December 9, 2013

Office of the Secretary
PCAOB
1666 K Street, N.W.
Washington, DC 20006-2803

Via email to: comments@pcaobus.org

RE: PCAOB Rulemaking Docket No. 034
Release No. 2013-005
(the "Proposed Auditing Standards" or the "Release")

Members of the Board:

We appreciate the opportunity to respond to the Proposed Auditing Standards.

This letter represents a group response from several of the largest Engineering & Construction (E&C) companies, which are primarily SEC registrants, ("we", "us" or "Industry"), all of whom provide long-term construction related services to project owners around the world. Although each of the undersigned has its own individual perspective on the Release, we are unified in our view that there are aspects of the Proposed Auditing Standards that require revision for the reasons expressed herein.

Summary:

With respect to the proposed changes to the auditor's standard report:

- We *agree* that the current pass/fail model be retained as the foundation of the auditor's report on his or her audit of financial statements;
- We *agree* that the auditor's report be modified to include a statement that the auditor is required to be independent with respect to the company in accordance with the United States federal securities laws and the applicable rules and regulations of the SEC and the standards of the PCAOB;
- We *agree* that the auditor's report be modified to include a statement that PCAOB standards require the auditor to plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud;
- We *disagree* with the proposed requirement that the auditor's report be modified to include a statement regarding the year the auditor began serving consecutively as the company's auditor;
- We *disagree* with the proposed change to the auditor's standard report to include a description and discussion of critical audit matters.

With respect to the proposed changes to the auditor's responsibilities regarding other information included in an annual report filed with the SEC under the Securities Exchange Act of 1934, as amended (the "Exchange Act") (the "Proposed Other Information Standard"):

- We *disagree* with the proposed requirements to expand the auditor's responsibilities regarding such "other information", and to modify the auditor's report to include a section discussing the results of the auditor's evaluation of such other information.

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For the remainder of this response, we focus on only those elements of the Proposed Auditing Standards with which we disagree.

Proposed Changes to the Auditor's Standard Report:

Auditor Tenure

We are unconvinced that disclosing the tenure of the independent auditor in the auditor's report provides useful information to the readers of our financial statements.

Consider the following excerpt from the Release (page A5-15):

> "Auditor tenure has been the subject of discussion for decades and continues to be a topic of discussion today. Some academic research indicates that engagements with short-term tenure are relatively riskier or that audit quality is improved when auditors have time to gain expertise in the company under audit and in the related industry. Meanwhile, other academic research indicates that investors that participated in a study view long-term auditor-company relationships as adversely affecting audit quality. Other academic research suggests that both short and long tenure can have detrimental effects on audit quality."

And consider the following comment from PCAOB Board Member Jay D. Hanson at the Board's open meeting on August 13, 2013:

> "I also question whether it is appropriate for the Board to require disclosure in the audit report of the auditor's tenure with the particular client. We explained in the release that in developing the proposed requirement, the Board has not reached a conclusion regarding the relationship between audit quality and auditor tenure and that the Board's inspection process has not been designed to determine a relationship between audit quality and auditor tenure. Thus, we do not have, at this point, any data indicating that audit tenure has any correlation with audit quality. The mere fact that the Board requires a disclosure about auditor tenure, however, might suggest that the Board believes the information to be meaningful."

As specious as it is, the above excerpt from the Release lays the only foundation for the proposed change to the auditor's standard report to include auditor tenure. There is no evidence to support that auditor tenure has any relationship with audit quality. The "support" is in fact mere suspicion held by a small element within the investing community that the longer an auditor has been providing audit services to a client, the poorer the quality of the audits. The lack of any real data linking audit tenure to audit quality is confirmed by Member Hanson in his August 13 comments. In spite of this, the Board seems willing to throw-up its hands and proposes the modification to the auditor report to include tenure in a "What could it hurt?" approach. Disclosure of auditor tenure in the auditor's report conveys a linkage between auditor tenure and audit quality that simply does not exist.

We believe this proposed change to the auditor's standard report is unnecessary. The Board should only adopt those changes to auditing standards that have been properly vetted, are supported by empirical evidence, and are justified based on a cost/benefit analysis.

We also wish to point out that the SEC's rules regarding the preparation and content of proxy statements already require information regarding a company's independent auditors. Therefore, auditor tenure may be better disclosed in a company's proxy statement as part of the other auditor-related disclosures rather than as a random, disembodied statement in the auditor's opinion.

<u>Disclosure and Discussion of Critical Audit Matters ("CAMs")</u>

The Proposed Auditing Standards would create a new section in the auditor's report in which CAMs would be communicated. CAMs are defined as those matters addressed during the audit of the financial statements that:

- involve the most difficult, subjective, or complex auditor judgments;
- pose the most difficulty in obtaining sufficient appropriate audit evidence; or
- pose the most difficulty to the auditor in forming an opinion on the financial statements.

The Release suggests that CAMs would ordinarily consist of those matters of such importance that they are documented in the engagement completion document (pursuant to AS 3), or are reviewed by the concurring / quality review partner, or are communicated to the Audit Committee.

We disagree for the need of this new section, for the following reasons:

First, we do not believe our shareholders and users of our financial statements will view any discussion of CAMs as particularly meaningful. Although they will see CAMs as something interesting, and initially "novel", our shareholders and other stakeholders will invariably gloss over the discussion and place their reliance on the straight pass/fail opinion of the auditor, "because it clearly conveys the auditor's opinion regarding whether the financial statements are fairly presented" (page A5-5 of the Release). Including several pages in the auditor's opinion discussing CAMs will only detract from the auditor's opinion. We also believe there is a significant risk that the CAMs discussion will become rote over time as auditors realize that the readers of our financial statements value their *<u>opinion</u>* over any soon-to-become-boilerplate *<u>discussion</u>*.

Second, existing rules promulgated by the SEC require issuers to disclose and discuss critical accounting principles and estimates applied in the preparation of their financial statements. We find it hard to believe that the matters determined by the auditor to be CAMs would vary from the company's list of critical accounting principles and estimates. These disclosures are quite lengthy and often include, in the case of estimates, a sensitivity analysis based on changes in assumptions. Accordingly, the requirement to include in the auditor report a discussion of CAMs would be largely redundant and would not increase the reader's understanding of those matters nor their impact on the financial statements.

Third, and following the discussion in the preceding paragraph, we believe the proposed rule regarding CAMs *may in fact* lead to the auditor disclosing matters *not* covered by the issuers' disclosure of critical accounting principles and estimates. We believe that, in an abundance of caution and partially in response to concerns of being second-guessed by the PCAOB through the Board's inspection process, auditors may decide to over-disclose CAMs. To err on the side of caution may be viewed as prudent by our auditors and an easy way to avoid outside criticism of their audits and their reports. Disclosure overload has been the bane of issuers for years and is only getting worse. It is costly, often confusing, and reduces, rather than adds, value to the readers of our financial statements. To allow disclosure overload to creep into the area of auditing and reporting would be a profound mistake.

Fourth, we believe a discussion of CAMs will be confusing to the readers of our financial statements as users try to interpret how CAMs, which represent matters that are significant to the *audit process*, should be used or applied when evaluating a company's financial statements.

And last, we believe there is a significant risk through the CAMs discussion for the auditor to disclose company information not found elsewhere in the financial statements. We do not believe as a matter of principle that auditors should be the original source of information about an entity, its business, financial condition or results of operations.

The Proposed Other Information Standard:

The Release significantly changes the auditor's responsibilities related to other information contained in documents that include a company's audited financial statements.

First, the Release expands the definition of "other information" to include information that is incorporated by reference into a company's annual report. Second, the Release expands the responsibilities of the auditors vis-a-vis such other information to include an "evaluation" to determine whether such other information contains (i) a material inconsistency with data or information contained in the audited financial statements, or (ii) a material misstatement of fact.

We disagree with the proposed Other Information Standard.

PCAOB AU Sec. 550 already requires auditors to "read and consider" other information included in documents containing audited financial statements. AU Sec. 550 provides guidance to the auditor if he or she determines such other information is materially inconsistent with information contained in the financial statements or is an outright misstatement of fact. The guidance in AU Sec 550 is reasonable, practical, and focuses on communication between the auditor, management, and the company's audit committee to resolve the auditor's concerns.

Had the Release included a modest reporting requirement based on AU Sec 550, we may have supported it as we understand that many users of financial statements are not aware of the auditor's current responsibilities with respect to such other information. But as proposed, the Release is, frankly, over the top. If adopted, the Proposed Other Information Standard would greatly increase audit costs without providing any benefit to the readers of our financial statements. We believe auditors would need to increase their procedures to conduct their evaluation of other information included in, or incorporated by reference into, a company's annual report, not only due to the expansion of information to be considered by the proposed standard, but also due to a need to perform additional procedures necessary to "evaluate" such information for a material inconsistency or material misstatement of fact. These procedures will increase the costs of our audits.

Much like that section of the Release discussing CAMs, there is scant evidence supporting the need to expand the auditor's responsibilities over other information. We are sure the Board realizes that most changes affecting the auditor and his or her audit process invariably impacts the companies being audited, increasing audit costs and putting additional pressure on companies to meet their very tight filing deadlines.

Like the proposed requirement over CAMs, expanding the auditor's responsibilities over other information will require companies to institutionalize another layer of processes necessary to facilitate the additional procedures auditors will feel obligated to perform. Too much of the Release is devoted to addressing vague investor curiosity regarding insight into the audit process and the auditor's overall responsibilities without considering the additional audit costs. Such curiosities need to be vetted much more by the Board prior to making significant changes to current audit standards.

We'd be pleased to discuss our concerns with the Board. Please feel free to call Geoff Sanders of Jacobs Engineering Group at +1.626.578.6833, or by email to geoff.sanders@jacobs.com.

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Submitted on behalf of the E&C Industry and the industry leading organizations below.

[Signatures appear on the following page.]

Jacobs Engineering Group Inc.
John W. Prosser, Jr. - *Executive Vice President and Chief Financial Officer*
Joseph R. Bronson - *Chair, Audit Committee of the Board of Directors*

URS Corporation.
Reed N. Brimhall, *Vice President and Chief Accounting Officer*
H. Thomas Hicks, *Vice President and Chief Financial Officer*
Mickey P. Foret - *Chair, Audit Committee of the Board of Directors*

Fluor Corporation
Gary G. Smalley, *Senior Vice President and Controller*
Biggs C. Porter, *Senior Vice President and Chief Financial Officer*
James T. Hackett - *Chair, Audit Committee of the Board of Directors*

Chicago Bridge & Iron Company N.V.
Westley S. Stockton, *Vice President, Controller, and Chief Accounting Officer*
Ronald A. Ballschmiede, *Executive Vice President and Chief Financial Officer*
Michael L. Underwood - *Chair, Audit Committee of the Board of Directors*

McDermott International, Inc.
Hector Gonzalez, *Corporate Controller*
Perry L. Elders, *Senior Vice President and Chief Financial Officer*
David A. Trice - *Chair, Audit Committee of the Board of Directors*

Foster Wheeler AG
Lisa Z. Wood, *Vice President and Controller*
Franco Baseotto, *Executive Vice President, Chief Financial Officer and Treasurer*
Clayton C. Daley, Jr. - *Chair, Audit Committee of the Board of Directors*

Tetra Tech, Inc.
Steven M. Burdick, *Executive Vice President and Chief Financial Officer*
Hugh M. Grant - *Chair, Audit Committee of the Board of Directors*

Granite Construction Inc.
Bradley G. Graham, *Vice President, Corporate Controller*
Laurel J. Krzeminski, *Senior Vice President and Chief Financial Officer*