

## IAN POWELL:

I can't believe it's a year since we last appeared on stage together, and who would have predicted twelve months ago, that we'd have a coalition Government, Ed Miliband leading the Labour party and West Brom in sixth place in the Premier League.

And as a West Brom fan I confess that is by far the most unlikely item on the list!

Tonight, is my third 'Building Public Trust' speech and the eighth year that we have held this dinner. I'm delighted that building public trust has not only retained its relevance but has actually risen in importance to become the centrepiece of many corporate agendas. That is certainly the case in my own firm, where integrity and trust lie at the heart of our brand.

And on the subject of brand the eagle-eyed among you may have spotted that at PwC we have a new corporate identity. I must admit that a 22 letter name was a bit of a mouthful, even for those of us with English as a first language, let alone for those in Eastern Europe and Asia- so moving to a three letter name PwC - the one everybody already uses goes down as progress.

You'll know the effort and time that goes into branding, and how everybody seems to have their own view on what it should be. So it was a significant act of restraint by myself, and our leadership team, to avoid getting the crayons out to start re-designing the brand and to defer to the experts - who then came up with the three letter name we had already! Just remind me why we were paying global brand experts?

But, seriously, you'll also know that the visual brand is irrelevant if the brand values don't exist throughout the organisation. And whilst we have a new logo, the values of our firm are constantly reinforced in the behaviours we aspire to. The principles behind Building Public Trust with its objective to improve corporate transparency remain unchanged and they are:

- To encourage organisations to offer **better not just more** information
- To improve the linkage between what is being reported **and** strategy
- To ensure narrative statements are backed by **good** data
- And critically that historical performance is set in context, particularly in respect of **future** ambition

Through better communication and engagement we believe that the commodity at the heart of this evening - "Trust" - can be enhanced.

Despite all that has been done to try to rebuild public confidence in business the latest Edelman Global Trust Barometer showed that business is still struggling to regain public trust. More than 70% of the people interviewed believed that despite all that has gone on in the past two years companies would try to revert "to business as usual" when the economic outlook improves. And

if that depresses you, you might draw some comfort from the fact that only about 15% of the people polled trusted the pollsters.

Here in the UK the survey results were scarcely more positive. They show that only a third of those people interviewed trusted CEOs. This is a serious issue, and it highlights the challenge business leaders have regarding our legitimacy at a time when business is so critical to the future prosperity of our nation.

At PwC we have been investing a lot of time to better understand the "trust dynamic". And I'd like to share some of our findings and also add a few personal views. Earlier in the year we published a paper in which we characterised trust as the 'overlooked asset'. Tonight I'd like to focus on the behavioural challenge which is the subject of a new PwC thought piece.

I want to focus on why I believe trust is so important to the corporate world and our own business and to outline some of the actions that I believe we all need to be taking to regain it.

I know that exhortations to try harder to be more transparent and accountable are wearing thin so I'll look to focus on the key issues and the practical steps I believe we can take to address them.

### **I'll start with the public debate that is growing around the role of business in society.**

From my conversations with other chairmen and CEOs, I know there are **a few** areas where they are focusing attention at the top of their organisations.

The first relates to corporate purpose. Why does business exist? I hope we are beyond debating the importance of wealth creation. As today's economic plight highlights more than ever how critical the private sector is to the fabric of society. But we face that challenge at a time when some commentators need to be careful not to demonise business given how important economic growth is to the UK's future if the certainty of public sector job losses is to be compensated for by private sector employment.

We also need to remember the mounting liabilities of pensions and healthcare - probably underestimated and each with the potential to cause its own financial crisis albeit over the longer term. Financial challenges on this scale can only be solved by the wealth generation engine that is the private sector. But I also sense that many companies are rethinking the relationship they have with society at large.

While this has been going on for some time the credit crunch, climate change, resource shortages, the increasing connectivity of the world and the expectations of generation Y all mean we need to challenge established thinking to ensure our businesses remain in tune with public expectations, particularly amongst the young.

Secondly, **leadership and the tone from the top** remain in the spot light, with regulators

bringing much more focus to the topic. I hope we are all more aware that the management of risk and the ability of organisations to outperform comes from culture and behaviour not simply business process. I suspect we've been through a period of history when not enough attention has been focused on the issues that influence corporate culture and behaviours - particularly the right ones.

For that reason I was, like many of you, an enthusiastic co-signatory to the letter written by Marcus Agius, published in the 'Financial Times' last week which publicly stated our view that as business leaders **we** have a personal responsibility to imbue our organisation with integrity and professionalism.

We've all got codes of conduct and processes coming out of our ears - from screening of recruits to ethics training. But, I suggest this will only ever get us to first base. To move beyond we have to be more understanding, and at times challenging of behaviour. We need to guard against 'group think' and cultures which are insular, and routinely dismiss the views of outsiders.

We have to recognise, that if we want to make a difference it starts from the top, how boards behave, how senior executives make decisions - it's this tone which colours the organisation and is mirrored by others.

And thirdly, my comments around the trust challenge would not be complete without a few words on **transparency**. Or perhaps the word should be authenticity - because to my mind transparency is the process and authenticity the end product. Too much reporting is still driven by compliance, by process and the dead hand of the editorial committee. We produce volumes of information, often complex in its form, and wonder why people don't understand it or worse, switch off.

What I have learnt in my short time leading this firm is if it's worth saying it has to be personal and authentic, it needs to come from the heart. Warren Buffet offered what I still think is the most compelling guide to any business leader who is about to put pen to paper when he said:

'When writing Berkshire Hathaway's Annual Report, I pretend that I'm talking to my sisters. I have no trouble picturing them; though highly intelligent, they are not experts in accounting or finance. They will understand plain English, but jargon may puzzle them. My goal is simply to give them the information I would wish them to supply me if our positions were reversed. To succeed, I don't need to be Shakespeare; I must, though, have a sincere desire to inform.'

What might amuse you is that Buffet wrote those words as the introduction to an SEC handbook on simplifying corporate reporting!

I would however like to think that Warren Buffet's sisters would share our judges' view that tonight's award winners **have** succeeded in producing reports that do use plain English to get their message across.

It's also important that reports prove that we as business leaders understand what's going on in

our businesses and it's interesting that Einstein used to say that you only fully understand something when you can explain it to your grandmother. Well I've visited our team on Lehman's and I would have challenged anyone to explain to my grandmother the term 'Asset re-Hypothecation'. Mind you she never really got the theory of relativity either.

But encouragingly, I see signs for cautious optimism. More and more of the CEOs, Chairmen and other leaders who I talk to are focusing on the clarity and authenticity of their leadership and the impact it has on the business and its people.

This is a good sign for business and its ability to live up to the growing expectations society is placing on it.

[Pause]

**Having focused on the wider issue of the importance of trust to the business community I would now like to consider trust and my own business.**

When I look at the profession I'm proud of its history and the contribution it has made to the successful development of the market economy. Since the time of the Industrial Revolution the profession has played a vital role in helping to support the capital markets. When I look at PwC, and here I'm a little biased, I'm extremely proud of so many things we have done to strengthen the financial world of which we are an intrinsic part. The 'Building Public Trust' programme and all that sits behind it is one good example. But more broadly on reporting, which is so critical to the economic system, I feel we have tried to go the extra mile - for example, we have helped create the International Integrated Reporting Committee with the ambitious mandate to change the world of reporting. We are also working with CIMA and Tomorrow's Company on some ground breaking research looking at barriers and incentives for change. I believe this work will help inform how the reporting system can be developed so as to ensure it remains fit for purpose in a rapidly changing world.

But this is not enough. Those of us leading the auditing profession have also got to be prepared to change. The financial crisis was a case of systemic market failure; but one of the key lessons it highlighted was that auditing has to move forward, if it is to be relevant and valued. As participants in the market, and as a matter of public interest, the audit profession should examine its role and responsibilities, and how they should be changed. I welcome the increasing public debate about the value and relevance of audit and the calls for auditor reporting to be more informative.

I intend that PwC is at the forefront of making the changes that are needed. While there is no single right answer to what those changes need to be, there is a broad spectrum of reforms which will make a positive impact.

Some are actions we could start taking now. Some will take longer to emerge and find acceptance and will need a broad consensus with you, our clients, our regulators, and other public interested parties. We see this spectrum of actions as made up of five groups:

- **First** we will continue to raise the standard of all the work that we do to strive for an even higher consistent standard of excellence. As far as we are concerned, if just one of our audits is found wanting, for whatever reason, then that is one too many.

- **Second**, we will work to improve the transparency of the scope, processes and decision making in an audit. As a profession we have not done a good job explaining what an audit is. And if we don't, then we can hardly complain if auditing is not well understood. Changing the bland and formulaic audit report **will** take time. But, the most immediate way to consider giving more information is through the Audit Committee's governance report, where there is greater discretion over its content.

As many of you in the room know we have wide ranging discussions with our clients and in particular Audit Committees in relation to the risks of misstatement and areas of judgement in the financial statements. Much of that debate stays private between us and the committee. It may well be that by making more of those discussions public, through the vehicle of the Audit Committee's report to the shareholders, we can collectively improve the value of an audit.

I have asked our lead audit partners to discuss this idea with audit committee chairs of PwC clients, to see if we can work together on a voluntary basis, to improve the disclosure of such matters over the next reporting cycle. It will need to be a collaborative effort, where your views and support as clients will be critical.

- **Third**, we will look at how we can make our reporting more useful on the narrative information that goes with the financial statements and that is not covered by the audit report - what we call "the front half" of the Report. Currently we report by exception and we should find a way of making that reporting more useful. In our discussions with investors it is clear many already, and wrongly, believe that all quantified information is subject to audit.

- **Fourth**, we will look to change the standards for reporting and auditing to give clearer, and better assured information, in the areas which received particular focus in the financial crisis - for example the business model and its inherent risks, the uncertainties and judgements that underlie a set of financial statements or the assumptions and sensitivities that underpin the going concern assessment.

- **Fifth**, we need longer term, more fundamental, reform. The changes I have discussed so far are important and would represent real progress, but they would still be piecemeal. Technical complexity and volume have grown in recent years, at the expense of clarity and understanding. And there is a need for better connectivity between governance, remuneration, risk and sustainability information. I recognise that this is a challenging agenda, and one we need to talk through carefully with you, our clients and other market participants.

In the longer term I believe some auditing and corporate reporting standards will need to change and I want business and the audit profession to be at the forefront of this process. I am encouraged by some actions which are in train. However, changing systems, as we know, demands the involvement of a wide group of interested parties to build the necessary

consensus.

This will take time but we must start now.

[Pause]

I began by saying that better communication and engagement can lead to improved levels of trust in business. The fact that so many of you, the leaders of UK business and public sector organisations are here this evening, is evidence of the importance you attach to regaining public trust.

The personal responsibility I have seen from leaders in so many of the companies and public sector bodies that I have spoken to is another tangible sign that we are making progress.

And finally, I hope that the agenda that I have outlined this evening for the auditing profession, to bring greater transparency to the audit process, and to improve the relevance of the reporting model, will also play a part as we collectively do our utmost to regain the public trust business needs to cement its critical position in society.

Thank you very much.