December 14, 2011

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street NW
Washington, DC 20006-2803

Re: PCAOB Rulemaking Docket Matter No. 37

Dear Office of the Secretary:

Lowes Companies, Inc. ("Lowe's") appreciates the opportunity to provide comments to the Public Company Accounting Oversight Board ("PCAOB" or "the Board") on the Concept Release on Auditor Independence and Audit Firm Rotation ("the Release").

With fiscal year 2010 sales of $48.8 billion, Lowe's Companies, Inc. is a FORTUNE® 50 company that serves approximately 15 million customers a week at more than 1,725 home improvement stores in the United States, Canada, and Mexico. Founded in 1946 and based in Mooresville, NC, Lowe's is the second-largest home improvement retailer in the world.

We support the on-going efforts of the PCAOB to continue to improve audit quality, and we recognize the importance of auditor independence, objectivity and professional skepticism as foundational elements of the independent audit process. However, we also recognize that there are many dynamics to the auditor-client relationship and believe changes should be considered carefully due to the risks of unintended consequences. For this reason, we encourage the Board to use "root-cause" analysis in determining the reasons for audit deficiencies and in developing proposed solutions, including those related to auditor independence, objectivity, and professional skepticism. Furthermore, we strongly oppose the concept of mandatory auditor rotation based on the following: 1) there is a lack of direct evidence to support an assumption that auditor tenure impairs independence; 2) mandatory rotation would negatively impact other areas of audit quality; 3) mandatory rotation would result in increased costs without any assurance of improved audit quality. These concerns are more fully described below.

There is a lack of direct evidence to support an assumption that auditor tenure impairs independence

Although it is clear that the Board continues to find instances in which auditors did not use the required independence, objectivity, and professional skepticism, it is also clear that no correlations have been established between findings from PCAOB inspections and auditor tenure. Furthermore, the concept of mandatory rotation has been discussed since 1977, and during this time, studies of the relationship between auditor tenure and audit quality, as referenced by the Board, do not support an assumption that audit quality declines as tenure increases. In fact, studies of SEC auditing and enforcement actions have

P.O. Box 1000 Mooresville, NC 28115 Phone: 704-758-1000 Fax: 704-757-4766

associated recent changes in auditors with occurrences of fraudulent financial reporting.[1] In addition, given the relatively long average auditor tenure of 28 years and 21 years, respectively, for the 100 and 500 largest companies based on market capitalization, it would appear that evidence would be readily evident to support an inverse correlation between audit tenure and audit quality if such a relationship truly exists.[2] Furthermore, we believe many of the intangible benefits targeted through mandatory rotation already exist as a result of required partner rotation, normal turnover of audit staff, and PCAOB inspections. Therefore, it is our concern that mandatory rotation would fail to improve auditor independence, while yielding negative results on other areas of audit quality and costs, as discussed below.

Mandatory rotation would negatively impact other areas of audit quality

Due to the fact that independence is a state of mind, we recognize that finding empirical evidence that can link it to auditor tenure or other factors is made more difficult. Similar to earlier debates regarding non-audit services and independence, decisions may ultimately need to be made based on "informed judgment rather than a mathematical certainty", as referenced in the release. Informed judgment requires more than just consideration of the subjective benefits that mandatory rotation might have on an auditor's independence, objectivity and professional skepticism. It must also take into account the impacts on other elements of audit quality, which include an auditor's understanding of a client's business, processes, controls and industry, as well as, an auditor's execution and supervision of audit activities. We strongly believe mandatory rotation would negatively impact these aspects of audit quality.

An auditor's understanding of a client's business, processes, controls and industry are fundamental in assessing risks and executing a quality audit. Audit teams of tenured firms are able to leverage the institutional knowledge that has been developed by their firm over numerous years, despite staff changes and rotations that may occur from year-to-year. This provides a better perspective in identifying, understanding, and addressing the more complicated and risk-prone areas in an audit. Research cited in the Release supports the view that engagements with a short tenure are relatively more risky. Although a mandate could be made that information be shared with a successor firm, as a practical matter, a complete transfer of knowledge will not occur. This decrease in knowledge will lead to a decrease in audit quality during initial years, resulting in cyclical impacts to audit quality. In addition, mandatory rotation could serve as a disincentive for auditors to invest time maintaining a detailed understanding of certain aspects of the company as the audit term nears conclusion, further impacting audit quality.

Additionally, mandatory rotation could ultimately incent a company to choose a successor auditor with less industry expertise, particularly in smaller market areas due to differences in industry expertise among regional and smaller firms and the additional costs and complexities associated with using a non-local firm. Also, mandatory rotation could ultimately deter firms from investing long-term to develop talent and expertise relating to certain industries if client engagements are only fixed-period opportunities. Collectively, these impacts on industry expertise could negatively impact the overall audit quality environment.

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[1] See two monographs in 1999 and 2010 from the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The latter, *Fraudulent Financial Reporting 1999-2007* by M. Beasley, J. Carcello, D. Hermanson, and T. Neal, reported that 26% of fraud companies switched auditors between the issuance of the last clean financial statements and the last set of fraudulently misstated financial statements, as compared to 12% of no-fraud firms during the same time period (p. 37).

[2] See p. 20 of the Release

In addition, we believe that mandatory rotation would negatively impact the execution and supervision of audit activities. The steep learning curve for new auditors, combined with the condensed reporting cycle, increase execution risk for an initial audit; and mandatory rotation would increase the frequency of this risk within the audit environment. Additionally, mandatory rotation would increase the competing demands on senior audit personnel to participate in audit proposals and marketing activities, thereby reducing their effectiveness in audit supervision and their involvement in resolving complex audit issues.

Furthermore, although auditor rotation would be intended to enhance auditor independence and objectivity, we feel that new dynamics associated with mandatory rotation could negatively impact independence and objectivity. Specifically, while some propose that auditors would exercise greater independence and objectivity due to the knowledge that they have the client for only a definite time period, we believe that new dynamics associated with mandatory rotation could create situations where auditors have indirect pressure to placate management, especially as the engagement term nears conclusion, in order for their firms to be subsequently engaged for non-audit services.

Mandatory rotation would result in increased costs without any assurance of improved audit quality

We recognize that while efforts to increase audit quality may result in increased costs to issuers, the benefits to investors of improvements in audit quality can easily outweigh these costs. However, given the uncertainty regarding the correlation between auditor tenure and independence, as well as the negative impacts that auditor rotation would have on other areas of audit quality, we do not believe that current evidence justifies the increases in costs and inefficiency, which we describe below, associated with mandatory rotation.

In order to address the steep learning curve associated with engaging a new client, audit firms would need increased resources for new audits, resulting in increased audit fees. Audit firms would also spend more time on marketing to potential clients as a result of mandatory rotations and these costs would ultimately be passed on through increased audit fees. Internally, companies would also incur substantial additional costs in supporting the rotation process and getting new auditors up to speed. The required changing of auditors would be particularly challenging and even more costly if the timing coincided with a significant transaction such as a merger or acquisition or with volatile market conditions.

In addition, many issuers have a limited pool of audit firms with the resources and capabilities necessary to perform their audits. For companies in smaller markets that are forced to rotate from a local firm and must engage a non-local firm in order to obtain needed expertise, the costs and complexity of engagements would increase. For larger companies, there is a limited pool of firms with the resources and capabilities necessary to perform their audit and non-audit services. Restriction on auditors performing non-audit services combined with mandatory auditor rotation could result in "musical chairs" associated with non-audit services, which would impact costs, efficiency and effectiveness associated with these services.

Recommendations and Conclusion

We believe significant improvements in the quality and reliability of audits have been made in recent years through numerous statutory and regulatory changes including the following:

- The requirement that the Audit Committee, and not management, hire the auditor and oversee the engagement

- The significant restrictions placed on audit firms providing non-audit services

- Mandatory audit partner rotation
- Concurring audit partner reviews
- Required internal quality reviews
- Peer reviews
- Risk-based PCAOB reviews and, in some cases, publication of findings
- Strict independence rules promulgated by the SEC, PCAOB, and AICPA
- Rules restricting former audit firm employees' employment at a former client

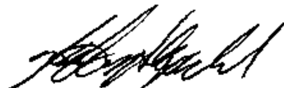
In addition, as noted by the Board in the Release, the Sarbanes-Oxley reforms "have made a significant, positive difference in the quality of public company auditing". While we support the Board's ongoing efforts to continue building on these improvements and continue improving audit quality, we believe many of the intangible benefits targeted with mandatory rotation have been addressed by the previous actions noted above.

As a result, we encourage the Board to use "root-cause" analysis in indentifying causes of audit deficiencies and recommending further improvements in audit quality. In instances where the Board's findings have indicated insufficient auditor independence, objectivity and professional skepticism, we encourage further evaluation to determine if underlying causes relate to tenure or to other issues, such as audit fee pressure, ineffective internal quality control processes within firms, or inadequate training or supervision. To the extent other underlying causes exist, mandatory rotation will not address the issue, since failures could occur at any point of the audit tenure.

In summary, we believe that auditor independence and the use of professional skepticism are critical to audits, but oppose mandatory rotation of audit firms as a tool to enhance either. We also ask that the PCAOB consider the potential negative effects of mandatory rotation on audit quality and the increased costs and inefficiencies associated with it, as well as considering other alternatives that could prove to be more beneficial. Given the importance of the independent audit function to investors, we believe decisions relating to auditor selection, change, and approval should be made based on informed judgment. We believe that Audit Committees are in the best position to continue to make these informed decisions, and oppose efforts to remove any portions of these decisions from their discretion.

We thank you for the opportunity to comment on this proposal. If you have any questions in relation to this letter please contact me at 704-758-3680.

Sincerely,



Matthew V. Hollifield
Senior Vice President and Chief Accounting Officer