

Statement of

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Concerning Auditor Independence and Mandatory Firm Rotation  
Before the

The Public Company Accounting Oversight Board

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Chairman Doty and PCAOB members and staff:

Thank you for your invitation to participate in today's meeting to comment on the PCAOB's Concept Release on Auditor Independence and Audit Firm Rotation. We appreciate the Board's efforts to reach out to stakeholders on such an important issue.

We all agree that auditor independence plays a key role in the audit process, which includes forming an opinion as to whether a company's financial statements are fairly presented.

Independent audits of company financial statements provide investors with a level of trust that is vital to our financial markets. Investor trust is also buoyed by the PCAOB's oversight responsibilities of registered audit firms. We recognize that this oversight role has improved the objectivity and independence of audits performed on public companies.

Despite these observed improvements, however, the Board has continued to find deficiencies during their inspections. The Board has concluded that the cause of these deficiencies may be related to a lack of professional skepticism and objectivity. On this finding, we respectfully are very concerned that the Board has not provided sufficient and substantive evidence to support this theory. The one specific suggestion in the Board's concept release to address the apparent weakness in audit quality is to implement mandatory auditor rotation.

As communicated through similar forums and comment letters submitted to the PCAOB, views on mandatory auditor rotation basically fall into two groups. Those in one camp believe that a long term relationship between auditor and company results in an erosion of auditor independence. On the other hand, those opposed to mandatory rotation state that such a

change is not supported by empirical evidence and believe that audit quality would actually decline following a change, particularly during the first several years as the new firm builds up its knowledge and understanding of the company's policies, practices, procedures and control systems. I would like to note that mandatory auditor rotation has been met with virtually universal rejection by Board Audit Committees, including ExxonMobil's, as the proposal diminishes the Audit Committee's role in hiring, assessing, and firing audit firms.

If you do not happen to recall my letter specifically, I won't keep you in suspense as to which side I am on. I simply do not see that the case has been made to require mandatory auditor rotation. The Board has not demonstrated that audit deficiencies are directly related to the lack of auditor independence. Unless that case is made, the Board's suggested "cure" could prove far worse than the perceived "ailment". Mandatory rotation would represent a significant process change. Our experience tells us that a change in any process carries with it an inherently greater risk of error. We do not believe a speculative marginal increase in objectivity would be worth the combined risks posed by unseating an experienced auditor and replacing it with a new auditor possessing no institutional knowledge. Equally concerning is the exposure to risk that the Board Audit Committee would face due to the small number of audit firms that would have the global organization and technical staff to effectively audit large, highly integrated, multinational companies such as ExxonMobil. Suggestions by some to have multiple audit firms conduct audits would syndicate the risk and eliminate clear lines of accountability for audits given the likely coordination, communication and consistency issues that would exist.

At this point, to suggest such a structural change is premature and risks severely diminishing the significant audit process enhancements that have been made in the relatively brief existence of the PCAOB. Over the last ten years, the PCAOB has continued to strengthen its inspection and investigative efforts, and comments received from these reviews have resulted in constructive, meaningful changes to audit procedures. Additionally, the PCAOB has various enforcement tools which are effective at further improving audit quality. The ongoing use of those tools should continue to drive future audit quality improvements. Within audit firms, enhanced quality assurance programs, necessitated by the PCAOB, have provided a level of consistency and have been an important factor in promoting independence. In addition, the five year rotation of the engagement partner and the systematic rotation of a portion of the staff each year provide a change in personnel and new perspective and objectivity, without incurring the risks associated with a wholesale, mandatory change to a new audit firm.

In short, I believe the Board already has broad powers to effect positive change and sustained improvement through the various tools at your disposal today, which is evident from the successes achieved in recent years. I recommend that these tools continue to be used to the full extent possible before mandatory audit rotation is considered again. Many suggestions have been made to enhance or strengthen various components within the current process and framework, and I support these including:

- more transparency of inspection results;
- stronger disciplinary action;
- more communication with audit committees; and
- better auditor training.

The Board should give careful and deliberate consideration to these available policy tools, identify those that can be implemented effectively, and then assess their effectiveness prior to revisiting such a drastic and potentially counterproductive approach as mandatory rotation.

I appreciate the Board's willingness to listen to all sides of this issue and thank you for this opportunity to speak to you today.