

December 14, 2011

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

Re: PCAOB Rulemaking Docket Matter No. 37

Dear Board Members:

We appreciate the opportunity to provide feedback on The Public Company Accounting Oversight Board (“PCAOB”) Rulemaking Docket matter No. 37 – Concept Release regarding Auditor Independence and Audit Firm Rotation (the “Concept Release”). Our system of financial statement assurance that includes auditors who are paid by the companies they audit should be reflected upon and debated publicly to ensure we continue to have the best system possible for all constituencies involved in the financial reporting process. We believe our system is sound and should not include mandatory audit firm rotation. Importantly, we believe audit quality would suffer as a result of such a change. Further, rotation of audit firms is unnecessary and would result in significantly higher cost. We do believe, however, there are changes that could be contemplated by the PCAOB to improve audit quality.

Significant Changes to Enhance Audit Quality Have Been Made

We would like to begin by telling you we are very supportive of the PCAOB’s efforts to improve audit quality and believe there have been positive changes to the way public accounting firms have conducted audits over the last five years. According to a report by Audit Analytics, restatements of financial statements of the Russell 3,000 have dropped from 300 in 2005 to 113 in 2010. We believe this decline is reflective, in part, of better auditing, some of which is due to better oversight of public accounting firms by the PCAOB. Clearly regulators, audit committees, auditors and financial statement preparers should continue to focus on ways to further reduce the frequency of restatements.

Our current rules governing auditor selection, retention, oversight and performance of the independent auditor have improved significantly over the last ten years. The rules have been improved to ensure the selection of the auditor is done by the audit committee, and the creation of the PCAOB has moved the public accounting industry from self-monitoring for quality to one that has an independent review body empowered by the government. The scope of services performed by independent auditors has also been curtailed to further enhance the objectivity and independence of the auditors. Further, the Sarbanes-Oxley Act (the “Act”) put more stringent requirements on management to ensure that public companies have appropriate systems of internal controls over financial reporting.

Audit Quality Concerns

In order to perform an effective audit, auditors must have a solid understanding of a company's issues, its industry and its processes and controls. In general, the longer an auditor serves a company, the greater its knowledge of its processes, controls, critical accounting policies and the judgments involved in preparing the financial statements. Under mandatory rotation, this knowledge will be diminished as new auditors must start over learning about the company every 5 years. We believe this will reduce audit quality and increase risk.

Further, Baxter operates in a highly complex industry – one in which not all the Big 4 firms are as well qualified by background. An audit firm achieves industry expertise by having numerous clients that operate in an industry, thereby giving the firm the ability to perform high quality audits around the world. The majority of our operations and revenues are located in multiple countries overseas. Requiring mandatory auditor rotation would limit our ability to retain the best talent to provide high quality service, resulting in potentially lower-quality audits.

The Concept Release has raised issues around auditor independence, in part, as a result of observations from PCAOB audit review teams that deficient audit procedures may be the result of a lack of independence by the auditor. In the vast majority of the cases where follow on audit work was requested by PCAOB reviewers and performed by the auditors, there were no material misstatements to the financial statements uncovered. A very logical interpretation of such a result is that the auditors' judgments in those cases were in fact correct. Based upon our own experience with PCAOB reviews of audits, we believe what is more likely the cause of these perceived "audit failures" is a difference in judgments about what constitutes sufficient, competent evidential matter, not auditor independence.

Audit Cost Concerns

As mentioned above and in the Concept Release, the cost of implementing mandatory rotation of audit firms would be high, measured both monetarily and in management effort, and it is not clear that independence would improve. In fact it is possible that more frequent client turnover may actually hinder professional skepticism because the audit firms would be competing more regularly and therefore be more inclined to be client-centric in their views and approach. What is more certain about mandatory firm rotation is the audits would take longer and cost more as new auditors are acclimated to their new clients. As noted above, the improvements to the audit process have already significantly increased audit costs; therefore it is difficult to justify further investment in our audit process with no reasonable degree of certainty about improved audit performance.

Audit Committee Effectiveness Concerns

The Act clearly empowered the Audit Committee to oversee the relationship with the external auditors. Since the Act was implemented, there has been a significant increase in audit committee engagement and in the rigor with which the oversight of the auditor relationship has been carried out. Among other things, the Audit Committee evaluates the performance of the auditor each year and is charged with determining if the auditors should be retained. Our committee takes this

responsibility very seriously, and we frequently evaluate the auditor on the basis of their independence, depth of understanding of the company, and the candor with which they communicate with us. We observe, to some degree, the level of professional skepticism they bring to the engagement, and we would not tolerate any decline in this regard. We do not see the need to take this responsibility away from the Committee when it is in the best position to make these decisions on behalf of shareholders, particularly in view of the lack of any increase in recent audit failures.

Independence Concerns

Mandatory rotation would also increase the likelihood of independence issues that would be difficult to overcome. Large issuers like Baxter use one Big Four firm primarily for attestation work and other Big Four firms for other professional services. Often the services performed by the other Big Four firms would cause independence issues for a firm performing attestation services. A mandatory change of firms has a high likelihood of creating a situation where we would need multiple firms to perform attestation work due to independence concerns of the new lead auditor. This situation would further increase cost and likely decrease quality.

Recommendations to Improve Auditor Independence and Audit Quality

Finally, if the PCAOB believes auditor independence needs to be enhanced, we think there are steps short of mandatory rotation of audit firms that the PCAOB could reasonably consider. The independence of an auditor is more dependent upon the individual auditor rather than the audit firm. To enhance the independence of auditors, the PCAOB could consider enhancements to training requirements for the auditors within firms and the rotation of auditors on engagements below the partner level. We also believe audit quality may be improved if the PCAOB issued further guidance for auditors about what constitutes sufficient, competent evidential matter. These may be practical steps that could be taken at significantly lower cost that may improve the independence of auditors and the overall quality of audits.

We appreciate your consideration of these matters and would be pleased to discuss our comments with the PCAOB.

Sincerely,



Michael J. Baughman
Corporate Vice President and Controller



Blake E. Devitt
Audit Committee Chairman