

September 29, 2011

Via email to comments@pcaobus.org

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, D.C. 20006-2803

Re: PCAOB Rulemaking Docket Matter No. 34

Ladies & Gentlemen:

Jacobs Engineering Group Inc. (“Jacobs”, “we” or “our”) is one of the largest technical professional services firms in the United States. With fiscal 2010 revenues of \$10 billion, our business focuses exclusively on providing a broad range of technical, professional, and construction services to a large number of industrial, commercial, and governmental clients around the world. Not only are our financial statements used by our shareholders and potential investors, but by our employees, clients, potential clients, bankers, sureties, vendors, suppliers, and other business partners as well. Accordingly, we have a tremendous interest in ensuring that the financial information we provide our stakeholders is accurate and fairly reflects the financial condition, results of operations, and cash flows of our company.

We therefore appreciate the opportunity to respond to Concept Release No. 2011-003 – *Possible Revisions to PCAOB Standards Related to Reports on Audited Financial Statements* (the “Release”) and hope that the PCAOB (the “Board”) considers our comments in its deliberations.

Summary

Although we agree that there are certain practical enhancements that can be made to the auditor’s report which the readers of our financial statements may find helpful in understanding better our auditor’s scope of work and level of involvement with our financial statements, we believe that many of the alternatives suggested in the Release are unnecessary, impractical, and will not improve the readers’ understanding of our financial condition, results of operations or cash flows.

Specifically, we believe that many of the alternatives suggested in the Release:

- Risk misrepresenting to the readers of our financial statements the responsibilities of companies and their auditors with respect to information contained in annual reports that include audited financial statements;
- Will not enhance the users' understanding of our financial statements; and
- Will increase significantly both the internal and external costs of annual audits, particularly in the earlier years after the Release is adopted as auditors struggle to understand the scope of their new responsibilities.

The Need to Change the Auditor's Reporting Model

As an issuer, we spend a considerable amount of time and resources responding to questions about our financial statements and the other financial information we file with the U.S. Securities and Exchange Commission. For as far back we can recall, none of the questions received have ever involved our auditor or their insights or perspectives as to the quality of our earnings, alternative accounting treatments for significant transactions, inherent risks in preparing financial statements, or "close calls" (a term that the Board does not define in the Release). Accordingly, we question whether there is a genuine need to change the auditor's reporting model so drastically as to include such things as an "Auditor's Discussion and Analysis" ("ADA") or expand the use of explanatory paragraphs in the auditor's opinion.

Undoubtedly, the Board has spent a lot of time conducting its outreach efforts. However, we feel it is incumbent upon the Board to challenge those outreach participants who are in favor of, for example, an ADA to explain what benefits they would derive from the information an ADA would provide.

"Disclosure overload", whether by an issuer or its auditors, is a real problem for companies such as Jacobs who continue to weather very challenging economic times and who must evaluate the cost of all new initiatives, including mandatory changes to disclosure requirements, against the benefits any such initiative would provide. The more such proposed changes are justified by loose references to achieving additional "transparency" or to provide additional information that "might be useful to investors", the more concerned we become that regulators may be overreacting to minority elements of the investing community, or are being victimized themselves by investor

groups who subscribe to the “more is better” doctrine without pinpointing specific deficiencies within the existing reporting framework.

The Role of Issuers and Auditors in Disseminating Financial Information

We do not believe as a matter of principal that auditors should be the original source of information about an entity, its business or its financial condition and results of operations.

A company’s financial statements are the result of applying uniform principles of accounting to thousands (or millions) of individual transactions. And although the majority of such transactions are relatively homogeneous in nature, other transactions occur so infrequently or, by their nature, are complex and therefore require management judgment in order to properly value and present them, together with their effects, in a complete set of financial statements. It is the job of the company and its management to ensure that its method of accounting for all transactions comply with applicable accounting rules on a consistent basis and fairly reflect the underlying economics of the various transactions.

It is the job of the company’s auditor to test the results of the company’s application of accounting principles to its transactions, and to challenge, with an attitude of professional skepticism, the assumptions and judgments made by company management. In certain instances where the auditor determines in his professional judgment that it is necessary or otherwise advisable, the auditor independently corroborates various aspects of selected transactions and/or the values assigned to them.

In the end:

- The issuer publishes a set of financial statements it believes fairly presents its financial condition and results of operations in accordance with GAAP. And to provide further assurance that its representations are genuine, the issuer’s CEO and CFO certify the fairness, in all material respects, of the company’s financial statement; and
- The entity’s auditor issues a report on the entity’s financial statements indicating whether or not, in the auditor’s professional opinion, the financial statements fairly present, in all material respects, the company’s financial condition, results of operations, and cash flows.

It is our experience that the above reports satisfy our shareholders' and other stakeholders' needs relating to our financial statements.

An ADA presents a tremendous risk that the auditor will disclose financial information about a company that will not have been disclosed previously by the company. We see potential for this situation to occur within the ADA if the auditor is required to discuss and describe:

- The critical estimates made and assumptions applied in preparing the financial statements;
- Alternative accounting treatments of transactions; and
- Financial statement issues that had a potential material impact to the financial statements but was adjusted or corrected prior to the end of the period.

We also see the adjacent risk that the auditor may feel compelled to disclose information that is confidential or which may put us at a competitive disadvantage. There is also the risk that the users of our financial statements will place undue weight on the matters discussed and described by the auditor – take such information out of context - and fail to appreciate the fact that the financial statements fairly present the entity's financial condition and results of operations, taken as a whole.

Accordingly, we believe an ADA will blur the line of responsibilities between issuers and their auditors. We understand that the concept behind an ADA is rooted in the notion that there would be some benefit by sharing with the users of our financial statements much of the information that our auditor discusses with and discloses to our Audit Committee. However, what will be lost in an ADA is the interactive communication that occurs between our auditor and our Audit Committee. That communication process is iterative and takes place throughout the fiscal period being audited. A simple "report" could not capture nor fairly present the substance of the auditor / audit committee communications.

We found it particularly concerning that the Board cites as a possible benefit of an ADA that, "An AD&A could give the auditor greater leverage to effect change and enhance management disclosure in the financial statements, thus increasing transparency to investors" (page 13 of the Release).

At best, this statement demonstrates a fundamental lack of understanding of the relationship we have with our auditor. If our auditor believes that our financial statements or a particular disclosure can be improved, all they need to do is discuss the matter with us. And any suggestion that the management of Jacobs or our Audit Committee would be more receptive to listening to our auditor's perspectives regarding the proper application of GAAP simply because of what the auditor may write in his ADA is erroneous.

The Users' Understanding of Our Financial Statements Will Not be Enhanced

We do not see either an ADA or the mandatory use of emphasis paragraphs in the auditor's opinion as significantly enhancing the understanding of our financial statements by users.

The purpose of an audit is to support the auditor's opinion. The specific procedures performed by the auditor are selected based on professional judgment and the auditor's assessment of risk. The auditor may apply statistical sampling techniques to certain categories of transactions and, as we understand, add elements of unpredictability to their procedures by alternating tests, changing scope, or varying testing locations from one year to the next (again, based on auditor judgment).

We do not believe our shareholders in general have the technical expertise to extract meaningful information about the reliability of our financial statements from reading an ADA. Similarly, we believe that an explanatory paragraph embedded in an audit opinion that otherwise expresses an unqualified opinion on the fairness of the related financial statements will be very confusing to our shareholders.

By way of illustration, consider the accounting for asset retirement obligations ("AROs") as prescribed at ASC 410-20. Consider specifically the example the FASB provides at ASC 410-20-55-37. In this example, an entity constructs and places into service an off-shore oil platform that it is legally required to dismantle and remove after ten years. The fair value of the obligation to retire the asset at the end of the ten year period is estimated on the date the platform is placed into service using a present value technique that depends on a number of assumptions including labor costs; allocable overhead costs; the profit margins a contractor would typically demand for removing oil platforms; risk premiums; and rates of inflation.

For ten years, the entity diligently monitors the accuracy of its assumptions - adjusting them as necessary - to ensure that the ARO is fairly presented in its financial statements. And for those ten years, the entity's auditor tests the assumptions used by the entity to value the ARO as part of the work it determined was necessary to be able to opine on the fairness of the entity's financial statements taken as a whole.

Undoubtedly, during the ten years the platform was in operation, the auditor had numerous conversations with management of the entity as well as the entity's audit committee about the ARO and the manner by which it was being estimated. Assuming that for each of those ten years the auditor issued unqualified opinions on the entity's financial statements, one wonders what information the auditor could possibly provide in an ADA or in an explanatory paragraph to his opinion that would enhance or expand the user's understanding of the financial condition, results of operations or cash flows of the entity. The fact is that the entity's GAAP disclosures during those ten years combined with the auditor's standard report on the entity's financial statements is all the information most users need to properly assess the entity's financial condition and results of operations.

We believe ADAs will likely evolve to be long, tedious documents containing boilerplate language that will never provide meaningful insights to shareholders or other users of our financial statements. And throughout such evolutionary journey, issuers will incur costs that are purely additive without enhancing or providing decision-useful information to the users of our financial statements. We also believe that explanatory paragraphs will not provide meaningful information to the users of our financial statements who will very likely misinterpret whatever nuance the auditor is attempting to convey. To the extent such paragraphs are used to explain in more detail the audit procedures employed over certain areas of the audit, such information will be lost among our shareholders outside of the context of the purpose of an audit, which is to express an opinion as to the fairness of the financial statements *taken as a whole*.

Increased Cost of Audits

We believe that many of the changes to the auditor's reporting model proposed in the Release will result in increased audit effort, resulting in higher costs to issuers. These costs will manifest themselves in higher fees to our outside auditor as well as increased internal costs as we coordinate disclosures with our auditor. As mentioned above, we continue to weather very

challenging economic times and are very concerned that the changes described in the Release will increase the cost of audits in the future.

Practical Changes to the Reporting Model

Although not in favor of an ADA or the mandatory use of explanatory paragraphs, we believe the following are changes to the standard auditor's report are worthy of consideration:

- Disclosing the auditor's responsibilities to ensure that the financial statements are not materially misstated, regardless of whether the misstatement is due to error or fraud;
- Disclosing the auditor's responsibilities for information contained in the filing but residing outside the financial statements; and,
- Discussing the necessity of using professional judgment in (i) assessing risk; (ii) determining the extent and level of testing conducted; and (iii) the extent of reliance on the issuer's system of internal control.

In addition, we believe the Board might consider expanding the report of the Audit Committee to include a description of those areas of audit significance that was communicated to them by their auditor. This method of disclosure will preserve the integrity of the relationship between audit committees and their auditors while reinforcing the concept that material disclosures about an entity's business, financial condition and results of operations should rest with the issuer and its audit committee.

Conclusions

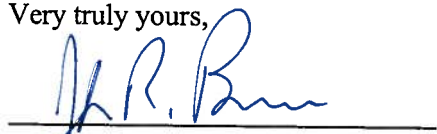
Although modest changes to the auditor's standard report (as described above) will increase a reader's grasp of the audit process, we believe that requiring the issuance of ADAs or the use of explanatory paragraphs will not enhance or improve the user's understanding of that process. In fact, we believe such changes will confuse users about the relationship between the issuer and the auditor and will blur the lines of responsibilities between the parties. The preparation of an ADA in particular has the potential of significantly increasing the costs of an audit as both the auditor and the issuer would have to work together to ensure that statements made in the ADA are properly supported and do not divulge confidential information.

Lastly, we encourage the Board to consider strong safe harbor provisions in the any final rule that includes the requirement for either an ADA or explanatory paragraphs in audit provisions that will protect issuers and auditors from shareholder litigation.

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Thank you for the opportunity to provide comments on the Release.

Very truly yours,



Joseph R. Bronson
Chair
Audit Committee of the
Board of Directors



John W. Prosser, Jr.
Executive Vice President
Finance and Administration