PCAOB Opening Statement by Ken Goldman, CFO and SVP Finance, Fortinet, Inc

I plan to discuss my background, what I have done to prepare for this panel, my sense of the pros and cons of mandatory auditor rotation and recommended alternatives to improve audit effectiveness.

By way of background, I am currently CFO of Fortinet, an approximately $500m network security company we took public late in 2009. My experience encompasses 30 years of CFO high tech practice, for such companies as Siebel Systems, @Home, Sybase and VLSI technology; ranging from raw startups in three cases to relatively larger companies like Siebel. I have also been on well more than 20 boards of directors for public companies– including current director positions at NXP Semiconductor, where I am the Audit Committee Chair, and Infinera Corporation, and past Chair of Audit Committee Board positions at Juniper Networks, Starent Networks, and Legato. Additionally, I have served on the boards of several private companies, many of which have been successfully acquired. I am also on a number of charitable and school boards, such as Cornell University.

In terms of preparing for today, I went back and reviewed my CFO and Board experiences as well as my time on the FASAC board from 1999 to 2003 and my participation on the "Advisory Committee on the Auditing Profession" under the auspices of the U. S. Treasury and co-chaired by Arthur Levitt and Don Nicolaisen. This committee was tasked to examine comprehensively the condition and future of the auditing profession. The committee came up with 31 recommendations via three subcommittees. Our report (encompassing 12 huge binders) came out in late 2008, just in time for the market crash and as a result, I am afraid many of the recommendations have gone into a museum. I will cover a few of these recommendations that I believe strongly in and would suggest that the PCAOB perhaps reads through the document and helps take ownership of the work product. I also reviewed some of the recommendations made by prior panels.

First, I would like to take some time to explore progress that we have made over the last ten years since passage of Sarbanes Oxley. We now have:

- CEO and CFO certifications
- Mandatory five year Partner rotations
- SOX 404 internal controls
- Auditor services independence requirements
- Audit committee responsibility for overseeing the auditors
- A more robust private regulatory regime under the PCAOB
- Audit committees composed of expert members
- More frequent and mandatory filing reviews by the SEC
- ..And a host of other changes which for the most part have been helpful.

Clearly we had a few miscreants during the late 1990's bubble which I would argue primarily relates to a few bad apples who lacked a proper "ethical compass". Today, my sense is that both the CFO profession and the Auditor profession in general take their respective roles very seriously. And audit quality has in fact improved; and as a result, restatements are down 80% from 2005, and class action lawsuits are down a half over the same time frame.

I will now address mandatory auditor rotation of which I am not in favor. Historically, for those with short memories, we had the original big eight auditing firms. Through misplaced consolidation, in my judgment, and the elimination of Arthur Anderson, we are now down to four. These four firms audit approximately 98% of the market capitalization of U.S. public companies, which is comparable for other major capital markets. Thus, the genie is out of the bottle. We use other firms for work that can not be done by our public auditor (such other services are now down to 20% from 50% in 2002) and/or we have other firms as customers. Thus, the available set of alternative auditors is zero to two at most. Additionally, in many industries, there are constraints such as relevant industry experience or geographic presence that severely limits the alternatives. Ironically and perversely, changing auditors many times has a negative connotation for investors; implying either the existing auditor prefers not to work for the company or vice versa, and it is hard to really detect and understand fully the rationale for the auditor change by investors.

For example in a related situation, I was on the Cornell University board when a number of years ago we put our audit up for competitive bid. We changed from our existing auditor to a new one, not for cost, although incidentally the new firm was more cost- competitive than our prior firm, but because the new firm uniquely possessed relevant experience auditing the very top universities similar to our size and could field a team for us in Ithaca, which was no easy task. We never realistically considered a non big four firm. Through their relevant experience, they could provid helpful best practices.

Taking all this into account, here is what I recommend relating first to mandatory auditor rotation and related high priority suggestions:

1. Require large companies to bid out their audit every 10 to 15 years, with some flexibility, and if they choose to keep their existing firm, require them to explain why. Additionally, all public company audit changes and reasons must be disclosed. Auditing firms also must notify the PCAOB of premature engagement partner changes at audit clients. In thinking of this, study results of companies that have changed auditors relative to the pros and cons: Is there a link between audit quality and changing auditors? Do negative perceptions exist regarding auditor changes? What is the fundamental reason and benefit or problem trying to be fixed via auditor rotation? What is the benefit of existing institutional knowledge? What is the objective and result expected of making an auditor change? Also, do not believe that an auditor will perform better as a result of knowing a new audit firm is coming in as some have postulated. Reputation is more important.

2. As Arthur Levitt has suggested, consider addressing mandatory auditor changes for issues such as required restatements or when non-audit services become too high, etc.

3. Require both the Engagement Partner and the Reviewing Partner to sign the Opinion, either in 10-K or the Proxy. Expand the scope of the audit committee report in the Proxy, relating to auditor independence, objectivity and professional judgment.

4. More formalize the role of the reviewing Partner

5. Publicize and issue best practices and learnings developed through the PCAOB reviews of company audits, (and make these more public to the companies involved). Continue to publicize and replicate improvements made in firm audit methodologies. Consider requiring Audit firms to discuss inspection results more fully with company audit committees.

6. Controversially perhaps, increase the mandatory Partner rotation from five years back to seven. In reality, the first two years the auditors spend training and learning the account, there are good years in the middle, and requiring rotation after five years is just not practical.

7. It is all about the people, and thus, I would focus on ensuring appropriate human capital steps are taken to ensure trained and competent auditors at all levels of the Team.

8. As an aside, in analyzing mandatory auditor rotation, should we also have mandatory CFO rotation?

In closing, I also have a number of related recommendations that I have considered from my relevant experience as well as from my work on the Treasury sub-committee. These are not necessarily prioritized.

1. PCAOB should consider developing and disclosing key indicators of audit quality, disclose such indicators and monitor them. PCAOB should issue constructive recommendations based on its findings relative to audit quality.

2. All public companies should adopt annual shareholder ratification of public company auditors.

3. Critical to ensure viability and preservation of existing firms, large auditing firms should produce a public annual report with audited GAAP financials, including key indicators of audit quality and effectiveness, and also consider adding independent board members.

4. Recognize that many of the restatements result from recently issued and complex pronouncements, such as those relating to complex financial instruments, fair value accounting, etc. We should work to balance accounting theoretical accuracy with practical implementation implications and cost/benefits. .

5. Provide training and develop and promulgate best practices in terms of running audit committees. Provide training of Audit Committee members on audit committee expertise.

I would add that the number of committee meetings for a public company has increased from four to six to generally 10 or more annually. Today's Audit committees have real accountability and responsibility.

6. Align standards and certifications for audit firms and their employees between federal, state and other related bodies. In relation, consolidate rules of various oversight bodies, such as SEC, PCAOB, AICPA, regarding independence requirements among public company auditors, free of conflicts of interest.

7. There can never be substitution for reasoned professional judgment and possessing a good ethical compass, and remembering as I was told early in my work, "disclosure is my friend" or shining a light on transparency.