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July 9, 2008

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

Re: Comments on ACAP Draft Report & Addendum

Chairman Levitt, Chairman Nicolaisen, and Members of the Committee:

The Florida State Board of Administration (SBA) manages the Florida Retirement System (FRS), the fourth largest public pension plan in the United States with approximately $135 billion in assets, on behalf of more than 1,100,000 beneficiaries. The SBA takes this opportunity to provide comments in response to the May 5, 2008 Draft Report and June 3, 2008 Draft Report Addendum of the Treasury Department's Advisory Committee on the Auditing Profession ("the Committee").

Our comments address highlighted sections of the Draft Report and the Draft Report Addendum.

SECTION VI – FIRM STRUCTURE AND FINANCES (DRAFT REPORT)

FRAUD DETECTION

Recommendation 1—Strengthen auditing firms' fraud detection and prevention skills and clarify communications with investors regarding auditing firms' fraud detection responsibilities.

The SBA supports the Committee's recommendation to strengthen fraud detection measures and to clarify expectations between investors and auditing firms.

Increased collaboration among auditing firms and other market participants with regard to fraud prevention and detection experiences should be encouraged, perhaps through a national center, as urged by the Committee. Timely sharing of emerging trends in fraudulent accounting practices could accelerate the auditing industry's ability to preclude the spread of such practices. We share the Committee's belief that, "research into industry trends and statistics will help auditors focus and develop procedures to identify areas and situations at greater risk for fraud."

In addition, we join the Committee in urging the PCAOB and the SEC to clarify the "auditor's role in detecting fraud under current auditing standards and further that the PCAOB periodically review and update these standards." Investor concerns arise from the Committee's description of the expectations gap between the public's expectations of auditor responsibility for fraud detection and conversely, auditing industry constraints and limitations in investigating fraudulent practices. At a minimum, the investment community should be fully aware of accounting industry limitations involving fraud discovery. Otherwise, as pointed out by the Committee, "this gap between public expectation and the auditor's performance causes confusion and ultimately undermines investor confidence in financial reporting and the capital markets."

AUDIT FIRM CORPORATE GOVERNANCE

Recommendation 3—Urge the PCAOB and the SEC, in consultation with other federal and state regulators, auditing firms, investors, other financial statement users, and public companies, to

analyze, explore, and enable, as appropriate, the possibility and feasibility of firms appointing independent members with full voting power to firm boards and/or advisory boards with meaningful governance responsibilities to improve governance and transparency at auditing firms.

We understand that public company auditing firms as private partnerships are not subject to the requirements of the Sarbanes-Oxley Act of 2002 or stock exchange listing standards that mandate fully independent audit committees, nominating/corporate governance, and compensation committees. As discussed by the Committee, instead, state laws and partnership agreements determine the governance of auditing firms and often times a firm's governing body is comprised of elected firm partners.

We agree with the Committee that enhancing the corporate governance of the auditing firms through the appointment of independent board members, whose duties run to the auditing firm and its partners/owners, to firm boards could be particularly beneficial to auditing firm management and governance. We also agree with the Committee that the addition of independent board members could improve investor protection through enhanced audit quality and firm transparency.

AUDIT FIRM CHANGES

Recommendation 4—Urge the SEC to amend Form 8-K disclosure requirements to characterize appropriately and report every public company auditor change and to require auditing firms to notify the PCAOB of any premature engagement partner changes on public company audit clients.

As stated in the Draft Report, "While the SEC does attempt to uncover through its rules whether the auditor change relates to disagreements over accounting and reporting matters, the SEC rules do not require a public company to provide a reason for the auditor's departure in the vast majority of cases. The limitations of the existing disclosure requirements have resulted in companies failing to disclose any reason for their auditor changes. As noted by Glass Lewis, a leading corporate governance researcher, approximately 70 percent of the 1,300 auditor changes occurring in 2006 did not include any explanation of the change. Glass Lewis has also analyzed the correlation between audit firm changes and subsequent financial restatements—concluding that within 12 months of an auditor change the company is three times more likely to restate its financials and disclose material weaknesses than firms not experiencing auditor turnover.

For these reasons, the SBA strongly supports the Committee recommendation that the SEC amend its Form 8-K disclosure on auditor changes including the filing within four days of an auditor change, and clarification that the auditor had resigned, was terminated, or did not seek reappointment. In such filing, the company would be required to appropriately characterize the reason or reasons for the change, and would also disclose whether its audit committee agreed with the disclosure it has provided. Additionally, the company would provide the auditor with a copy of the disclosure and request a response as to its accuracy and include any response as an exhibit to the company's Form 8-K filing.

We also agree with the Committee's recommendation that the auditing firms notify the PCAOB of any engagement partner changes on public company audits if made before the normal rotation period and, most importantly, the reasons for those changes.

SECTION VI – FIRM STRUCTURE AND FINANCES (ADDENDUM)

AUDITOR'S REPORT

Recommendation—Urge the PCAOB to undertake a standard-setting initiative to consider improvements to the auditor's reporting model.

The SBA supports a standard-setting initiative with the goal of expanding and improving the auditor's reporting model. The current model's general representation as to whether a company's financial statements are fairly presented does not allow investors to fully benefit from the expertise of the auditor or the due diligence involved in the auditing process. As addressed by the PCAOB's Standing Advisory Group, we support further consideration of expanding the auditor report to include judgments regarding the

quality of financial reporting and appropriate use of accounting principles. In addition, it would be of significant value for the auditor's report to identify key risk areas, significant changes in risk exposures, and areas characterized by significant assumptions or a high degree of uncertainty (as suggested by the 2008 CFA Institute Survey and noted by the Committee).

We also note that the 1987 Treadway Commission recommendations to expand the auditor's report seem helpful in addressing the "expectations gap" noted in Recommendation 1 above. Particularly, the auditor's report could "more clearly identify the auditor's responsibilities, the degree to which users can rely on the audit, and the limitations on the audit process."

ENGAGEMENT PARTNER SIGNOFF

As noted by the Committee, SEC regulations require that the auditor's report be signed with the audit firm name. However, we agree with the Committee's recommendation to consider requesting that the PCAOB revise its auditor's report standard to mandate the engagement partner's signature on the auditor's report to improve audit quality. As well, the SBA supports that shareowners be provided 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

The SBA supports the Committee's recommendation that the PCAOB require that, beginning in 2010, larger auditing firms produce a public annual report containing the information outlined in the Addendum to improve the transparency of auditing firms, such as 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.

As well, the Committee's consideration of whether the PCAOB should require, beginning in 2011, audit firms to file audited financial statements prepared in accordance with either GAAP or IFRS is an important issue. The SBA strongly supports the disclosure of publicly available financial statements for every audit firm providing services to publicly traded corporations. Such a requirement would strengthen the quality and transparency of an audit firm's financial information and provide audit committees and investors the capability to more effectively measure audit quality and delivery.

LITIGATION

The SBA recommends that the Committee not support an exclusive federal jurisdiction over some categories of claims, which presently may be brought in state courts against auditors. Exclusive federal jurisdiction would prevent the most appropriate resolution of state-specific issues. At times, this single avenue of recourse would subject claimants to a uniform standard of care which did not distinctly address their claim. We believe exclusive federal jurisdiction would weaken investor's rights and remedies.

VII. CONCENTRATION AND COMPETITION (DRAFT REPORT)

AUDITOR SELECTION PROCESS

Recommendation 1(a)—Require disclosure by public companies in their annual reports and proxy statements of any provisions in agreements with third parties that limit auditor choice.

The SBA agrees with the Committee that requiring public disclosure of limitation of liability provisions in agreements would assist in the growth of the smaller firms and their entry into the large public company audit market. The SBA does not support any limitation of liability for audit firms and echoes the well articulated position of John Coffee in his testimony to the Committee on January 22, 2008. Mr. Coffee stated, "Put bluntly, the question presented to the Committee is should accountants by held less accountable? The answer is self evident. Artificially limiting auditor liability would reduce auditor accountability, reduce audit quality, and ultimately harm the capital markets as investor confidence in the

accuracy and transparency of financial statements is called into question." Any use of such provisions should at a minimum be clearly articulated to investors for their consideration.

We also agree with the Committee that the SEC should require public companies to disclose any provisions in agreements limiting auditor choice with the information as outlined in the Committee Draft Report.

MEASURING AUDIT QUALITY & EFFECTIVENESS

Recommendation 3—Recommend the PCAOB, in consultation with auditors, investors, public companies, audit committees, boards of directors, academics, and others, determine the feasibility of developing key indicators of audit quality and effectiveness and requiring auditing firms to publicly disclose those indicators. Assuming development and disclosure of indicators of audit quality are feasible; require the PCAOB to monitor these indicators.

As noted by the Committee, a key issue in the public company audit market is what drives competition for audit clients and whether audit quality is the most significant driver. Currently, there is minimal publicly available information regarding indicators of audit quality at individual auditing firms.

We agree with the Committee's recommendation that the PCAOB determine the feasibility of developing key indicators of audit quality and requiring auditing firms to publicly disclose those indicators. In addition, we agree with the Committee's recommendation that the PCAOB, through its inspection process, should monitor these indicators once identified.

STREAMLINE AUDIT FIRM INDEPENDENCE REQUIREMENTS

Recommendation 4(a)—Compile the SEC and PCAOB independence requirements into a single document and make this document website accessible…in the case of public companies)…indicate, at each place in their standards where differences exist, that stricter SEC and PCAOB independence requirements applicable to public company auditors may supersede or supplement the stated requirements…

The SBA fully supports this recommendation. Such action should simplify regulatory guidance and strengthen individual requirements in which ambiguities may now be present.

SHAREOWNER RATIFICATION OF AUDITOR SELECTION

Recommendation 5—Adopt annual shareowner ratification of public company auditors by all public companies.

The SBA strongly supports the Committee's proposal for shareowner ratification of auditor selection. Through the annual meeting and proxy process, mandating that auditor selection be ratified by equity owners will undoubtedly enhance the oversight of the audit committee and ensure that the auditor is suitable for the company's size and financial reporting needs and may possibly enhance competition in the audit industry. We also agree with the Committee's desire to encourage such an approach as a best practice for all public companies and its urging of exchange self-regulatory organizations to also adopt such a requirement as a listing standard. In addition, we agree with the Committee's recommendation that disclosure in the company proxy statement regarding shareowner ratification include the names of the senior auditing partners staffed on the engagement.

MEASURING AUDIT QUALITY & EFFECTIVENESS

Recommendation 6—Enhance regulatory collaboration and coordination between the PCAOB and its foreign counterparts, consistent with the PCAOB mission of promoting quality audits of public companies in the U.S.

We agree with the Committee that global regulatory coordination and cooperation are important elements in making sure public company audit firms are contributing effectively to audit quality, particularly as we move to one high quality set of global accounting standards under the International Financial Reporting Standards.

We appreciate the opportunity to comment on these significant investor issues. If you have any questions or if I can be of further assistance, you may contact me at (850) 413-1252 or governance@sbafla.com.

Sincerely,

Michael McCauley
Senior Corporate Governance Officer

cc: Thomas Ray, Chief Auditor, Public Company Accounting Oversight Board (PCAOB)
Ann Yerger, Executive Director, Council of Institutional Investors