

December 11, 2013

Via email to comments@pcaobus.org



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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. 034: Proposed Auditing Standards on the Auditor's Report and the Auditor's Responsibilities Regarding Other Information and Related Amendments

Dear Office of the Secretary:

Tesoro Corporation¹ is pleased to submit comments on the Public Company Accounting Oversight Board's (the "PCAOB" or the "Board") Rulemaking Docket Matter No. 034, *Proposed Auditing Standards on the Auditor's Report and the Auditor's Responsibilities Regarding Other Information and Related Amendments* (the "Proposed Standards"). Certain comments provided herein reference those outlined in our letter² dated September 30, 2011 (the "Initial Letter") on the proposed changes to the auditor reporting model as originally set forth in Concept Release No. 2011-003 ("Concept Release").

Overall

We commend the Board for their efforts to address concerns raised by constituents about the Concept Release. However, we continue to disagree with the manner in which the Board is attempting to enhance audit quality and transparency of information concerning entities' financial statements. As currently outlined, the Proposed Standards, while pared down from the Concept Release, will not achieve the Board's goals. Rather, the Proposed Standards will likely result in additional confusion for investors and other financial statement users as it may promote users' undue focus on certain areas of an entities' financial statements, result in subjectivity being incorporated into the audit opinion, and cause unnecessary uses of time and expense for preparers and auditors to comply with little or no added value.

Critical Audit Matters ("CAMs")

We do not support the requirement to communicate CAMs in the auditor's report as outlined in the Proposed Standards. We understand that the Board's intent with the CAM disclosure within the auditor's report is to remedy the information asymmetry that exists between a company's management and investors. Conceptually, this appears to provide financial statement users the same information available to the audit committee and

¹ Tesoro Corporation is one of the largest independent petroleum refiners and marketers in the United States. We primarily manufacture and sell transportation fuels. We own and operate six refineries in the western United States that refine crude oil and other feedstocks into transportation fuels, such as gasoline, gasoline blendstocks, jet fuel and diesel fuel, as well as other products, including heavy fuel oils, liquefied petroleum gas, petroleum coke and asphalt. Both Tesoro and our consolidated master limited partnership, Tesoro Logistics LP (together with Tesoro Corporation, "Tesoro"), are publicly traded companies requiring periodic reporting with the Securities and Exchange Commission ("SEC"). The commentary provided herein represents opinions expressed on behalf of both Tesoro Corporation and Tesoro Logistics LP.

² <http://pcaobus.org/Rules/Rulemaking/Docket034/119.pdf>

management. However, we believe the Board is not sufficiently considering the negative implications of including discussion of CAMs in the audit report.

Constituents view the current pass/fail audit opinion model as an objective tool by which they can understand if the financial statements as a whole are free of material misstatement. While we agree that users typically just look to the audit opinion to ensure an unqualified opinion was provided by the auditors, we do not believe adding elements of subjectivity will provide better transparency to users as sought by the Board. Rather, we believe that discussion of CAMs in the audit opinion would only further the problem referred to as disclosure overload. Similar to comments we made in a letter³ submitted to the Financial Accounting Standards Board (“FASB”), we believe the current state of financial reporting requirements, whether issued by the FASB, SEC or through the Proposed Standards outlined by the Board, have caused a significant overload of information which users have trouble deciphering in order to make investment and credit decisions. The subjective discussion that will result from the inclusion of CAMs in the audit opinion will only add to the level of confusion inherent in current financial reporting requirements. Users may inappropriately focus attention on CAMs as being matters of greater importance than the financial statements a whole. Such focus should not be generated by the auditor, but rather management through its disclosures. Thus, the Proposed Standards would undermine the significant disclosures made by management throughout their financial statements about complex areas of the business.

Additionally, auditors typically encounter areas throughout the course of their audit for which complex or subjective audit procedures are necessary to evaluate the inherent judgments and representations made by management. Incorporating discussion of these matters into the audit report would likely never provide a complete picture of the procedures performed by the auditor. To discuss these matters with enough detail would require significant amounts of wording which could further confuse users. Auditors would also likely default to excess disclosure of matters that management and others may not consider CAMs due to the litigious nature of the U.S. financial reporting and audit environment and fear of repercussions from the Board during the inspection process.

As demonstrated by our points above, we do not believe the audit report is the venue for enhancing transparency of financial statements. Rather, we highly recommend that the Board not proceed with including CAMs discussion in the audit report and, instead, begin a collaborative effort between the Board, SEC, FASB and other regulatory bodies to perform a comprehensive review and revision of the current financial reporting and disclosure environment in which U.S. public companies operate. One-by-one revision to the current financial reporting and disclosure framework does little to address the evident issue of disclosure overload and limits improvement of financial statement transparency. Meaningful change in financial reporting will not occur unless all regulatory bodies view an entity’s financial statement as a singular item and work to enhance all of the parts to arrive at one set of enhanced financial reporting and disclosure requirements to address the issues that the Board along with the other agencies currently have on their agendas.

³ See our letter dated November 26, 2012 submitted to the FASB in response to their invitation to comment on the disclosure framework project.

http://www.fasb.org/cs/BlobServer?blobkey=id&blobnocache=true&blobwhere=1175825129506&blobheader=application%2Fpdf&blobheadername2=Content-Length&blobheadername1=Content-Disposition&blobheadervalue2=584378&blobheadervalue1=filename%3DDDISFR.DP.0018.TESORO_CORPORATION_G_SCO TT_SPENDLOVE.pdf&blobcol=urldata&blobtable=MungoBlobs

Other Information

We do not concur with the expansion of the auditor's responsibilities from "read and consider" to "read and evaluate" with respect to other information in certain documents containing audited financial statements, including selected financial data, management's discussion and analysis ("MD&A") and other information incorporated by reference. It is our belief that such a requirement is not appropriate because the auditor's responsibilities to evaluate as used in this context implies the auditor is providing a certain level of assurance over the information. The degree of assurance perceived will differ due to the varied nature of information included. Additionally, forward-looking information is incorporated in these areas and would be difficult to audit thus resulting in increased costs to the preparers of financial statements. We believe audit firms would struggle significantly to determine the level of work to be performed on forward-looking information thus leading to comparability issues in reporting, which we believe contradicts the goal of enhanced financial reporting that the Board and other agencies are trying to address. Having audit procedures required over forward-looking information also would reduce the usefulness of such information as management would need to adjust its disclosures and estimates to ensure the amounts can be easily audited.

Consistent with our comments expressed in the Initial Letter, within the PCAOB attest standards, there is the option that few companies exercise for the auditor to be engaged to attest on MD&A. This indicates financial statement users have not requested auditor involvement to that extent. If it is believed that such information outside the financial statements and footnotes should be subject to an audit, review, or the focus of additional assurance procedures, then such requirements should be mandated by the SEC, and not indirectly by the Board. Likewise, if further assurance on this information were deemed necessary, then the FASB or SEC could require such information to be included within a company's audited financial statements and footnotes. We surmise the reason such requirements have not been mandated is due to the scope limitations inherent in forward-looking information contained within MD&A. It would be very difficult for an auditor to provide an objective evaluation of prospective information. In our opinion, an auditor providing any level of assurance on other information may be misleading and cause financial statement users to place undue reliance on certain information, assumptions, projections or other estimates included within MD&A. Current disclosures outlined by the SEC adequately address these limitations and advise users of the risks of relying on the other information.

While we object to any requirement which implies a level of assurance is being expressed by the auditor, we do not object to an auditor clarifying the objective procedures that they currently perform. Such an approach would bridge the expectations gap between the investing public and the audit report by facilitating an understanding of the extent of an auditor's involvement over other information while addressing the public's misperceptions that such information is subject to an audit. We believe this approach is reasonable as it is premised on our belief that increased auditor involvement over this area is not needed and should not be required for those companies who demonstrate adequate controls, due diligence and level of care performed in the financial reporting process.

Additional Items

We do not necessarily object to some of the other objective wording changes outlined in the Proposed Standards. However, we do struggle to understand how the Board hopes to address investor concerns by disclosing auditor tenure. With the significant changes in independence and audit requirements over the past decade, we do not believe that a strong enough correlation exists to demonstrate that audit quality is impacted by auditor tenure. We would recommend that the Board review this requirement and perform additional research to evidence its concerns before finalizing the Proposed Standards.

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We appreciate the opportunity to comment on the Proposed Standards. While we understand the intent of the Board in developing the Proposed Standards, we do not believe the required changes, as currently outlined, would help enhance transparency for financial statement users. Rather, the primary components of the Proposed Standards will likely result in further disclosure overload and thus magnify the level of confusion currently experienced by users. We would be pleased to discuss our comments with the Board.

Sincerely,



G. Scott Spendlove
Senior Vice President and Chief Financial Officer