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Your ref

Our ref PJB/SA

23rd July, 1991

Dear Nigel,

Whilst I was in Canada I collected the attached report which was agreed by the Senior Partners of the Big 8 in February, 1988. As you probably know, this has been followed by proposed auditing recommendations from the Canadian Institute which are also attached.

I am sending a copy of this letter to Nigel MacDonald as opinion shopping is being considered by his Committee.

If there is anything further I can do to help please let me know.

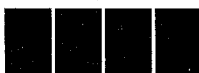
Yours,

P. J. Butler

Sir Adrian

To see, I have added 'opinion shopping' to our framework. You will note that the Canadian profession do not forbid the practice, but regulate it tightly. Nigel Macdonald (whose Cttee is not in fact examining the subject) will be replying to Jim Butler and will copy this letter to us. He does not favor outright prohibition as he takes the view that a company should be entitled to a second opinion on a subject of importance to it.

Enc.



Member firm of
Klynveld Peat Marwick Goerdeler

Authorised by the Institute of Chartered Accountants in England and Wales to carry on investment business.

The address for the purposes of Section 4, Business Names Act 1985 is 1 Puddle Dock, Blackfriars, London EC4V 3PD at which a list of partners' names is available for inspection.

N25/7

REPORTS ON THE APPLICATION OF ACCOUNTING PRINCIPLES

We believe that it is in the public interest for our Firm to provide opinions on accounting and financial reporting matters to those non-clients* who have a good reason to seek them. In providing these services it is important that we maintain a high standard of professional ethics and courtesy, and that such consultations be carried out in a responsible manner.

The Appendix sets out those Rules of Professional Conduct, including relevant interpretations, that we believe are particularly applicable when we are consulted by non-clients. They should be observed in all cases. The particular Rules and Council Interpretations quoted were issued by the Institute of Chartered Accountants of Ontario, and in the main the Rules in the other provinces are either identical or very similar to those presented. However, reference should be made to the appropriate Institute/Ordre's Rules for each such assignment that we undertake. It is important that we follow the spirit as well as the letter of these Rules.

However, we should also remember that a decision to arrive at a different accounting treatment from that developed by the non-client or proposed by the non-client's auditors or accountants does not automatically mean a criticism as contemplated by the Rules of Professional Conduct. It is worth emphasizing that professional judgment forms the basis for the preparation of financial statements. This means that there may be more than one legitimate way of measuring events or presenting financial data. Differences between professionals exercising their professional judgment should be expected, and the existence of such a difference does not imply a criticism of a professional colleague.

APPLICABILITY

This policy provides guidance that should be applied in all circumstances, by all members of the Firm, when we are requested to provide opinions:

- (a) to non-clients, on the application of accounting principles to specific transactions, either completed or proposed;
- (b) to non-clients, on the type of auditors' report or review engagement report (including special reports) that may be rendered on a specific entity's financial statements; and
- (c) to intermediaries, on the application of accounting principles not involving the specific facts or circumstances of a particular company ("generic" opinions).

* A non-client is a party for whom we are not the auditor, or if the party does not have an auditor, for whom we are not the public accountant. For the sake of consistency, this party is referred to throughout this policy as a non-client, even after we have accepted an engagement to provide a written report.

Opinions expressed to non-clients should be in writing. Oral opinions should not be provided because of the difficulty of subsequently establishing the exact nature of the opinion provided, the bases for that opinion, and any caveats expressed with respect to it. Also, informal oral advice, including "tentative opinions" and "preliminary reactions", should not be given.

This does not mean that we cannot, in the course of an engagement covered by this policy, give a non-client an oral presentation of the opinion that is to be confirmed in more detail in writing. It does mean that we cannot give the oral presentation until the requirements of this policy have been complied with. In making any such oral presentation, we should caution the non-client that our definitive opinion will be that contained in the written report.

Informal assistance to non-clients in researching technical issues may be given, e.g., directing them to relevant standards, literature, financial statement precedents, etc. It is also to be expected that we will be parties to informal conversations about technical matters from time to time. However, we should remember that once one goes beyond questions of broad principle, a knowledge of all the facts is most important in arriving at sound conclusions on technical accounting matters. Therefore, in informal conversations, we should avoid expressing an opinion on a specific transaction but, rather, confine our views to the general principles.

This policy does not apply to engagements either to assist in litigation involving accounting matters or to provide expert testimony in connection with such litigation.

ACCEPTANCE OF ENGAGEMENT

1. We should understand who is asking for our opinion, the nature of the question, the reason our opinion is being sought, and whether our opinion will be provided to third parties. We should then determine whether we want to be associated with that person or enterprise. Acceptance of such an engagement is subject to the approval of the Office Managing Partner ~~and~~ or the Office (technical partner). If it involves a public company, the approval of the (appropriate regional or national technical partner) should also be obtained.
2. With the exception of "generic" opinion engagements, the terms of the engagement should include permission to speak with the auditor or public accountant of the entity that is preparing financial statements. If that permission is granted, we must advise the auditor or public accountant of our engagement as soon as practically possible. If that permission is not granted, we should not accept the engagement except in rare cases involving unusual circumstances. An example of such a situation would be when the company affected is intended to be the target of a take-over bid, and the preservation of secrecy is of paramount importance.

Such engagements may be accepted only after the approval of the (most senior technical partner in the firm) or another designated partner has been obtained. Before we commence the engagement in such rare circumstances, we will require a letter from the non-client requesting us not to contact its auditor or public accountant and setting out the reasons for that request.

ENGAGEMENT LETTER

An engagement letter should be issued outlining our understanding of the terms of the engagement. The letter should include:

1. a statement that we will not proceed with the engagement until we have received a written statement of the relevant facts, circumstances, and assumptions (Statement of Facts) upon which to base our work. While we may assist in the preparation of the Statement of Facts, as we may assist in the preparation of financial statements, it must be clear that this statement is the representation of the non-client.
2. a statement that our opinion will be based solely on the facts, circumstances, and assumptions set out in the Statement of Facts, and that any change in those facts, circumstances, or assumptions may change the opinion.
3. a statement that the non-client has given us permission to speak with its auditor or public accountant, and will likewise give its auditor or public accountant permission to speak with us.
4. a statement that before our report is issued, the non-client will provide us with a representation as to the completeness and accuracy of the Statement of Facts on which our report is based. The Statement of Facts originally provided may change during the course of our engagement. The representation with respect to completeness and accuracy should be obtained on the final such Statement.
5. a statement that, if appropriate, the distribution of our report will be restricted by wording similar to the following:

"It is understood that this opinion is to be made available solely to the management and the auditor of X Company, and is not to be referred to or distributed to any other party without our prior permission."
6. some means of ensuring that the non-client agrees to its contents (e.g., sign and return a copy).

INFORMATION TO BE OBTAINED FROM THE NON-CLIENT

1. We should enquire whether the company and its auditors or public accountants have disagreed and, if they have disagreed, the nature of the disagreement (e.g., is it about the facts or about how accounting principles should be applied).
2. We should obtain the Statement of Facts required by the terms of our engagement.
3. We should obtain a statement of the non-client's proposed accounting, if not already included in the Statement of Facts.

FORM OF REPORT

1. Our report should include:
 - (a) A brief description of the nature of the engagement.
 - (b) A reference to the Statement of Facts provided by the non-client, with the latter included as an appendix to our report. Hypothetical transactions should be identified as such.
 - (c) A statement of our conclusion as to the appropriate accounting principles to be applied to the matter(s) described in the Statement of Facts, including a reference (if appropriate) to the authoritative literature or precedents on which reliance has been placed, with a supporting explanation of our rationale.
 - (d) A statement that the opinion is based solely on the facts, circumstances, and assumptions set out in the Statement of Facts, and that it may not be valid if there is any change in those facts, circumstances, or assumptions.
2. When our opinion relates to an actual or contemplated transaction in the specific circumstances of a particular company, it is possible that the opinion may not be appropriate for all companies or in all circumstances. As such, the distribution of our report should be restricted by wording similar to the following:

"It is understood that this opinion is to be made available solely to the management and the auditor of X Company, and is not to be referred to or distributed to any other party without our prior permission."

3. When we have not been given permission to speak to the auditor or public accountant, there may have been a significant restriction placed on us. In every such circumstance, the significance of that restriction should be indicated in a closing paragraph of the report by wording similar to the following:

"Based on your instructions, we have not contacted your auditors to discuss this matter. If we had done so, it is possible that other facts may have come to our attention that would have caused us to arrive at a different opinion."

4. When we are asked to give a "generic" opinion on a hypothetical transaction (e.g., when an investment dealer is interested in the possible accounting implications of a proposed new financial instrument), our opinion will usually speak only to the general accounting considerations for either the issuer or the investors, or both. In that case, a caution similar to the following should be added to our report:

"Our opinion deals only with the general accounting considerations with respect to the above hypothetical transaction. In the case of specific transactions, companies should consult with their auditors when assessing the method of accounting that would be appropriate in their particular circumstances."

5. Many of these engagements may result in our agreeing that the advice given by the other auditor or public accountant is correct and our report would be issued accordingly. A report should be issued in these circumstances unless the non-client requests that one not be issued. In this case, we should either obtain a written confirmation from the non-client that no written report is required, or we should write a letter to the non-client confirming that request. Our documentation and review procedures should be followed even when it is determined that no report is necessary.
6. If it becomes obvious early in our engagement that we will not be able to support the non-client's position, the non-client may instruct us to discontinue our procedures and no further documentation or review is necessary. We should, however, either obtain written evidence of the instruction that we discontinue the assignment or we should write a letter to the non-client confirming that instruction.

REVIEW PROCEDURES

The (technical partner who approved acceptance of the engagement) or another designated partner should review the report and any working papers considered necessary before issuance, including documentation of our consultations with the other auditor or public accountant. Review by the (most senior technical partner in the firm) or another designated partner is required in the following circumstances:

1. when we have not been permitted to contact the auditor or public accountant of the non-client;
2. when we are issuing a "generic" opinion on a hypothetical transaction or financial instrument, or in other circumstances when our report will be published or otherwise receive wide distribution; and
3. when we believe that litigation may follow from our advice.

OTHER

With the non-client's approval, our report should also be provided to the auditor or public accountant.

A copy of all reports issued under this policy should be forwarded to the National (senior technical partner).

ADVICE FROM OTHER FIRMS TO OUR CLIENTS

When we become aware that another accounting firm has been asked to give an opinion on a matter involving our client, the engagement partner should promptly report the matter to (appropriate technical partner) for his information and any additional review of the two firms' positions that may be considered appropriate in the circumstances. If the other accounting firm is planning to issue an opinion contrary to ours, the (technical partner) may decide to review the matter with National (senior technical partner). The National Office will then consider whether the matter should be discussed with senior partners of the other firm to determine whether it is an "official firm position" or simply one person's view.

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We may encounter situations where a client obtains a contrary oral or written opinion from another accounting firm which has not discussed the matter with us. In this event, the client should be asked to allow us to contact the other firm to be sure they are dealing with the same set of facts or assumptions. The National (senior technical partner) should be notified of all such instances so that there can be discussion with senior partners of the other firm to determine whether their procedures were appropriate and the conclusions reached represent an "official position".

In connection with marketing new products or services, investment bankers or financial institutions may send proposals to our clients that include the views of another accounting firm on the appropriate accounting. Since our views could differ, these situations should also be discussed with the National (senior technical partner).

APPENDIX

RELEVANT RULES OF PROFESSIONAL CONDUCT

- 1) A member or student shall conduct himself at all times in a manner which will maintain the good reputation of the profession and its ability to serve the public interest. (Rule 201)
- 2) A member engaged in the practice of public accounting shall, before commencing any assignment for a client of another public accountant who is the duly appointed auditor or accountant, first notify in writing such auditor or accountant of the assignment, unless the client himself makes an unsolicited request that such notification not be given. In the event such request is made, written evidence thereof shall be obtained by the member before he commences the assignment. (Rule 305).
- 3) A member who accepts a special assignment, whether by referral or otherwise, from a client of a public accountant who is continuing in his relationship with that client shall not take any action which would tend to impair the position of the other public accountant in his ongoing work with his client. (Rule 306.1)
- 4) A member who receives an engagement for services by referral from another public accountant shall not provide or offer to provide any different services to the referring accountant's client without the consent of the referring accountant; the interest of the client being of overriding concern, the referring accountant shall not unreasonably withhold such consent. (Rule 306.2)
- 5) During the course of his professional work, a member may on occasion find that he has a responsibility to criticize a professional colleague or other public accountant; such criticism may be direct, or may be implied by material adjustments to a client's accounts considered necessary to correct work performed by the professional colleague or other public accountant. It may be, however, that there are facts or explanations known to the professional colleague or other public accountant concerned which would have a bearing on the matter. (Council Interpretation CI 201, paragraph 5)
- 6) A member, unless limited or restricted in writing in special circumstances by the terms of his engagement, shall first submit any proposed criticism to the professional colleague or other public accountant involved so that any eventual criticism takes into account all the available information. This is a step dictated by considerations both of professional courtesy and of simple prudence. (Council Interpretation CI 201, paragraph 6)

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- 7) When a member does criticize a professional colleague or other public accountant, and due to limitations or restrictions in writing by the terms of his engagement he has not been permitted to submit his criticism to his professional colleague or other public accountant, the member should be on record with the person placing the restriction that such consultation has not taken place. (Council Interpretation CI 201, paragraph 7)