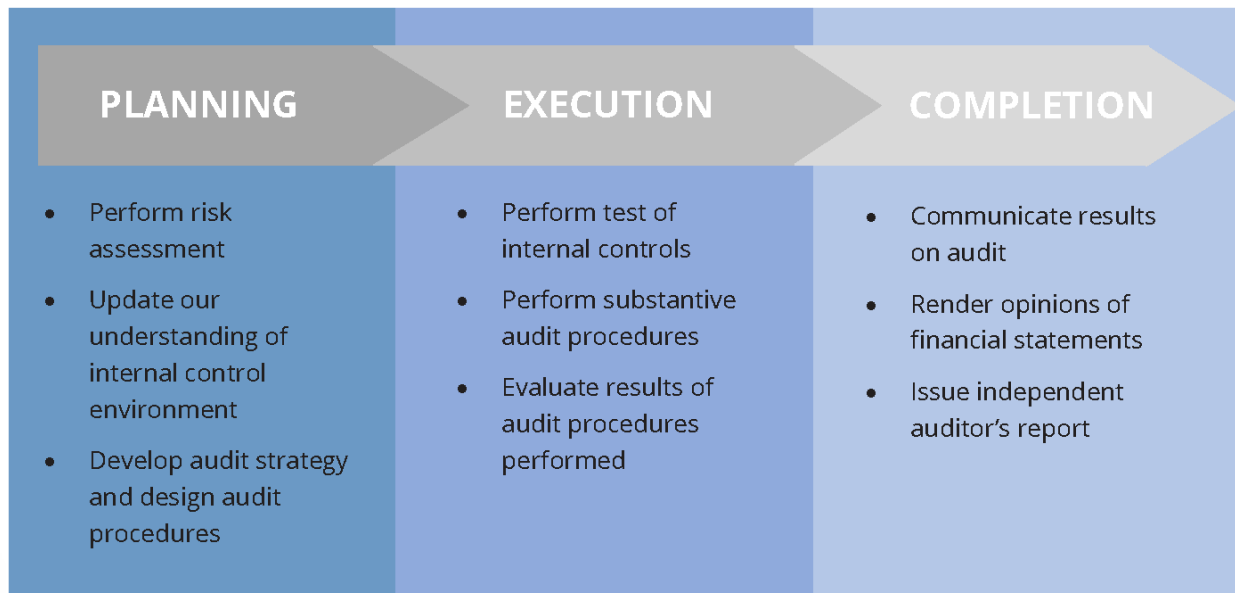
MANAGEMENT RESPONSIBILITY:

- The preparation and fair presentation of the financial statements in accordance with GAAP
- Design, implementation and maintenance of internal control relevant to the presentation of the financial statements that are free of material misstatement whether due to fraud or error

INDEPENDENT AUDITOR'S RESPONSIBILITY:

- Plan and perform audit to obtain reasonable assurance about whether the financial statements are free of material misstatement
- Obtain an understanding of the internal controls in order to design the audit procedures
- Express an opinion on the financial statements based on the audit

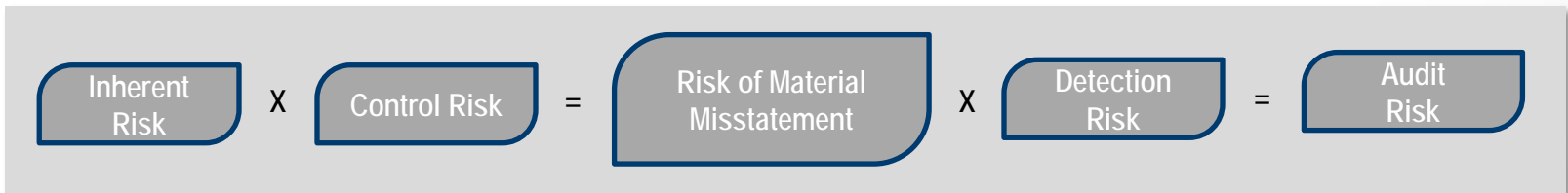
AUDIT PROCESS:



- Perform procedures to obtain audit evidence (sufficient & appropriate) about amounts and disclosures in financial statements
- Procedures are developed based upon auditor's judgement of risk of material misstatement to financial statements

AUDIT PROCESS (CONTINUED):

- Risk Assessment



- Indicators of Inherent Risk:
 - Size and volume of items comprising an account balance
 - Extent of judgement or estimate involved in determining account balance
 - Complexity of accounting and financial reporting standards
 - Material errors detected in prior audits

AUDIT PROCESS (CONTINUED):

- Significant areas of the audit
 - Investments
 - Traditional (size)
 - Alternative (size, valuation and complexity)
 - Benefit payments (size and volume)
 - Health and long-term care liabilities (size and estimate)
 - Actuarial disclosures for pension and OPEB plans (size and estimate)
 - Investment disclosures (size and complexity)

AUDIT PROCESS (CONTINUED):

- Audit approach to areas of significance
 - Investments – Traditional
 - Ownership – confirm with custodian
 - Valuation – custodian and other third party
 - Investments – Alternative
 - Real assets & private equity
 - Review of recent appraisals (certain real estate)
 - Review applicable partnership annual audited financial statements, unaudited quarterly financial statements as of March 2015 and cash activities through June 2015
 - Confirmation with custodian bank and partnerships
 - Benefit payments
 - Test internal controls
 - Perform high precision analytical procedures

AUDIT PROCESS (CONTINUED):

- Audit approach to areas of significance (continued)
 - Health and long-term care liabilities
 - MGO healthcare specialist reviewed healthcare and long-term care liability
 - Determined compliance with actuarial assumptions, methodologies, plan provisions, ASOP and GASB standards
 - Net pension liability/asset (cost-sharing and single employer plans)
 - MGO pension actuary review included:
 - Determined that actuarial assumptions and methodology are in compliance with accounting and actuarial standards and plan provisions
 - Review total pension liability/asset as of 6/30/2014 and the roll-forward to 6/30/2015
 - Review components of pension expense
 - Perform test cases and parallel valuations on a sample basis
 - Review crossover test

RESULTS OF FINANCIAL STATEMENT AUDIT:

- Unmodified opinions
- No material weaknesses in internal control
- No significant deficiencies in internal control
- No disagreements with management concerning accounting, financial reporting or auditing matters

APPENDIX – DEFINITIONS:

- ASOP – Actuarial Standards of Practice.
- Audit Risk – The risk that an auditor expresses an inappropriate opinion on the financial statements.
- Control Risk – The risk of a material misstatement in the financial statements arising due to absence or failure in the operation of relevant controls of the entity.
- Detection Risk – The risk that the auditors fail to detect a material misstatement in the financial statements.
- Fraud – The term “fraud” includes “misstatements” arising from fraudulent financial reporting and misstatements arising from misappropriation of assets.
 - “Misstatements” arising from “fraudulent financial reporting” are intentional misstatements, or omissions of amounts or disclosures in financial statements intended to deceive financial statement users.
 - “Misstatements” arising from “misappropriation of assets” involve the theft of assets where the effect of the theft causes the financial statements not to be presented in conformity with GAAP

APPENDIX – DEFINITIONS (CONTINUED):

- GAAP – Generally Accepted Accounting Principles are used by almost all entities in the USA to prepare periodic financial statements.
- GASB – Governmental Accounting Standards Board is the governing accounting body that issues accounting and reporting pronouncements.
- IBNR – Events that have been incurred, but not reported.
- Inherent Risk – The risk of a material misstatement in the financial statements arising due to error or omission as a result of factors other than the failure of controls.
- Material Misstatement – To present accidental or intentional untrue financial statement information that influences a value and, therefore, the reliance on inaccurate and incorrect financial information used in decision making.

APPENDIX – DEFINITIONS (CONTINUED):

- Material Weakness – A deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis.
- Significant Deficiency – A deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.
- Unmodified Opinion – A signed representation by an auditor as to the reliability and fairness of a set of financial statements. The opinion could be modified, unmodified, except for or adverse.

Questions?
Let's Talk.



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