



National Association of State Boards of Accountancy

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October 2, 2025

Auditing Standards Board
American Institute of Certified Public Accountants (AICPA)
1345 Avenue of the Americas
New York, NY 10105

Via e-mail: commentletters@aicpa-cima.com

Re: Exposure Draft: Proposed Statement on Auditing Standards – *The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements*

Dear Members and Staff of the AICPA Auditing Standards Board (ASB):

The National Association of State Boards of Accountancy (NASBA) appreciates the opportunity to comment on the above-referenced Exposure Draft, **Proposed Statement on Auditing Standards – *The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements*** (the Exposure Draft). NASBA’s mission is to enhance the effectiveness and advance the common interests of State Boards of Accountancy (State Boards) that regulate all Certified Public Accountants (CPAs) and their firms in the United States and its territories, which includes all audit, attest and other services provided by CPAs. State Boards are charged by law with protecting the public.

In furtherance of that objective, NASBA offers the following comments.

Comments on Specific Requests from the Exposure Draft

Effective Date

1. Do respondents believe that if the final standard is issued no later than October 1, 2026, the proposed effective date for audits of financial statements for periods ending on or after December 15, 2028, is appropriate and provides adequate time for implementation? If not, respondents are asked to state their reasons and suggest an alternate effective date.

NASBA believes the new standard on fraud should be implemented as soon as practical. However, NASBA also believes effective implementation is in the public interest. Firms will need time to update methodologies, provide appropriate training and possibly add resources to properly implement the new fraud standard. Further, effective implementation will require thoughtful risk assessment and engagement planning procedures many months before work begins. The ASB should carefully consider the input received in evaluating the appropriateness of the effective date.

Auditor's Responsibilities

2. Do respondents agree that the proposed SAS clearly sets out the auditor's responsibilities relating to fraud in an audit of financial statements, including fraud that may not result in a material misstatement to the financial statements? Respondents are asked to state their reasons.

There continues to be an expectation gap in the public's understanding of the auditor's responsibilities relating to fraud in an audit of financial statements. NASBA believes that the proposed SAS may have put too much emphasis on the qualitative materiality considerations which may detract from the quantitative assessment. It would likely be very difficult and costly for an auditor to design and implement procedures to detect something that would only be qualitatively material. However, once fraud is detected, the auditor can further evaluate and conclude that it may be material because of the qualitative aspects.

Additional clarity is needed around the auditor's responsibility for detecting fraud that may be qualitatively material. NASBA recommends keeping the focus on the auditor's responsibilities for risk assessment and the risk of material misstatements of the financial statements (which is based on a quantitative materiality).

Key Concepts and Relationship With Other AU-C Sections

3. Do respondents agree that the proposed SAS clearly sets out the key concepts and relationship with other AU-C sections in paragraphs 4-15? Respondents are asked to state their reasons.

As more fully discussed in response to question 5 below, NASBA has concerns about the definition of fraud and the linkage to AU-C section 250, *Considerations of Laws and Regulations in an Audit of Financial Statements*.

4. Do respondents agree that the terms "fraud", "suspected fraud", or "fraud or suspected fraud" are used appropriately throughout the proposed SAS? Respondents are asked to state their reasons.

NASBA believes that, in some instances in the proposed SAS, fraud has an expanded definition. The first sentence of paragraph 14 states that "for the purposes of GAAS, fraud ordinarily constitutes an instance of noncompliance with laws and regulations." However, noncompliance with laws and regulations is not part of the extant definition of fraud.

Fraud as defined in the proposed SAS is "an intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception that results in a misstatement in financial statements that are the subject of an audit."

NASBA encourages the ASB to ensure that the term "fraud" retains its intended definition and is used consistently throughout the proposed SAS.

5. Do respondents agree that the proposed SAS adequately explains the relationship between the proposed SAS and AU-C section 250, “Consideration of Laws and Regulations in an Audit of Financial Statements”? Respondents are asked to state their reasons.

Paragraph 6 explains that fraud is a broad legal concept and that the auditor is concerned with a material misstatement of the financial statements due to fraud. Paragraph 6 further states that “although the auditor may identify fraud or suspected fraud..., the auditor does not make legal determinations about whether fraud has actually occurred.”

The first sentence of paragraph 14 states that “for the purposes of GAAS, fraud ordinarily constitutes an instance of noncompliance with laws and regulations.” By using the word *ordinarily*, the inference is that the definition of fraud has been expanded, whether intentionally or otherwise, to include noncompliance with laws and regulations.

If paragraph 14 is retained in the final issued standard, NASBA recommends removing reference to *ordinarily* and revising the language such that identified fraud or suspected fraud *could* be indicative of noncompliance with laws and regulations.

Scalability

6. Do respondents agree that the requirements and application material in the proposed SAS are sufficiently scalable; that is, is the proposed SAS capable of being applied to the audits of entities with a wide range of sizes, complexities, and circumstances? Respondents are asked to state their reasons.

NASBA believes the proposed SAS is capable of being applied to the audits of entities with a wide range of sizes, complexities and circumstances. However, given certain requirements of the proposed SAS, depending on the size of the audit practice or firm, the auditor may have disproportionate challenges in fully implementing the requirements.

The proposed SAS includes much of the content on risk assessment that mirrors what is included in AU-C 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*. Paragraph 35 states that, in applying AU-C section 315, the auditor should obtain an understanding of the entity’s process to monitor the system of internal control that addresses ongoing and separate evaluations for monitoring the effectiveness of controls to prevent or detect fraud and the identification and remediation of related control deficiencies identified. These requirements do not seem to allow for auditor judgment in considering the nature and complexity of the entity (as provided for in paragraph 24 of AU-C 315).

Linkages With Other AU-C Sections, Including the Use of Technology

7. Do respondents agree that the proposed SAS has appropriate linkages to other AU-C sections (for example, AU-C section 200, AU-C section 220, AU-C section 315, AU-C section 330, AU-C section 500, AU-C section 520, and AU-C section 540)? Respondents are asked to state their reasons.

NASBA agrees that the proposed SAS has appropriate linkages to other AU-C sections. The proposed SAS includes areas in which requirements are repeated from other AU-C sections in order to link application material for consideration with a fraud lens. The duplication of language instead of including only incremental requirements contributes to the length of the proposed SAS, which could impact implementation of the standard.

Maintaining Professional Skepticism

8. Do respondents agree that the proposed SAS appropriately reinforces maintaining professional skepticism about matters relating to fraud in an audit of financial statements? Respondents are asked to state their reasons.

NASBA agrees that the proposed SAS appropriately reinforces maintaining professional skepticism about matters relating to fraud in an audit of financial statements.

The Auditor's Risk Identification and Assessment

9. Do respondents agree that the proposed SAS appropriately builds on the foundational requirements in AU-C section 315 and other AU-C sections to enhance the auditor's risk identification and assessment as it relates to fraud? Respondents are asked to state their reasons.

NASBA agrees that the proposed SAS appropriately builds on the foundational requirements in AU-C section 315 and other AU-C sections to enhance the auditor's risk identification and assessment as it relates to fraud.

Management Override of Controls

10. Do respondents agree that the risks of material misstatement due to fraud related to management override of controls should be treated as a risk of material misstatement due to fraud at the financial statement level? Respondents are asked to state their reasons.

NASBA agrees that the risks of material misstatement due to fraud related to management override of controls should be treated as a risk of material misstatement due to fraud at the financial statement level. NASBA believes this is reflective of where practice resides today and is consistent with AU-C section 315.

Presumption of the Risks of Material Misstatement Due to Fraud in Revenue Recognition

11. Do respondents agree that the proposed SAS appropriately addresses the risks of material misstatement due to fraud in revenue recognition? Respondents are asked to state their reasons.

NASBA agrees that the proposed SAS appropriately addresses the risks of material misstatement due to fraud in revenue recognition. NASBA believes that expanded requirements of the auditor's considerations about the types of revenue, revenue transactions and related risk factors are appropriate.

Fraud or Suspected Fraud

12. Do respondents agree that the proposed SAS appropriately establishes proper work effort requirements and application material to address circumstances when instances of fraud or suspected fraud are identified in the audit? Respondents are asked to state their reasons.

Paragraph 55 of the proposed SAS requires the auditor to obtain an understanding of the nature and circumstances of fraud or suspected fraud to determine the effect on the audit engagement if the auditor identifies fraud or suspected fraud. Then, in paragraph 56, the engagement partner is required to make determinations about the effect of fraud or suspected fraud in the audit engagement, except for when the fraud or suspected fraud is determined to be clearly inconsequential. It seems that the exclusion of identified fraud or suspected fraud that is clearly inconsequential should also apply to paragraph 55.

Overall Evaluation Based on Audit Procedures Performed

13. Do respondents agree that the proposed SAS should include a stand-back provision as included in paragraph 59 and, if so, where it is placed? Respondents are asked to state their reasons.

NASBA agrees with the stand-back provision as included in paragraph 59 and its placement in the proposed SAS. NASBA agrees with its placement because the auditor should consider all of the audit evidence obtained.

Communication With Those Charged With Governance

14. Do respondents agree that the requirements for the auditor to communicate fraud or suspected fraud with those charged with governance are appropriate? Respondents are asked to state their reasons.

NASBA agrees that the requirements for the auditor to communicate fraud or suspected fraud with those charged with governance are appropriate.

15. In particular, do respondents agree that it is appropriate for the auditor to communicate with those charged with governance identified fraud or suspected fraud involving others, except for matters that are clearly inconsequential, rather than when the fraud results in a material misstatement in the financial statements? Respondents are asked to state their reasons.

NASBA agrees that it is appropriate for the auditor to communicate with those charged with governance identified fraud or suspected fraud involving others, except for matters that are clearly inconsequential.

Documentation

16. Do respondents agree with the revisions to the documentation requirements in the proposed SAS? Respondents are asked to state their reasons.

NASBA agrees with the revisions to the documentation requirements in the proposed SAS.

Inquiries

17. Do respondents agree that the required inquiries about fraud matters related to fraud are appropriate? Respondents are asked to state their reasons.

NASBA agrees that the required inquiries about fraud matters related to fraud are appropriate.

Other Matters

18. Are there any other matters you would like to raise in relation to the proposed SAS? If so, clearly indicate the requirements, application material, appendix, or the theme or topic to which your comments relate.

The proposed SAS incorporates considerations of data analytics, analytic tools and automated procedures; however, it does not appear to include guidance or considerations for artificial intelligence (AI). NASBA believes that the use of AI by both preparers as well as auditors is a key emerging trend in general. It is increasingly likely that preparers will utilize AI tools in the preparation of the financial statements. It is also likely that auditors will be using AI in their fraud assessment procedures. NASBA believes the inclusion of application material around the use of AI by both preparers and auditors in consideration of fraud or suspected fraud would be helpful.

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We appreciate the opportunity to comment on the Exposure Draft.

Very truly yours,

Maria E. Caldwell

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NASBA Chair

Daniel J. Dustin

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