Prepared Remarks for PCAOB Rule Making Docket Matter No. 37

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Good afternoon, I want to thank the PCAOB (the "Board") for inviting me to participate in this important discussion and everyone for taking the time out of their busy schedules to provide their feedback today. I'm pleased to have this forum to provide Tenet's perspective on the concept of mandatory audit rotation and measures that can be taken to enhance auditor independence, objectivity and professional skepticism. I truly appreciate the opportunity to discuss the benefits and concerns of mandatory rotation. In our comment letter to the Board, we provided several key points for consideration as the concept is debated. I would like to provide a brief overview of those points.

First and foremost, we believe the creation of the Board by Congress to provide oversight of registered public accounting firms has been extremely beneficial in restoring trust in the financial statements of public companies. We fully support the Board's oversight role. However, we believe the enactment of mandatory rotation could create adverse perceptions regarding the need of the Board's future oversight role. Having previously been an auditor with a large international firm and also most recently as a member of management intimately involved with the external audit process, I can't emphasize enough the importance and benefits of the Board's periodic reviews of external audits. I have observed first-hand how serious our external auditor's take into consideration the Board's findings and immediately implement changes to improve its audit processes as a result of the Board's findings.

Second, we believe that the current five year rotation requirement of lead audit partners captures substantially all the benefits of mandatory audit firm rotation in a cost effective manner, including the important attribute of a "fresh set of skeptical eyes". My company's lead audit partner just rotated off after five years of service. I can assure you that rotation of the lead partner after only five years is, essentially, equivalent to changing audit firms. When the lead audit partner rotates off, management needs to review and seek concurrence for each critical area of accounting judgment with the new partner, as well as having to provide background information on all aspects of the Company's business … which is tantamount to the process that occurs when a company changes auditors.

Many stakeholders have questioned whether audit failures would be minimized if mandatory rotation was required. We don't believe there are conclusive findings or evidence to support this theory. Rather, it appears that most audit failures occur due to intentional or unintentional negligence by auditors and management, and/or lack of compliance with existing laws, rules and regulations. Instead of mandatory rotation, we believe continued robust inspections by the Board will hold individuals and their firms accountable for improper actions and are a greater deterrent than mandatory rotation.

Also, if mandatory rotation is ultimately enacted and the maximum time period a firm would audit a public company is too short, we believe the incentive for firms to fully invest in client service and audit quality could be diminished.

Given the fact that there are only four large international auditing firms, one possible unintended consequence of mandatory rotation is the creation of financial benefits to the four large firm's long-term business models. Under mandatory rotation we believe there's a strong likelihood that companies will select the four firms in sequential order. This unintended consequence of sequentially rotating firms could create a perception for outside parties to suggest the auditing business should be nationalized as the private sector would be compelled to change auditors every so many years with little choice of firms, which could lead to higher audit fees as the firms would have less incentive to invest in a long-term business relationship.

I do want to point out that after deliberate consideration, my company decided to change auditors in 2007 after many years with the same firm. It made sense for our company to change auditors at that point in time after our audit committee carefully considered the pros and cons. However, there are various inefficiencies of embarking on a change of auditors and we do not believe it would be in the best interest of various stakeholders if such a change was imposed every so many years.

Although there are numerous benefits of mandatory rotation, we believe the costs and possible unintended consequences of mandatory rotation outweigh the potential benefits. As a result, we believe mandatory rotation is unnecessary. Again, we believe the Board is adequately structured and equipped to provide appropriate oversight of the auditing profession.

Thank you.