

REPORT TO THE RISK AND AUDIT COMMITTEE



2025 AUDIT PLAN
YEAR ENDING JUNE 30, 2025



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The following communication was prepared as part of our audit, has consequential limitations, and is intended solely for the information and use of those charged with governance (e.g., Risk & Audit Committee) and, if appropriate, management of the System, and is not intended and should not be used by anyone other than these specified parties.

Welcome

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May 7, 2025

The Risk & Audit Committee

California Public Employees' Retirement System

We look forward to discussing with you the current year audit plan for California Public Employees' Retirement System (the "System"). This report provides an overview of our overall objectives for the audit, and the nature, scope, and timing of the planned audit work.

We are pleased to be of service to the System, are committed to executing a quality audit, and look forward to discussing our audit plan, as well as other matters that may be of interest to you, during our meeting on June 17, 2025.

Respectfully,

BDO USA, P.C.

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Audit Overview & Strategy



Terms of the Audit and Deliverables

TERMS OF THE AUDIT

Our establishment and understanding of the terms of the audit engagement have been documented in our annual engagement letter, which was provided to you on February 7, 2025, and includes the objectives of the audit along with the responsibilities of both the auditor and of management for your reference.

- ▶ We will plan and perform the audit of the financial statements for the year ending June 30, 2025 in accordance with *Government Auditing Standards*.
- ▶ We will perform tests of compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions is not an objective of our audit.

DELIVERABLES

- ▶ Independent Auditor's Report on the basic financial statements
- ▶ Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*
- ▶ Reports over the GASB 68 and 75 Schedules ("Schedules")
- ▶ Attestation report over census data related to the CalPERS Agent Multiple-Employer Defined Benefit Pension Plan
- ▶ Required Communications to the Risk & Audit Committee
- ▶ Management comments letter

Auditor's Responsibility and Independence

AUDITOR'S RESPONSIBILITY

BDO USA, P.C., as your auditor, is responsible for forming and expressing an opinion about whether the financial statements that have been prepared by management, with your oversight, are prepared, in all material respects, in accordance with the applicable financial reporting framework. In addition, our audit will be conducted in accordance with standards for financial audits contained in the *Government Auditing Standards* (GAS or Yellow Book), issued by the Comptroller General of the United States.

The audit of the financial statements does not relieve you of your responsibilities and does not relieve management of their responsibilities.

INDEPENDENCE

- ▶ Our engagement letter to you dated February 7, 2025 describes our responsibilities in accordance with professional standards and certain regulatory authorities and *Government Auditing Standards* regarding independence and the performance of our services. This letter also stipulates the responsibilities of the System with respect to independence as agreed to by the System.

Overview

Our audit strategy follows a risk-based approach, so that our audit work, including the nature, timing and extent of audit procedures planned, is focused on the areas of the financial statements where the risk of material misstatement is assessed to be significant as well as other areas of the financial statements where we have identified risks of material misstatement.

In preparation for our audit, we have discussed with The Risk & Audit Committee and management significant matters including, but not limited to, market conditions, activities, and changes to the System's business, systems, accounting principles and controls, and obtained management's view of potential audit risk in order to update our understanding of the System. This is important to our identification and assessment of risks of material misstatement to the financial statements and related disclosures.

Key components of our audit objectives and strategy are highlighted within this report.

We will continue to update the resulting assessment throughout the audit. We will communicate to you any significant changes to the planned audit strategy or the significant risks initially identified and communicated herein, and the reason for such changes, as applicable, when we present the results of our audit upon completion.

Determining Our Planned Audit Strategy

We focus on areas with higher risk of material misstatement to the financial statements, whether due to error or fraud.

In addition, *Government Auditing Standards* require that we consider compliance with certain applicable laws, regulations, contracts and grant agreements with which could have a direct and material effect on the financial statements and Schedules. However, providing an opinion on compliance with those provisions is not an objective of our audits.

Our audit strategy includes consideration of the following:

- ▶ Prior year audit results including discussions with management and those charged with governance regarding the System's operations and risks.
- ▶ Inherent risk within the System (i.e., the susceptibility of the financial statements to material error or fraud) without regard to the effect of controls.
- ▶ A continual assessment of materiality thresholds based upon qualitative and quantitative factors affecting the System.
- ▶ Recent developments within the industry, regulatory environment, and general economic conditions.
- ▶ Recently issued and effective accounting and financial reporting guidance.
- ▶ The System's significant and critical accounting policies and procedures, including those requiring significant management judgments and estimates and those related to significant unusual transactions.
- ▶ The control environment, risk management and monitoring activities, and the possibility that internal controls may fail to prevent or detect a material misstatement due to error or fraud. In connection with our audit, we will obtain a sufficient understanding of the System's internal control to plan the audit of the financial statements. However, such understanding is required for the purposes of determining our audit procedures and not to provide any assurance concerning such internal control.
- ▶ The use of information systems and service organizations in the financial reporting process and overall IT environment.

Determining Our Planned Audit Strategy (cont.)

- ▶ Extent to which we plan to use others, outside the core engagement team, to perform certain planned audit procedures or evaluate audit results related to significant risks that may require specialized skills or knowledge.
- ▶ We will consider the System's internal control over financial reporting as a basis for designing audit procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the System's effectiveness of internal control.

We will communicate to you any significant changes to the planned audit strategy, or to the significant risks initially identified, that may occur during the audit due to the results of audit procedures or in response to external factors, such as changes in the economic environment.

Areas of Significant Risk

Our areas of significant risk, which are risks with both a higher likelihood of occurrence and a higher magnitude of effect that require special audit considerations, are as follows. Our planned audit procedures for these risks are detailed starting on page 11.

Management Override of Internal Controls Over Financial Reporting

Valuation of Investments

Valuation of Estimated Future Policy Liability

Detail of Significant Risks & Additional Audit Considerations



Management Override of Internal Controls Over Financial Reporting

SUMMARY OF AREA OF SIGNIFICANT RISK

There is a significant risk of material misstatement due to the risk of fraud from overriding of internal controls by management. This risk applies across the System for both the fiduciary and proprietary financial statements.

SUMMARY OF PLANNED AUDIT PROCEDURES

In order to address this significant risk, we plan to perform the following procedures:

- Understand the System's internal controls over the financial reporting process and journal entries.
- Perform fraud inquiries across the organization.
- Examine tip-line activity.
- For journal entry testing, evaluate the general ledger detail for completeness of transactions, set journal entry selection criteria based on risk of fraud, and test all journal entries that meet the selection criteria.
- Will incorporate elements of unpredictability into our audit.

Valuation of Investments

SUMMARY OF AREA OF SIGNIFICANT RISK

There is a significant risk of material misstatement that non-coterminous private equity (PE) and real asset (RA) investments, and their related unrealized gains and losses, are not properly valued as of the CalPERS financial statement year-end.

SUMMARY OF PLANNED AUDIT PROCEDURES

In order to address this significant risk, we plan to perform the following procedures:

- Understand the System's controls over the valuation of investments.
- Confirmation of holdings with investment managers.
- Perform retrospective review of significant estimates related to valuation of investments made in prior year financial statements.
- Perform testing over valuation of investments through rollforward testing procedures including performing a lag analysis for non-coterminous investments.

Valuation of Estimated Future Policy Liability

SUMMARY OF AREA OF SIGNIFICANT RISK

There is a significant risk of material misstatement that management's estimate of the liability for future policy benefits is improperly valued due to improper assumptions used, specifically related to the discount rate.

SUMMARY OF PLANNED AUDIT PROCEDURES

In order to address this significant risk, we plan to perform the following procedures:

- Understand the System's controls over the estimated future policy liability process.
- Obtain and review the actuarial valuation report with the assistance of BDO actuarial specialists including management's valuation model and related assumptions including the discount rate for reasonableness.
- Review third-party parallel valuation reports and evaluate whether they are materially consistent with management's assessment and assumptions.
- Perform retrospective review of significant estimates related to the discount rate used in the valuation of the estimated future policy liability.

Additional Audit Considerations

In addition to the significant risks identified on the previous pages, we have identified the areas below that are not considered significant risks but are areas of focus during the audit due to materiality of the balance, complexity, or judgment involved in the accounting. Such audit areas are subject to material accounting policies and/or judgments and are considerations as we develop our current year audit approach.

- ▶ Health Care Estimated Insurance Claims Due
- ▶ Pension and Other Postemployment Benefit Liabilities and Related Disclosures
- ▶ Plan Contributions
- ▶ Plan Benefit Payments
- ▶ Premium and Administrative Fee Revenues

Audit Timeline



Audit Timeline

The following represents our anticipated schedule regarding our audit of the annual financial statements of the System and the Schedules:

	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan
Periodic Meetings and Discussions with Management	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Walkthroughs and Interim Testing		✓	✓							
Develop Audit Strategy and Determine Nature and Scope of Testing		✓	✓	✓	✓					
Year-end Substantive Testing				✓	✓	✓	✓			
Review Draft Financial Statements / Annual Comprehensive Financial Report						✓	✓	✓		
Final Communications with Risk & Audit Committee								✓		
GASB 68 & 75 Schedules - Testing and Report					✓	✓	✓	✓	✓	
Debrief with Management										✓

Other Topics



BDO's System of Quality Management

An effective quality management system in an audit firm is crucial for supporting the consistent performance of high-quality audits and reviews of financial statements, or other assurance or related services engagements under professional standards, and applicable legal and regulatory requirements.

Accordingly, BDO has implemented a system of quality management designed to provide reasonable assurance that its professionals fulfill their responsibilities and conduct engagements in accordance with those professional standards, and legal and regulatory requirements. The firm's system of quality management supports the consistent performance of quality audits through many ongoing activities including, at least annually, certification by leaders with responsibility for key controls and related processes. Our Assurance Quality Management team performs regular reviews and testing of key controls and processes throughout the system of quality management and identifies and communicates areas for improvement. In addition, our Audit Quality Advisory Council supports our system of quality management by providing guidance and input on audit quality initiatives.

As required by International Standard on Quality Management 1 (ISQM 1) under the International Auditing and Assurance Standards Board (IAASB), BDO has conducted an evaluation of the effectiveness of its system of quality management and concluded, as of July 31, 2023, that, except for certain deficiencies related to the execution of its issuer audits, that system provides the reasonable assurance that our professionals will perform audits and reviews of financial statements or related assurance services engagements in accordance with professional standards, and applicable legal and regulatory requirements. BDO has either implemented or is designing remedial actions to address those deficiencies prior to our next evaluation.



We will continue to provide you with updates on our progress. Currently, you may find discussion of BDO's system of quality management within our annual [Audit Quality Reports](#), the most recent of which is accessible [here](#).

[CLICK HERE TO ACCESS IAASB ISQM-1 IN ITS ENTIRETY >](#)

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