



March 14, 2002

To All Members and Students

Responding to the Enron Situation

Many members we have heard from recently have expressed their concerns with respect to the Enron situation. In addition to expressing their support and offering assistance, members have also articulated their strong commitment to our profession. We wanted to respond to this concern by communicating directly to you the perspective we have adopted, the work we are undertaking and the efforts that we will continue to make on behalf of the profession in light of Enron.

Clearly, the Enron situation is extremely serious. It has caused enormous hardship for many people and has made the corporate world and the accounting profession the subject of intense scrutiny.

Independence, integrity, objectivity and ethics are the core values of Chartered Accountants. We understand better than anyone else the need to move swiftly: to answer the questions that have arisen, to inform people of the facts, to correct misinformation and misunderstanding and to offer reassurance - and to back up that reassurance with evidence and, where necessary, concrete action.

Developments relating to Enron, with implications for both the U.S. and Canadian accounting profession, are unfolding rapidly and changing almost daily. In response, all the Provincial Institutes/Ordre and the Canadian Institute of Chartered Accountants (CICA) have been working closely and coordinating our communications and outreach strategies. We are working together and in cooperation with regulators across the country and other stakeholders to anticipate potential impacts, correct misinformation, and fashion the elements of policy responses that may be required.

A little over a week ago, a sub-committee of the independent Accounting Standards Oversight Council (AcSOC) was formed, chaired by Thomas Allen, QC, of the firm Ogilvy Renault with the participation of others such as the Honourable Michael Kirby and the Superintendent of Financial Institutions, Nick LePan. The sub-committee will assist AcSOC in studying Accounting Standards Board (AcSB) research into which U.S. accounting standards might have been circumvented in the Enron case, and whether Canadian accounting standards could be circumvented in a similar manner.

It is important that we all understand that in Canada, Generally Accepted Accounting Principles are more principles-based than the rules-based approach in the U.S. This difference is among the key initiatives being pushed by the Chairman of the SEC in the U.S.

In the weeks and months to come, it is our intention to step up our communications and outreach activities to reassure the public and key audiences that the CA profession appreciates their concerns and is responding swiftly and appropriately.

To this end, it is our hope to put forward a clearly delineated set of policy proposals focusing on those areas critical to public confidence such as: standards setting, discipline, auditor independence and

quality control. This work will rely heavily on initiatives that were underway already. By way of example, we would like to advise you of a number of them:

- In 2001, the Profession's Public Interest and Integrity Committee began working on a project to modernize the profession's independence rules. In doing so, the Committee will now be taking into account the independence issues raised by the Enron situation.
- In some provinces, the Provincial Institute is able to discipline firms as well as members and assess parties for costs in disciplinary proceedings. We intend to seek similar legislative changes in Manitoba.
- The Ethics Standards Harmonization Committee is currently considering a proposed change to the rules of professional conduct whereby all CAs who are responsible for the preparation of financial statements, including the most senior members in the reporting entity, will be required to take appropriate steps to ensure that those financial statements are presented fairly in accordance with GAAP. In addition, CAs who are members of audit committees or boards of directors will be required to apply their CA skills in fulfilling their responsibilities.
- The Assurance Standards Board proposes to publish a new *CICA Handbook* section entitled "Communications With Those Having Oversight Responsibility for the Financial Reporting Process". This new standard, which will replace guideline AuG-11, will require auditors to disclose to the audit committee the total fees the auditor receives for non-audit services.
- In January 2002, the Assurance Standards Board approved a revised *CICA Handbook* section dealing with the auditor's responsibility to consider fraud and error in an audit of financial statements.
- The CICA issued a draft document in December 2001 that will improve Management's Discussion and Analysis (MD&A) in financial reports. These new guidelines will provide shareholders with a meaningful assessment of a company's performance and future prospects. Canada has taken a leadership role in this important area; to date the U.S. has not made this area of work a high priority.

These actions – both proposed and implemented - demonstrate how the Canadian CA profession is evolving to protect the public interest and respond to changes in business. This work began prior to the Enron situation and it will carry on in the post-Enron environment.

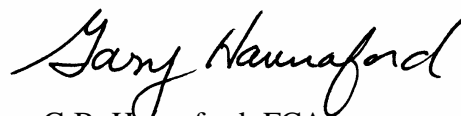
Please be assured that the Manitoba Institute, together with the other Provincial Institutes/Ordre and the CICA, is committed to keeping you fully informed of our activities on your behalf, including any reforms that should be implemented in light of the Enron situation.

We appreciate your support and welcome your feedback.

Yours truly,



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President



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