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MEETING OF THE PCAOB

ORAL REMARKS
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Chairman Doty, Members of the PCAOB Board -- Chief Accountant Kroecker and other observers with us here today -- thank you for inviting me to this important discussion. I also want thank the many panelists who spoke earlier, and those who will speak tomorrow for their interest, perspectives and the investment of time.

I also want to take this opportunity to thank one other group: my fellow Partners and audit teams at PwC. I know, firsthand, the tremendous work you do and your dedication to serving the capital markets and investor groups that rely on your work. I see it each and every day.

One of the ironies of our profession is that the public rarely sees or hears anything when an audit is done well. But even though the benefits and workings of a well done audit are often "quiet" to the public, a lot of great work goes on behind the scenes. Our audit teams make the tough calls that need to be made.

In fact, in a recent quality and values survey of randomly selected PwC audit partners, 92% of them reported that in the last 2 years they had to have a difficult conversation about an accounting judgment, suggested a different or improved financial disclosure, or identified a potential weakness in financial reporting controls that needed attention.

I recognize, "beauty is in the eye of the beholder," and we are not always perfect in what we do -- though we strive to be -- But making the tough calls when needed, improving quality continuously and striving for that excellence is at the core of PwC's culture.

The path in which we improve auditor independence, objectivity and skepticism is the subject of today's meeting. And in dealing with such important topics, I hope we can all agree on the need to be open to different points of view, to analyze and explore the pros and cons, costs and benefits, as well as possible unintended consequences -- before concluding on the path forward. But before jumping into the controversy, let's take stock of where we are today.

Many have said there have been great enhancements in financial reporting and in audit quality -- both of which go hand-in-hand serving the needs of the investing public.

Over the last ten years, we've been on a journey that has led to significant enhancements to reporting requirements, better execution of auditing standards by the profession, clearer accountability of Audit Committees in overseeing the financial reporting process, and greater effectiveness of the inspection and standard-setting process.

Changes over that time -- including substantially limiting non-audit services to audit clients, moving oversight of the audit firm to the audit committee, and mandating external oversight by the PCAOB -- are, in fact, working , Although, I humbly admit we all have more work to do, so let's continue on this journey of improvement and not risk taking any steps back.

Continuing this journey requires us to focus on 4 important factors:

First, audit quality. Independence, Objectivity and Skepticism must, of course, be the foundation of how auditors approach their work. But there are many other aspects of audit quality. For example, having experience and expertise in the right industries and for complex technical areas -- here and around the world is key -- and audit firms enhancing their own quality control processes continuously is a must.

A second factor is the profession's ability to keep pace with the evolving needs of capital markets and investors. It is important that all of us continually assess the auditors work product to ensure we are meeting the needs of the stakeholders we serve. I applaud and support the potential changes to the auditor's report, more specifically the expanded use of matter of emphasis paragraphs, but to me it's another step in the journey and hopefully, with more to come.

Transparency is a third crucial factor. If we are to sustain the confidence of our stakeholders in what we do each and every day, then we must be more transparent in how we think about things like audit quality, the areas where we can improve, the investments for such improvement and the measurement and reporting of the progress made to date

The final factor is governance. Our firm, the accounting profession and others in the reporting supply chain must make certain that the right governance mechanisms are in place to ensure we are delivering quality audits to the investing public.

While our discussions today focus on the concept of Mandatory Firm Rotation and how it purports to address independence, objectivity and skepticism, I hope that in the future we spend at least as much time on these four very important factors.

Mandatory firm rotation, or for that matter retendering, which for some sounds like a compelling way to quickly improve the perception of independence and objectivity, will result in stepping off the journey of continuous improvement. Mandating when companies make key governance decisions -- whether through mandatory firm rotation or retendering -- in my mind, is a blunt instrument that will undermine good corporate governance and audit quality.

I thought I would wrap up with 5 summary points:

#1) We truly believe the profession has improved over the last several years in the area of audit quality; and yes, more continuous improvement is needed - something we are investing in and committed to accomplish.... but these improvements cannot be limited to just Independence, Objectivity and Skepticism -- but rather must include the four points I mentioned earlier

2) Expanding auditor reporting would benefit investors and we support many of the changes the Board has proposed, but we should work together to go even further;

3) There needs to be better engagement and more robust communication among, auditors, audit committees and investors. In that regard, we believe that the Audit Committee serves as the best governing mechanism for the engagement and oversight of auditors. However, Audit Committee could be more consistently be involved in approving the selection of the audit partner, by assessing his or her ability to be professionally skeptical and to challenge management, as appropriate and they should also more clearly communicate their role, responsibility and decisions.

4) Audit firms should be more transparent in disclosing their quality control processes, independence safeguards and behavioral incentives; and we suggest developing Key Performance Indicators (KPIs) to measure and report audit quality.

5) Finally, we should not rush to judgment trying to solve the problems that may not exist to the magnitude some assume, or by reacting to personal views on what is perceived to be the easier fix. We support proposed changes that enhance quality and not ones that risk even the possibility of the reduction of audit quality.

Thank you for the time today but before handing over the microphone, I have one ask....

We want, hope, and honestly <u>expect</u> to...be part of any future discussions in working with you towards the enhancement of the auditor's role in serving the needs of our key stakeholder, the investing community as our goals are truly aligned with yours. We have points of view to bring to the debate and truly believe the status quo should not be an option. Thank you.