

**PCAOB Roundtable – Section 1 –
Communications Beneficial to Audit Committees**

September 21, 2010

Hello, my name is Mary Hartman Morris, and it is my pleasure to introduce the topic of Communications Beneficial to Audit Committees.

I am an Investment Officer within Global Equity and am here as a representative of the California Public Employees Retirement System. CalPERS is the nation's largest public pension fund currently overseeing \$207 billion in assets. This capital is allocated to over 9,000 companies worldwide.

We appreciate the opportunity to attend this Roundtable discussion and offer our perspective on these important issues. We look forward to hearing the perspectives of other members of the Audit community and engaging in mutually beneficial dialogue.

Given CalPERS substantial global equity holdings, we have a vested interest in maintaining the integrity and efficiency of the capital markets. **The financial interests of CalPERS beneficiaries are most effectively served in an environment where investors can confidently utilize financial statements to evaluate investments.** Robust communication between the Auditor and Audit Committee helps promote this confidence by ensuring the Audit Committee has the information it needs to serve as an effective monitor. We view the Audit Committee as a direct link, or as a fiduciary to represent all shareowners and capital providers.

In our June 3rd comment letter to the PCAOB, we offered support for the additional communications requirements proposed in AU sec. 380. We commend the PCAOB for proposing this regulation. We do believe that a rule proposal would help set the baseline for auditor – audit communications and support establishing a standard.

To begin, it may be beneficial to briefly outline our view of the role of both the Auditor and Audit Committee to help frame our discussion.

We see:

- The Auditor's role as decreasing the risk of material misstatements in financial reports.
- and the
- Audit Committees role as protecting investors' interests and overseeing the integrity of the company's financial reporting.

From an investor's perspective not only is it important that Audit Committees play the important oversight role to ensure the integrity of financial reporting but we are very interested in ensuring the Auditor provides the Audit Committee with information deemed material to the market valuation of the company's securities.

Bottom line – what is the value of our investment and the value it provides to our beneficiaries.

With this in mind, we approach the issue of communications beneficial to Audit Committees by first looking at information investors find important. Based on these needs, we then derive the Audit Committee's information requirements.

The Institute of Chartered Accountants of England and Wales Financial Services Faculty released a June 2010 report, entitled "Audit of Banks - Lessons from the Crisis". This report addresses the role of auditors in providing information to investors. The report specifically addresses banks, but we believe any company's investors will benefit from knowledge of the following 6 items:

- First, the Auditor's opinion of key business and audit risks.
- Second, the Auditor's opinion of the key assumptions used in materially important judgments that affect the financial statements. The Auditor should state whether these assumptions are aggressive, conservative, or reasonable.
- Third, key audit issues and their resolution.
- Fourth, significant changes to accounting policies.
- Fifth, unusual transactions.
- Sixth, accounting applications and practices that are unique to the industry.

As representatives of the investors, Audit Committee members must have access to all of this information. Furthermore, the information must be detailed enough that the Committee can effectively evaluate the merits of a company's financial reporting process.

While we believe that explicit reporting requirements benefit Auditor/Audit Committee Communication, we also acknowledge the individualized nature of each audit. This is why it is critical that Auditor's use sound judgment and avoid a check the box approach to communication. Rather, it is our hope that these regulations serve as a foundation for building even stronger dialogue between these two parties.

We do believe an audit standard/ rule proposal will ensure a baseline to foster and facilitate robust meaningful discussion between the auditors and Audit Committees. We reiterate the importance of organic discussions between the auditor and Audit Committee and would not recommend this dialogue be scripted. Today, we look forward to hearing from audit committee members,

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Proposed Standard – Communications with Audit Committees

auditors, institutional investors and others on this and other topics regarding audit communications.