

September 30, 2011



Mr. J. Gordon Seymour  
Secretary  
Public Company Accounting Oversight Board  
1666 K Street, NW  
Washington, DC 20006-2803

Tesoro Corporation  
19100 Ridgewood Parkway  
San Antonio, TX 78259  
210 626 6000

**PCAOB Rulemaking Docket Matter No. 34: Concept release on possible revisions to PCAOB standards related to reports on audited financial statements**

Dear Mr. Seymour:

Tesoro Corporation is pleased to submit comments on the Public Company Accounting Oversight Board's (PCAOB or the Board) concept release on possible revisions to PCAOB standards related to reports on audited financial statements (the Concept Release).

Tesoro Corporation ("Tesoro") 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 seven 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.

We support the Board's undertaking, and believe that certain, specific, objective changes could provide additional useful information to investors and other financial statement users; however the majority of options noted in the Concept Release are more likely to have negative consequences for the overall corporate governance structure. This letter provides our overall views of selected issues from the Concept Release including:

- Our belief that the auditor's role should not be expanded to incorporate any subjective commentary about the Company in any form, including an Auditor's Discussion and Analysis (AD&A);
- Our belief that the auditor's roles and report should not be expanded to include information outside of the financial statements; and
- Our belief that the current "pass/fail" audit opinion should be retained and should include information within the auditors' report that would clarify certain procedures already performed by auditors.

### **Auditor's Discussion and Analysis (AD&A)**

*We do not believe that the auditor's role should be expanded to incorporate any subjective commentary about the Company in any form, including an Auditor's Discussion and Analysis (AD&A).*

The addition of an AD&A is clearly the most unsettling alternative noted in the Concept Release. First, this requirement for the auditor to provide subjective commentary on the company's financial statements would be inconsistent with the principle that management is responsible for preparing the financial statements and would likely have unanticipated repercussions for companies. The current disclosure control processes already require communications between management, the Board of Directors, the Audit Committee and the auditors and communications between these groups have made significant positive progress over the last decade. However, requiring that the topics discussed in such forums become the subject of AD&A will likely cause such open communication with the auditors to become much more restrained and significantly less effective.

There would be a substantial amount of time taken to prepare and review this type of disclosure with the appropriate parties in an already condensed reporting timeline. For example, a company may be ready to file their annual financial statements, but the AD&A section could delay that release. The lack of time to prepare documents could also lead auditors to focus on the preparation and review of the AD&A rather than on the audit of the financial statements. This could decrease overall audit quality.

Due to the subjective nature of matters to be included in AD&A, the information presented by the auditor may not be completely consistent with the information provided by management, which is overseen by the Audit Committee. Reconciling inconsistencies in the different styles and approaches used in Management's Discussion and Analysis ("MD&A") and AD&A could create tension between management, the Board of Directors, the Audit Committee and the auditors. Inconsistencies in the tone and writing styles of different audit partners and different audit firms could bring unintended difficulties in comparing the disclosures of different companies and their auditors. Discussion of "close calls" may bring unwarranted attention and confusion to areas that do not have specific inherent or audit risk. Investors would be left to subjectively decipher the message that the company is sending versus the message that the auditor is sending.

### **Information Outside of the Financial Statements**

*We do not believe that the auditor's roles and report should be expanded to include information outside of the financial statements.*

Current PCAOB auditing standards describe the auditor's responsibilities regarding other information included in documents containing the audited financial statements. These responsibilities include reading and considering whether such information or the manner of its presentation is materially inconsistent with the financial statements or represents a material misstatement of fact. We take into consideration auditor comments on both the financial statements and the information outside the financial statements.

Furthermore, within the PCAOB attest standards, there is the option for the auditor to be engaged to attest on MD&A. Few companies engage their auditors to perform this service which indicates that financial statement users have not requested auditor involvement to that extent. If it is believed that such information outside of the financial statements should be subject to audit, it would be more appropriate to

require the information to be included within the audited financial statements than to expand the auditor's scope and responsibilities to information outside of the financial statements.

In addition, providing assurance to forward looking statements, such as those contained within MD&A, or certain other non-GAAP information would result in increased time and costs, and may prove difficult unless limited to historical information. The additional potential costs compared to the potential benefits derived do not appear to support this option as the best approach for improving the quality, completeness and reliability of the financial statements and auditor's report.

### **Clarification of Language in the Standard Auditor's Report**

*We continue to support the current pass/fail opinion and support adding information to the auditor's report that would clarify certain procedures already performed by auditors.*

Users have consistently noted that a concise conclusion as to whether the financial statements, taken as a whole, are presented fairly in accordance with the applicable financial reporting framework is meaningful information. Therefore, consistent with the Board's outreach and position in the Concept Release, we are supportive of maintaining the pass/fail framework included in the current auditor's report.

We believe there is significant value in using standardized language in the auditor's report. It provides clarity, comparability and simplicity, which provides for a succinct and objective conclusion. This opinion allows for a quick identification as to whether the financial statements comply with GAAP, which is helpful when evaluating a company's financial statements. In addition, the use of consistent, objective language minimizes the risk of investor confusion, which could lead to inefficient efforts by investors to reconcile information provided by the auditor to other information or inappropriate inferences about a company or the audit.

The ability to clarify and explain the auditor's responsibility and role in the audit would serve to enhance the auditor's report and would increase the readers of the financial statements knowledge of the audit process. The suggested areas of clarification are matters that are already being communicated to the Audit Committee and management and should not result in significant increases in time or cost. We support adding new text, or clarifying the existing language in, the following areas of the standard auditor's report:

- Reasonable assurance – the report should clarify that reasonable assurance represents a high level of assurance, but it is not absolute and that an audit conducted in accordance with PCAOB standards may not always detect a material misstatement;
- Auditor's responsibility for fraud – the report should clarify that the auditor's responsibility is to plan and perform the audit to provide reasonable assurance about whether the financial statements, taken as a whole, are free of material misstatement, whether caused by error or fraud;
- Auditor's responsibility for financial statement disclosures – the report should explicitly state that the footnotes are an integral part of the financial statements, are equally subject to audit procedures and are covered by the auditor's report;

- Management’s responsibility for the preparation of the financial statements – the report should provide an expanded discussion covering management’s responsibilities for the financial statements and other information provided to users of the financial statements;
- Auditor’s responsibility for information outside of the financial statements – the report should describe the auditor’s responsibility to read certain other information in documents containing the audited financial statements for inconsistencies with the audited financial statements; and
- Audit committee responsibilities – the auditor’s report should provide an expanded discussion about the audit committee’s responsibilities.

Clearly, investors are the primary users of financial statements and providing them the appropriate information to make sound investments is fundamental to our financial markets. It is imperative, however, that we provide them with clear, accurate and timely information rather than simply additional information. We believe that the majority of proposals in the Concept Release would hinder the ultimate goal of the preparation of financial statements by leading to mixed messages within the financial statements as well as a delay in the timeliness of providing that information. We would be pleased to discuss our comments with members of the Public Company Accounting Oversight Board or its staff.

Sincerely,

  
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Arlen O. Glenewinkel  
Vice President and Controller