



Medtronic

Medtronic, Inc.
710 Medtronic Parkway
Minneapolis, MN 55432-5604
www.medtronic.com

763514.4000

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Via email: comments@pcaobus.org

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. 37

Dear Board:

Medtronic, Inc. ("Medtronic," "we," "our") appreciates the opportunity to provide the Public Company Accounting Oversight Board (the "PCAOB," the "Board") with our comments on the Board's Release No. 2011-006, "Concept Release on Auditor Independence and Audit Firm Rotation" ("the Concept Release") dated August 16, 2011. Medtronic is a global leader in the medical technology industry.

Summary

We understand and support the Board's desire to evaluate ways to enhance auditor independence, objectivity and professional skepticism, and improve overall audit quality; however, we strongly oppose mandating audit firm rotation. We believe mandatory audit firm rotation would represent a significant change in practice that would negatively affect a company's financial reporting risk, governance and costs. Our most significant concerns with regards to the Concept Release include the following:

- We are concerned that mandatory auditor rotation would diminish audit quality, particularly in the early years subsequent to rotation. We believe the "learning curve effect", and potential for a reduced understanding of current business issues by auditors on new engagements, could result in higher audit risk for a company in the early years subsequent to rotation.
- Currently no root cause evidence exists that links audit firm tenure to audit failures or lack of auditor independence, objectivity, and professional skepticism.
- We believe the Concept Release potentially calls into question current responsibility of Audit Committees to appoint and retain the auditors. We continue to believe Audit

Committees are in the best position to evaluate whether the auditor is independent, objective, and exercises an appropriate level of professional skepticism.

- We believe the costs of mandatory audit firm rotation outweigh any potential benefits. We believe there is a significant loss of institutional knowledge of a company when tenured auditors are rotated off an account. We are concerned that the time new auditors spend becoming familiar with a company will be passed on to the client, thus significantly increasing audit costs.

Concern Exists That Mandatory Auditor Rotation Will Diminish Audit Quality

Audit firms gain experience over time through a deep understanding of a company's control environment, accounting policies, procedures and practices, historical transactions and trends, consistency in judgments, and the quality and capability of a company's personnel. We believe that as this knowledge base grows, the auditors are far more prepared and likely to challenge management's judgments and key assumptions that underlie critical and significant accounting estimates and other complex transactions and disclosure determinations.

An audit firm experiences a steep "learning curve" in the early years of a new audit relationship, especially on a large multi-national company where the audit work is performed by several inter-audit firm offices and/or member firms. We believe it could take several years before an audit firm has developed a deep knowledge and understanding of a company. During these early years of the audit relationship, we are concerned that an auditors' lack of in-depth knowledge of the company and its history may adversely affect audit efficiency and quality.

An audit firm's long-term experience with the company provides a greater foundation from which the auditor can formulate their own professional judgments and assess a company's conclusions reached. We noted the 2002 study by Geiger and Raghunandan (Geiger, Marshall A. and Raghunandan, Kannan, Auditor Tenure and Audit Reporting Failures, Auditing: A Journal of Practice & Theory, Vol. 21, No. 1, March 2002) suggests that auditors with longer tenure demonstrate increased audit quality. It is interesting to note that Geiger and Raghunandan's analysis found that there was an adverse correlation between the propensity of audit failures and audit firm tenure, resulting in significantly more audit failures during the early stages of the audit relationship.

Further, not all firms have requisite industry expertise as some industries are dominated by one or two audit firms. We believe most audit firms have geographic limitations, thus providing practical choice limitations to certain potential clients. International firm capabilities must also be considered since many registrants have statutory audit requirements throughout the world.

Lacking Root Cause Evidence That Links Audit Firm Tenure to Audit Failures

We do not believe mandatory audit firm rotation is a necessary or constructive means to increase auditor independence and skepticism. We are concerned that to date, there is no clear evidence that a longer audit firm tenure adversely impacts an auditor's independent mindset and objectivity. We noted that research performed by Jackson, Moldrich, & Roebuck (Jackson,

Andrew B. Moldrich, Michael and Roebuck, Peter, Mandatory Audit Firm Rotation and Audit Quality (July 12, 2007), *Managerial Auditing Journal*, Vol. 23, No. 5, 2008) concluded that “there are minimal, if any, benefits of mandatory audit rotation.”

We recommend that the PCAOB fully evaluate the impact that mandatory partner rotations after 5 years for key audit partners are having on auditor independence. We believe this existing requirement, combined with periodic turnover on Audit Committees and company finance teams tends to keep the relationships between auditors and the companies they audit dynamic and fresh.

Concept Release Potentially Calls Into Question Current Responsibility of Audit Committees to Appoint and Retain the Auditors.

We continue to believe Audit Committees are in the best position to evaluate whether the auditor is independent, objective, and exercises an appropriate level of professional skepticism. Our Audit Committee meets with our auditors on a regular basis, both with and without our management being present. This gives our Audit Committee the opportunity to ask our auditors probing questions, including challenging management on the appropriateness of critical and significant accounting policies and estimates and the related disclosures in the consolidated financial statements. Our Audit Committee is also active in the review of the proposed audit plan and scope of work, pre-approves audit and permissible non-audit services, and provides formal evaluations and regular feedback to our auditors.

We are concerned that mandatory auditor firm rotation will preclude Audit Committees from effectively fulfilling one of their chief governance responsibilities. Currently, Audit Committees select the audit firm that they believe best meets the Company’s and investors’ needs. Furthermore, Audit Committees have the right to implement a change in auditors at any time. Mandatory auditor firm rotation would impose a limitation on choice of auditors by the Audit Committee and would mandate a specific date for auditor rotation.

Costs of Mandatory Audit Firm Rotation Outweigh Any Potential Benefits

We believe that mandatory audit firm rotation will likely result in increased audit costs. These increased costs will be both direct financial costs and indirect opportunity costs associated with lost time and productivity. We noted the 2003 GAO study estimated an increase of 17% in audit fees as a result of a mandatory audit firm rotation model (Government Accountability Office, 2003, required study on the potential effects of mandatory audit firm rotation). Audit firms often absorb (e.g., do not bill the client) much of the “learning curve” costs associated with a new audit engagement. However, we are concerned that mandatory firm rotation will change this market dynamic such that most of these incremental costs will be billed to audit clients. Given the challenging current business environment where industry revenues are growing on average in the single digits and annual salary increases are in the 2%-3% range, we do not believe that it is in the best interest to burden investors with double digit increases in audit fees.

We expect that companies will be impacted by lost productivity amongst the company's staff as a result of mandatory audit firm rotation. For multi-national companies such as Medtronic, this would mean not only a change in the auditor at the parent company level, but also at all subsidiaries. We believe this introduces additional costs and potential risks into the audit process without a proven benefit to investors or the public interest.

Other Alternatives to Mandatory Auditor Rotation That we Believe the Board Should Consider

With respect to the Board's initiatives to enhance audit quality, we believe there are several other alternatives the Board should consider to achieve their desired goals without mandating an audit firm rotation model.

- While we recognize there may be limitations under current law, one alternative is for the PCAOB to disclose its inspection results directly to a company's Audit Committee. We believe Audit Committees are generally effective in their oversight of the audit firms and believe that this additional knowledge, specifically related to the effectiveness of their audit firm and team, would allow Audit Committees to more proactively address any potential audit quality concerns.
- We strongly believe the PCAOB's inspection process facilitates improved audit performance. Therefore, we recommend that the PCAOB increase visibility and sharing of "best practices" between companies and within industries related to root causes of audit failures and significant findings and "lessons learned" from inspections. Findings could be used to provide training in areas where practice reminders and improved focus and attention are needed. We believe this could further enhance ongoing efforts to increase audit quality.
- We would support the Board's use of a targeted approach to mandatory audit rotation or assigned independent third-party monitor based upon the severity of the inspection findings (i.e., as a disciplinary action) where it has been demonstrated, through the PCAOB's enforcement process against an audit firm, that professional skepticism or objectivity was significantly lacking in the firm's audit of a particular company.
- In practice, registrants' Audit Committees have developed disparate processes to evaluate the performance of the registered public accountants. We believe a formal, annual review process that is further promulgated by the PCAOB would improve the consistency and quality of the scope and depth of this assessment by Audit Committees and ultimately would enhance audit quality. Furthermore this assessment may mandate the formal annual evaluation by the Audit Committee to seek alternative independent auditors or not and the key underlying considerations.

Our Responses to Select Questions for Respondents

Question 1

If the Board determined to move forward with development of a rotation proposal, what would be an appropriate term length?

We do not support a mandatory audit firm rotation model based solely on the passage of time, such as ten years. As stated above, we would support the Board's use of a targeted approach to mandatory audit rotation or assigned independent third-party monitor based upon the severity of the inspection findings (i.e., as a disciplinary action) where it has been demonstrated, through the PCAOB's enforcement process against an audit firm, that professional skepticism or objectivity was significantly lacking in the firm's audit of a particular company.

Question 3

Does audit effectiveness vary over an auditor's tenure on a particular engagement? For example, are auditors either more or less effective at the beginning of a new client relationship? If there is a "learning curve" before auditors can become effective, generally how long is it, and does it vary significantly by client type?

We believe auditors experience a steep "learning curve" in the early years of a new audit relationship, especially on large, complex, multi-national companies, such as Medtronic, where the audit work is performed by several inter-audit firm offices and/or member firms. This is supported by fact that under the five year mandatory partner rotation program it has been our experience that the incoming partner frequently shadows the outgoing partner for up to one year. We believe it could take several years before an audit firm has developed a deep knowledge and understanding of a company.

Question 6

Should the Board consider requiring rotation for all issuer audits or just for some subset, such as audits of large issuers?

As stated previously, we do not support a mandatory audit firm rotation model based upon the passage of time. However, we feel strongly that large issuers, such as Fortune 100 or Fortune 500 companies should not be singled out and penalized with regards to mandatory audit firm rotation.

Question 7

To what extent would a rotation requirement limit a company's choice of an auditor?

Not all firms have requisite industry expertise as some industries are dominated by one or two audit firms. We believe most audit firms have geographic limitations, thus providing practical choice limitations to certain potential clients. In our local market, there are currently two firms that have locally based requisite industry expertise in Medical Technology for a company of our size and complexity. Other firms would have to relocate entire audit teams or have such audits

sourced from other parts of the country, resulting in incremental expenses being incurred. In addition, we typically have had non-audit service arrangements with most of the remaining Big 4 firms. For example, if we transitioned our audit work to the Big 4 firm who is currently our tax advisors, such transition of services would result in a significant coordination effort and cost as well. To establish necessary firm independence and a true market proposal process, the rotation would have to be planned years in advance. International firm capabilities must also be considered since many registrants have statutory audit requirements throughout the world.

Question 20

If the Board moved forward with development of a rotation proposal, should consideration be given to the recommendation for a cause restriction on the company's ability to remove an auditor before the end of a fixed term?

We continue to believe our Audit Committee is in the best position to evaluate whether the auditor is independent, objective, and exercises an appropriate level of professional skepticism. We believe Audit Committees execute these responsibilities effectively and in a manner aligned with shareholders' best interests. Thus we support an Audit Committee's ability to remove an auditor before the end of a fixed term for cause.

Question 21

What other transition issues might arise in the first year of a rotation requirement? How should the Board address these issues?

Given the magnitude of future accounting rule changes, including the potential for IFRS/ Convergence, we question if the timing is ideal to evaluate mandating an auditor rotation requirement.

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Conclusion:

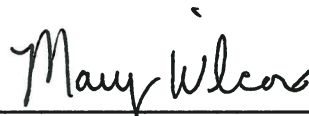
In summary, we do not support a mandatory audit firm rotation model and believe the PCAOB should continue its research into other potential initiatives to improve auditor independence, objectivity, and professional skepticism and, ultimately, audit quality.

In addition, we respectfully ask the Board to carefully review and evaluate all comment letters received, and specifically to consider and carefully review the issues and feedback identified in our comment letter.

Very truly yours,



Gary Ellis
Sr. Vice President & Chief Financial Officer



Mary Wilcox
Vice President & Chief Accounting Officer