



March 14th, 2013

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International federation of accountants
529, 5th Avenue,
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New York, New York 10017

Re: Comments on the Exposure Drafts ISA 720 (Revised), The Auditor's Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor's Report Thereon

Dear Sir/Madam:

Hydro-Québec is a major North American producer, transmission provider and distributor of electricity, operating mainly in the province of Québec, Canada. Its sole shareholder is the Québec government. In Québec, the transmission and distribution of electricity are regulated by the Régie de l'énergie, which sets rates on the basis of cost of service plus a reasonable return on the rate base.

On behalf of Hydro-Québec, I thank you for giving us the opportunity to comment on your exposure draft entitled *The Auditor's Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor's Report Thereon*.

Overall, we do not agree with the recommendations of this ISA 720 (Revised) for the following reasons:

- The enlargement of the scope of the auditor's work effort to the other information which are not directly reconcilable to the financial information.
- The enlargement of the definition "inconsistency" to suggestive concepts as opposed to factual concepts (ex.: concept of omissions).
- There is a risk of increased costs and significant delays to be expected in the issuance of the financials statements and the annual report.
- The implication of auditors regarding some information which are under the sole responsibility of management, and on which ultimately no assurance will be provided to users.

Attached are our detailed responses to the questions in the exposure draft.

Should you wish to discuss any aspects of this comment letter in more detail, please do not hesitate to contact me.

Yours sincerely,

A handwritten signature in blue ink that reads 'Lise Croteau'.

Lise Croteau, FCPA, FCA
Vice President, Accounting and Control

Comments

1. Do respondents agree that there is a need to strengthen the auditor's responsibilities with respect to other information? In particular do respondents believe that extending the auditor's responsibilities with respect to the other information reflects costs and benefits appropriately and is in the public interest?

We do not agree on the need to strengthen the auditor's responsibilities with respect to other information in the proposed format. The current ISA 720 allows an appropriate level of responsibility for auditors regarding the other information.

The extension of the auditor's responsibilities regarding material inconsistencies in the other information, which is proposed in the new ISA 720, is considered overly broad and vague. The definition of other information could leave room for interpretation since it goes beyond the financial information that is reconcilable to the audited financial statements. Also, we believe that the proposed definition of inconsistency is overly based on the auditor's judgment (notions of omission, unreasonableness,...etc). Thus, a lack of uniformity in the auditor's application of the proposed ISA is to be expected, in addition to unduly high expectations from users.

Likewise, the enlargement of the scope of other information presents serious issues in regards to release deadlines for documents that will be the subject of ISA 720 (Revised). Much of the other information included in the expanded scope is only available subsequent to the date of the audit report or later when the audit is well advanced. Therefore, the fact that the ISA 720 (Revised) remains unclear on the responsibilities of the auditor (A.49), when another information affects the auditor's risk assessment and changes the initial audit strategy, significant delays can be expected in the issuance of the auditor's report if additional procedures have to be performed.

We believe it would be more appropriate to limit the inconsistencies to what is mentioned in the current ISA 720. As mentioned above, extending the auditor's responsibilities will not offer greater assurance that the other information is free of inconsistencies. In addition, the current ISA 720 provides users with an adequate quality of other information considered important to them.

As regards to the costs and benefits of the change, we believe that the proposal will lead to a significant increase in the work effort for auditors and the audited companies without providing an equivalent benefit to users, because no assurance with respect to the other information will be expressed to users in the auditor's report. We predict an increase in professional fees paid to auditors due to the auditor's additional work effort and the increase in his responsibilities.

2. Do respondents agree that broadening the scope of the proposed ISA to include documents that accompany the audited financial statements and the auditor's report thereon is appropriate?

No, we do not agree on the inclusion of these documents. We believe that only documents that include the audited financial statements should be in the scope of the revised ISA 720.

3. Do respondents find the concept of initial release clear and understandable? In particular, is it clear that initial release may be different from the date the financial statements are issued as defined in ISA 560?

No, the concept of the initial release is unclear and is hard to understand. We question the usefulness of this concept and its value in the proposed ISA 720 (Revised). Moreover, it is difficult to establish the period for which the auditor assumes responsibility for the other information.

We believe that the concept of "initial release" is confusing, and there is a lack of precision in determining it, especially in reading the explanatory comments (A4 to A6). Also, we believe that adding illustrative examples would provide a better understanding of this concept.

4. Do respondents agree that the limited circumstances in which a securities offering document would be in scope (e.g., initial release of the audited financial statements in an initial public offering) are appropriate or should securities offering documents simply be scoped out? If other information in a securities offering document is scoped into the requirements of the proposed ISA in these circumstances, would this be duplicating or conflicting with procedures the auditor may otherwise be required to perform pursuant to national requirements?

In Canada, CICA Handbook Section 7150, AUDITOR'S CONSENT TO THE USE OF A REPORT OF THE AUDITOR INCLUDED IN AN OFFERING DOCUMENT, was recently revised. This Section deals with an auditor's responsibilities in responding to requests to consent to the use of an auditor's report in an offering document, including in the case of an initial public offering.

From our perspective, we believe it is not necessary to introduce additional procedures such as those mentioned in ISA 720 (Revised) for auditors who already comply with Section 7150 .

5. Do respondents consider that the objectives of the proposed ISA are appropriate and clear? In particular: (a) Do respondents believe that the phrase "in light of the auditor's understanding of the entity and its environment acquired during the audit" is understandable for the auditor? In particular, do the requirements and guidance in the proposed ISA help the auditor to understand what it means to read and consider in light of the auditor's understanding of the entity and its environment acquired during the course of the audit?

We believe that the expression "*in light of the auditor's understanding of the entity and its environment acquired during the audit*" is too vague and is confusing in defining where the auditor's responsibility ends with respect to other information. We consider that the lack of precision in ISA 720 (Revised) will lead to many interpretations, depending on the auditor. Therefore, the value for users of the auditor's statement regarding the other information will be diminished due to the lack of uniformity in defining the auditor's responsibilities and the other information concerned.

(b) Do respondents believe it is clear that the auditor's responsibilities include reading and considering the other information for consistency with the audited financial statements?

From our point of view, paragraphs 720.2 and 720.4 of ISA 720 (Revised) show that the auditor should not only read and consider the other information to verify its consistency with the audited financial statements. According to ISA 720.2: "*Other information that is materially inconsistent with the audited financial statements or the auditor's understanding of the entity and its environment acquired during the course of the audit may...*", which suggests that the auditor should ensure not only consistency with the financial statements, but also with his understanding of the entity and its environment, which is broader than consistency with the audited financial statements and difficult to define.

Also, paragraph ISA 720.4 indicates:

"Some documents within the scope of this ISA may include other information that extends beyond the auditor's understanding of the entity and its environment acquired during the course of the audit. Although the auditor is not required to seek to enhance the auditor's understanding of the entity and its environment beyond that required for purposes of the audit, such other information is nevertheless within the scope of this ISA."

This paragraph of the proposed ISA 720, brings confusion on the scope of such other information and the

procedures that are required from the auditor, since it refers to information that is beyond his understanding of the entity and its environment acquired during his audit.

Therefore, to answer your question, yes it is clear that the auditor's responsibilities include reading and considering the other information for consistency with the audited financial statements. However, in our opinion, the proposed ISA 720 includes other responsibilities that extend well beyond looking at consistency of the other information with the audited financial statements.

6. Do respondents agree that the definitions of terms of "inconsistency" including the concept of omissions and "a material inconsistency in the other information" are appropriate?

No. We believe that the proposed definition of inconsistency is overly broad and leaves too much room for judgment. Thus, the concept that the auditor would have to evaluate if the other information is "unreasonable", "omitted" or "obscured" is suggestive and non-factual. It is up to senior management, on whom relies fully the responsibility related to other information included in a document that contains financial statements, to judge of the most appropriate content, whether for its informational value or its relevance.

7. Do respondents believe that users of auditors' reports will understand that an inconsistency relates to an inaccuracy in the other information as described in (a) and (b) of the definition, based on reading and considering the other information in light of the auditor's understanding of the entity and its environment acquired during the course of the audit?

Apart from an inconsistency related to financial information that is reconcilable to the audited financial statements, we believe that users will not fully understand the extent of the work performed by the auditor on other information. With the proposed ISA 720, his expectations related to the auditor's "understanding of the entity and its environment acquired during the audit" will most likely be higher than reality.

Also, since the user does not have an in-depth knowledge of the scope of ISA 720, we do not believe that the user can determine the type of inconsistency involved.

8. Do respondents agree with the approach taken in the proposed ISA regarding the nature and extent of the auditor's work with respect to the other information? In particular:

(a) Do respondents believe the principles-based approach for determining the extent of work the auditor is expected to undertake when reading and considering the other information is appropriate?

It is true that the principles-based approach is less directive and seems preferable to the prescriptive approach. However, the principles-based approach remains very challenging and could lead to different interpretations depending on the auditor.

In our view, we believe that it is not necessary to detail a new approach determining the extent of the auditor's work in ISA 720 (Revised). We believe that the auditor should be free to use his professional judgment when determining the nature and extent of work needed to be undertaken when reading and considering the other information.

(b) Do respondents believe the categories of other information in paragraph A37 and the guidance for the nature and extent of the work effort for each category are appropriate?

We believe that the paragraph A37 D) is too vague.

(c) Do respondents agree that the work effort is at the expected level and does not extend the scope of the audit beyond that necessary for the auditor to express an opinion on the financial statements?

From our perspective, we believe that it is likely that the auditor will need to extend his work effort beyond what is necessary for the auditor to express an opinion on the financial statements. Indeed, increasing the auditor's responsibilities regarding other information will add more pressure to identify material inconsistencies, which will inevitably lead to an increase in his work effort.

9. Do respondents believe that the examples of qualitative and quantitative information included in the Appendix in the proposed ISA are helpful?

From our perspective, we believe that the examples of qualitative and quantitative information presented are not necessarily helpful or required. We trust the auditor and his professional judgment when determining the nature and the extent of his work.

10. Do respondents believe it is clear in the proposed requirements what the auditor's response should be if the auditor discovers that the auditor's prior understanding of the entity and its environment acquired during the audit was incorrect or incomplete?

From our point of view, ISA 720.15, which refers to paragraph A49, should specify that the auditor's responsibility is covered in ISA 315 when there is a change in the auditor's understanding of the entity and its environment.

As mentioned above, there is a significant impact on the deadlines for releasing financial statements when an auditor has to change his initial audit strategy. ISA 720 (Revised) is unclear about the treatment recommended for the auditor when other information leads to a change in his understanding of the entity and its environment or a change in the auditor's risk assessment.

We believe that a relevant date should be specified to limit extending the work of the auditors. Beyond that date, no more changes to the initial audit strategy should be made in the event of the acquisition of new facts about the other information.

11. With respect to reporting:

(a) Do respondents believe that the terminology (in particular, "read and consider," "in light of our understanding of the entity and its environment acquired during our audit," and "material inconsistencies") used in the statement to be included in the auditor's report under the proposed ISA is clear and understandable for users of the auditor's report?

From our perspective, considering the risk of misunderstanding by users on the scope of the procedures performed by the auditor and other issues identified above, we are not in favour of the written statement from the auditor with respect to the other information provided in the expanded scope of ISA 720 (Revised).

(b) Do respondents believe it is clear that the conclusion that states "no audit opinion or review conclusion" properly conveys that there is no assurance being expressed with respect to the other information?

From our perspective, we do not believe that users understand the conclusion that states "no audit opinion or review conclusion" as clearly communicating the fact that no assurance is being expressed with respect to the other information. We believe that the users who are not auditors will still think that some kind of assurance is being expressed in the statement of the auditor regarding the other information.

12. Do respondents believe that the level of assurance being provided with respect to other information is appropriate? If not, what type of engagement would provide such assurance?

No. However, with the expanded scope of the other information in ISA 720 (Revised) and the release deadlines required by securities regulators, the auditor will be unable to express assurance regarding the other information.

In addition, we do not believe it is necessary to move forward with the proposed ISA 720 (Revised). We believe that a standard audit is sufficient to ensure users a high level of assurance regarding the audited financial statements or the financial reporting process.