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Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
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Subject: Docket Matter No. 37 – Auditor Independence and Audit Firm Rotation

PCAOB Board Members:

Exxon Mobil Corporation thanks the Board for providing the opportunity to respond to the concept release on auditor independence and audit firm rotation.

We recognize the role that auditor independence plays in ensuring that a company's financial statements fairly represent the financial state of the company. Investor trust in the financial statements of a company is the lynchpin of healthy financial markets. As the Board points out, deficiencies in the independent audit process can result from a number of factors. Specifically ascertaining which factors directly cause or contribute to a given deficiency is a difficult task. Concluding that lack of auditor independence is an important contributor to audit deficiencies, while at the same time acknowledging the difficulty in recognizing independence failures, is premature without further detailed analysis. As such, the Board's suggestion to require mandatory audit rotation as a method to correct an independence issue is not supported by empirical evidence, and we do not agree with this proposal.

Mandatory audit firm rotation, if implemented, would result in serious unintended consequences as it would have a negative impact on audit quality and effectiveness. An audit firm accumulates knowledge of its audit client over a period of time. Both the company and the auditing firm perform a significant amount of work in the early years of an engagement to achieve an appropriate level of auditor understanding of the company's business model, policies, practices and internal control system. Less effective audits would occur during the initial years following a required rotation when auditors lack the requisite level of institutional knowledge and expertise required to perform a quality audit. In addition, the preparer's staff will need to devote significant time orienting the new audit firm, thereby reducing overall productivity and diverting efforts away from the current demands of sound financial reporting.

Another concern overlaying this impact on audit quality is the limited population of qualified audit firms that can handle the breadth and complexity of large, multinational companies. Board Audit Committees (BACs) could be put in a position to engage a less qualified auditor or multiple auditing firms to satisfy assurance requirements. Restricting the ability of the BAC to appoint and retain the auditor that it believes is in the best position to conduct an independent, high quality audit would undermine a key responsibility of the BAC, while exposing the company and its shareholders to unnecessary risks.

The changes required by the Sarbanes-Oxley Act have resulted in checks and balances which work to foster independence in the audit process. Mandatory engagement partner rotations, along with systematic auditor staff rotations, provide personnel change and new perspectives without the risks associated with the change to a new audit firm. Such internal staff rotations from one client to another, in conjunction with the audit firms' quality assurance programs, promote a considerable level of independence. Furthermore, to the extent an inspection determines that a lack of audit firm independence contributes to an audit failure, the PCAOB has the authority and obligation to take the appropriate enforcement action against the responsible audit firm.

In conclusion, we ask that the Board continue to use the inspection and enforcement tools in place today as the means for promoting continued improvement in audit quality and independence. Should the Board believe other process changes may be warranted, we encourage the Board to first conduct a thorough study of the independence issue, leveraging the results of its ongoing inspection efforts to ensure the empirical evidence supports its proposals. Such an effort should isolate those instances where lack of independence was the reason for the audit failure and provide the basis for evaluating alternatives for improving auditor independence, including changes within the current auditing framework which do not negatively affect overall quality.

Again, we appreciate the opportunity to respond to this proposal and look forward to future dialogue with the Board.

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