



July 18, 2014

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International Federation of Accountants
529 5th Avenue, 6th Floor
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**Re: Comments on the Second Exposure Draft ISA 720 (Revised),
*The Auditor's Responsibilities Relating to Other Information***

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 second Exposure Draft entitled *The Auditor's Responsibilities Relating to Other Information*.

As was the case with the 2012 version of the proposed ISA 720 (Revised), we still disagree with the recommendations of this second Exposure Draft for the following reasons:

- The enlargement of the scope of the auditor's work effort to include other information not directly reconcilable to the financial statements.
- The risk of increased costs and significant delays in the issuance of the financials statements and the annual report.
- The involvement of auditors regarding some information which is under the sole responsibility of management, and on which they are unable to assess the relevance.

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, appearing to read 'Lise Croteau'.

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

Encl. (1)

Hydro-Québec

Exposure Draft – ISA 720 (2014): *The Auditor's Responsibilities Relating to Other Information*

Comments to be received by July 18, 2014

IAASB Questions

General comment

- **Comparison between ISA 720 (2012) and ISA 720 (2014)**

In general, we find that the changes made to ISA 720 (2014) provide greater detail about auditor work effort; therefore, ISA 720 (2014) is more responsive to an entity's context than the Exposure Draft of proposed ISA 720 (2012).

- **Disadvantages of ISA 720 (2014)**

However, we have noted that revised ISA 720 (2014) does not take time constraints into consideration and forces auditors to be accountable for the quality of other information which is outside their area of expertise, which in turn casts serious doubt on the reliability and value for financial statement users of an auditor's written statement concerning other information.

As a result, the proposed amendments do not meet the original objective, which was to provide users with understandable information in audited financial statements or from the financial information production process.

In summary, even though we are not in favor of a change to extant ISA 720, we have decided to comment on this ISA 720 (2014) Exposure Draft to ensure representation of the opinions of financial statement *Preparers* on the Exposure Draft (2014) as few of them seem to have commented on the first Exposure Draft (2012).

1. Whether, in your view, the stated objectives, the scope and definitions, and the requirements addressing the auditor's work effort (together with related introductory, application and other explanatory material) in the proposed ISA adequately describe and set forth appropriate responsibilities for the auditor in relation to other information.

Document:

From our point of view, clarification about the type of documents included in the scope, namely other information contained in an annual report, defines an auditor's work more clearly than ISA 720 (2012) and extant ISA 720.

Other information:

Given the definitions of other information included in the proposed ISA 720 (2014), we find that this chapter covers all other information included in an annual report even if such information is outside the auditor's area of expertise. Our interpretation is based on the following paragraphs:

- In paragraph 720.5, other information is defined as follows:

*"Other information may include amounts or other items that are intended to be the same as, to summarize, or to provide greater detail, about amounts or other items in the financial statements, and other amounts or other items about which the auditor has obtained knowledge during the course of the audit. **Other information may also include other matters.**"*

These other matters may be outside the auditor's area of expertise.

- Paragraph 720.12(c) states that the other information targeted is:

"Financial and non-financial information (other than financial statements and the auditor's report thereon) included in an entity's annual report."

- Paragraph 720.12(c) (Para. A5) refers to an appendix that contains a list of information (which is not exhaustive) about the other information that could be included in an annual report.

Some of the examples presented are not necessarily information that falls within an auditor's area of expertise; for example, an overview of strategy and general descriptions of the business environment and outlook.

- Paragraph 720.14(c) (Para. A33) shows that other information may be outside an auditor's area of expertise:

*“Other information may include discussion of matters that **extends beyond the auditor’s knowledge obtained during the course of the audit.** For example, the other information may include statements about the entity’s greenhouse gas emissions when that information is unrelated to the financial statements or to the auditor’s knowledge obtained during the course of the audit.”*

Thus ISA 720 (2014) requires that the auditor consider whether there is a material inconsistency between the other information and any knowledge possessed by the auditor, whether obtained in the course of the audit or otherwise. This goes against the IAASB's comment in paragraph 24 of the Explanatory Memorandum in ISA 720 (2014) and ends up asking the auditor the impossible.

In summary, we do not think that the auditor has the knowledge to consider all the other information contained in an annual report because much of such information does not fall within the auditor's area of expertise. In general, an annual report contains information about several topics affecting an entity that are not directly related to the financial statements, financial results or the knowledge obtained by the auditor in performing the audit engagement.

Moreover, given that an auditor, in the written statement proposed under ISA 720 (2014), will state material inconsistencies if any, on all other information contained in an annual report without however issuing any assurance, a user could interpret this to mean that an auditor has the expertise to consider all the information contained in an annual report. As a result, the written statement concerning other information may mislead users about the work performed by auditors and their findings.

In conclusion, we think that ISA 720 (2014) should limit an auditor's evaluation to other information that falls within the auditor's area of expertise only. The auditor's objectives should be limited solely to what is mentioned in paragraphs 720.14(a) and (b), namely:

"The auditor shall read the other information and, in doing so shall:

- (a) Consider whether there is a material inconsistency between the other information and the financial statements;*
- (b) Consider whether there is a material inconsistency between the other information and the auditor's knowledge obtained during the course of the audit."*

Consequently, the concept of other information would be confined to the financial statements and the knowledge obtained by the auditor during the course of the audit.

Changes proposed in relation to the preceding argument:

In order to reflect this suggestion, changes should be made, in particular to the following paragraphs and application material:

- In paragraph 720.5, other information is defined as follows:

*"Other information may include amounts or other items that are intended to be the same as, to summarize, or to provide greater detail, about amounts or other items in the financial statements, and other amounts or other items about which the auditor has obtained knowledge during the course of the audit. **Other information may also include other matters.**"*

- Remove the last sentence.

- Paragraph 720.12(c) states that other information targeted is:

"Financial and non-financial information (other than financial statements and the auditor's report thereon) included in an entity's annual report."

- Be clearer by defining what financial and non-financial information includes. For instance:

Financial and non-financial information is information closely related to the audited financial statements and the auditor's report or information that complements the financial statements; for example, it can, among other things, provide an explanation for financial results.

- Paragraph 720.12(c) (Para. A5) refers to an appendix that contains a list of information (which is not exhaustive) about the other information that could be included in an annual report.

Some of the examples provided are not necessarily information that falls within the auditor's area of expertise; for example, an overview of strategy and general descriptions of the business environment and outlook.

- Remove the examples that have nothing to do with an auditor's area of expertise.

- Paragraph 720.14(c) (Para. A33) shows that other information may be outside an auditor's area of competence:

*“Other information may include discussion of matters that **extends beyond the auditor's knowledge obtained during the course of the audit.** For example, the other information may include statements about the entity's greenhouse gas emissions when that information is unrelated to the financial statements or to the auditor's knowledge obtained during the course of the audit.”*

- Remove this application material

2. Whether, in your view, the proposals in the ISA are capable of being consistently interpreted and applied.

Document:

In our view, the greater detail provided in ISA 720 (2014) about the type of document that falls within the scope, namely other information contained in an annual report, will help the ISA 720 (2014) be consistently interpreted and applied.

Other information:

If auditors have to consider all other information, even if it may extend beyond their area of expertise, we think that this will further increase divergent interpretations. In fact, with different knowledge and experiences, conclusions about considerations on all other information could vary from one auditor to the next.

Thus the value for users of the auditor's written statement on other information will be reduced given the lack of consistent interpretations between auditors bringing incomparable written declaration.

Objectives and Requirements – Reading and Considering the Other Information:

With regard to paragraphs 720.11(c) and 720.14(c), as well as the application material in A.33 of ISA 720 (2014), we consider that broadening the auditor's responsibilities concerning material misstatements of other information is extensive and vague, and could result in inconsistent application among auditors because their knowledge level (beyond their knowledge obtained during the course of the audit) will be different:

- Paragraph 720.11(c) states:

“The objectives of the auditor, having read the other information, are:

...

(c) To respond appropriately when the auditor identifies that such material inconsistencies appear to exist, or when the auditor otherwise becomes aware that other information appears to be materially misstated”.

- Paragraph 720.14 c) states:

“The auditor shall read the other information and, in doing so shall...

(c) Remain alert for other indications that the other information appears to be materially misstated.”

- In paragraph 720.14(c) (Para. A33), this application material is provided:

“Other information may include discussion of matters that extends beyond the auditor's knowledge obtained during the course of the audit. For example, the other information may include statements about the entity's greenhouse gas emissions when that information is unrelated to the financial statements or to the auditor's knowledge obtained during the course of the audit.”

In addition, we consider that it will be difficult and nearly impossible for auditors to determine if other information outside their field of expertise has been materially misstated.

In our view, the 720.11 requirements *“when the auditor becomes aware that other information appears to be materially misstated”* and the fact that the auditor must *“remain alert for other indications that the other information appears to be materially misstated”* under 720.14, are extensive. Scoping the auditor's work will be difficult. We think that the auditor could apply supplementary procedures that do not mesh with his audit work, to ensure that these requirements are met. Hence these supplementary procedures will inevitably result in increased work and higher costs for both the auditor and the entity. This in turn will possibly lead to longer deadlines for

annual report filings. Given time constraints, issues are to be expected to arise concerning compliance with filing requirement deadlines set by securities regulators.

In conclusion, we suggest deleting part of the last sentence in (c) of paragraph 720.11(c), removing (c) from paragraph 720.14 and deleting the application terms in paragraph 720.14(c) (Para.A33). As a result, the auditor's work and responsibilities will be limited only to items within the auditor's area of expertise, i.e. the auditor must consider if there is a material inconsistency between the other information and the financial statements as well as with the knowledge the auditor obtained during the course of the audit.

3. Whether, in your view, the proposed auditor reporting requirements result in effective communication to users about the auditor's work relating to other information.

As we already mentioned in our response concerning ISA 720 (2012), we repeat that we are not in favor of the auditor's written statement on other information provided as part of the enlarged scope of ISA 720 (2014). We consider that this statement will not provide any added value to users for the following reasons:

- There is always a possible risk that users who are not auditors could think that there is a form of assurance provided by the auditor's statement on other information notwithstanding the following clarification made in ISA 720 (2014) to the effect that the auditor " ... *does not express an opinion or any form of assurance conclusion thereon* ...".
- The value for users of the auditor's statement concerning auditor responsibilities will be reduced because we think that there will be divergence in interpretations making it incomparable between entities.
- Since auditors must consider information that is outside their area of expertise, there is a material risk that the auditor's statement may be misleading for users.

In summary, we find that ISA 720 (2014) will significantly increase auditors' workload without providing equivalent benefits for users because no form of assurance would be provided to users by the auditor with respect to other information.

4. Whether you agree with the IAASB's conclusion to require the auditor to read and consider other information only obtained after the date of the auditor's report, but not to require identification of such other information in the auditor's report or subsequent reporting on such other information.

Even though we do not agree with many of the requirements of ISA 720 (2014), we support the IAASB's proposal that no reference should be made in the auditor's report to any other information that could be obtained after the date of his report and that the auditor should not be required to report subsequently on such information.

In our opinion, the annual report represents an image of the entity during a specific fiscal year and must therefore not be continually updated based on activities that occur in the following year. This will ensure that a clear cut-off is established between the periods covered by two successive annual reports.

In addition to the requests for specific comments above, the IAASB is also seeking comments on the general matters set out below:

- A) *Preparers (including Small- and Medium-Sized Entities (SMEs)), and users (including Regulators)*—The IAASB invites comments on the proposed ISA from preparers (particularly with respect to the practical impacts of the proposed ISA), and users (particularly with respect to the reporting aspects of the proposed ISA).

We felt that it would be appropriate for a number of *Preparers* to comment on this Exposure Draft since they will be directly affected when this revised standard comes into force.

In summary, we believe that the application of this standard as proposed will have the following impacts:

- The auditor will be compelled to assess the message that management wants to communicate in the annual report without having sufficient knowledge to do so;
- With regard to the definition of the other information in question, we believe it is ambiguous in the proposed standard. This will lead to a lack of consistency in the auditors' written declaration, which will significantly reduce the comparability of annual reports between entities in the same industry.
- Audit deadlines will be extended, and the filing date of the auditor's report could be postponed, which could also delay the publication of the annual report and lead to non-compliance with requirements related to deadlines for filings with securities regulators.
- The audit costs for financial statements will increase for *Preparers*.

B) Translations—Recognizing that many respondents may intend to translate the final ISA for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents may note in reviewing the proposed ISA.

No comment.

C) Effective Date—Recognizing that the proposed ISA results in changes to the auditor's report, the IAASB believes that to the extent possible, the effective date should be aligned with that of the IAASB's Auditor Reporting project. Accordingly, the IAASB believes that an appropriate effective date for the standard would be 12–15 months after issuance of the final standard, but may be longer or shorter to align with the effective date of the revisions arising from the auditor reporting project. Earlier application would be permitted. The IAASB welcomes comment on whether this would provide a sufficient period to support effective implementation of the ISA.

Given that we disagree with the proposed changes, we would like both the Auditor Reporting project and this project to be dropped.