



RSM US LLP

30 South Wacker Drive
Suite 3300

Chicago, IL 60606

www.rsmus.com

September 26, 2025

Auditing Standards Board (ASB)
American Institute of Certified Public Accountants
1211 Avenue of the Americas, 19th Floor
New York, NY 10036

Via online survey and (or) email to commentletters@aicpa.org

Re: Exposure Draft, Proposed Statement on Auditing Standards, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, AICPA Auditing Standards Board – July 2, 2025

RSM US LLP (RSM) appreciates the opportunity to comment on the American Institute of Certified Public Accountants (AICPA) Auditing Standards Board's (ASB's) July 2, 2025, Exposure Draft, *Proposed Statement on Auditing Standards, The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements* (the Exposure Draft or proposed SAS). RSM is the leading provider of assurance, tax and consulting services focused on the middle market, with nearly 18,000 professionals in 77 U.S. cities, six locations in Canada, one in El Salvador and four in India.

We support the ASB's proposed criteria to clarify the auditor's responsibilities relating to fraud and also the roles of management and those charged with governance. We believe the proposed SAS will help auditors perform appropriate audit procedures when fraud or suspected fraud is identified in an audit of financial statements.

However, regarding the proposed SAS's intent to enhance the auditor's risk identification and assessment as it relates to fraud, we have concerns that this specific requirement may not be scalable, which could lead to unnecessary procedures in areas with minimal fraud risk and be excessive and burdensome for the audit team. We would also request that application guidance around retrospective reviews be provided in the proposed SAS.

Additionally, we support communicating with those charged with governance about identified fraud or suspected fraud involving others and suggest that it should be done via the letter to those charged with governance during planning. We would also ask for additional guidance on how "clearly inconsequential" is defined and should be communicated with those charged with governance.

As requested, we have the following comments on the specific aspects of the proposed interpretations and revisions upon which the ASB is seeking feedback. In certain areas, we propose specific revisions to the proposed standards. Language recommended for deletion is ~~struck through~~. Language recommended for addition is underlined.

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.

Yes, we believe the proposed effective date is appropriate and provides adequate time for implementation.

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

Yes, the auditor's responsibilities relating to fraud in an audit of financial statements are clearly defined and labeled in paragraph 2 of the proposed SAS and distinguished from those of management and those charged with governance, defined and labeled in paragraph 3 of the proposed SAS. Paragraphs 2 and 6 of the proposed SAS also note that the auditor is concerned about material misstatements of the financial statements due to fraud, clarifying that the auditor is not responsible for designing the audit to detect all potential matters related to fraud.

Key Concepts and Relationships 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

Yes, we agree that the proposed SAS clearly sets out the key concepts and relationships with other AU-C sections in paragraphs 4–15 of the proposed SAS. We believe the linkage is appropriate and helps to connect to the other key concepts in the other AU-C sections, where relevant. We also believe it may be useful to include Supplement No. 3 (Fraud ED) – Linkages Between GAAS and Exposure Draft of Proposed SAS, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, as an appendix to the proposed SAS to help the auditor better understand the linkages.

- 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.

We agree that the terms “fraud,” “suspected fraud” and “fraud or suspected fraud” are used appropriately throughout the proposed SAS. However, in paragraph 62 of the proposed SAS, we would recommend adding “fraud or” to the following sentence (see underline) for consistency with paragraph A198, as this phrasing appears in other sections but not in this one: “If the auditor identifies fraud or suspected fraud involving management, the auditor should communicate the fraud or suspected fraud with those charged with governance and discuss with them the nature, timing and extent of audit procedures necessary to complete the audit.”

- 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.

Yes, we agree that the proposed SAS adequately explains the relationship between the proposed SAS and AU-C section 250. We appreciate that the proposed SAS does not assert that all fraud is noncompliance of laws and regulations. We also believe that paragraph A18 of the proposed SAS provides a good example that meeting the requirements of the proposed SAS may also meet certain requirements of AU-C section 250; the auditor may also need to perform additional procedures in accordance with AU-C section 250 if the identified fraud or suspected fraud may also constitute an instance 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 reason.

Except for the requirement regarding the retrospective review of management’s judgments and assumptions related to the outcome of all accounting estimates detailed in our response to Question 9, we agree that the requirements and application material in the proposed SAS are sufficiently scalable.

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.

The linkages in the proposed SAS to other AU-C sections make it clear that these are existing requirements that are to be applied with a fraud lens. The linkages also provide additional considerations when teams consider those requirements.

As mentioned in Question 3 above, we suggest that the ASB consider adding Supplement No. 3 (Fraud ED) – Linkages Between GAAS and Exposure Draft of Proposed SAS, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements* as an appendix to the final SAS to help the auditor better understand the linkages.

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

Yes, we agree that the proposed SAS appropriately reinforces maintaining professional skepticism about matters relating to fraud in an audit of financial statements.

The application material in relation to the emphasis on professional skepticism is helpful because it provides sufficient relevant examples that may direct the attention of auditors to be mindful of certain circumstances.

Additionally, we appreciate and support that the proposed SAS retains the wording that was removed from the International Standards on Auditing (ISA) 240 (Revised), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, "Unless the auditor has reason to believe the contrary, the auditor may accept records and documents as genuine."

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.

Except for the requirement regarding the retrospective review of the outcome of previous accounting estimates, we 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 by adding a "fraud lens" to the foundational requirements.

Regarding the retrospective review of the outcome of previous accounting estimates, the explanatory memo highlights that paragraph 28 of the proposed SAS has an incremental requirement to paragraph .13 of AU-C section 540, *Auditing Accounting Estimates and Related Disclosures*, to review management's judgments and assumptions related to the outcome of all accounting estimates from significant estimates, extending the requirement per paragraph .32(b)(ii) of extant AU-C section 240, *Consideration of Fraud in a Financial Statement Audit*. We are concerned that this specific requirement may not be scalable and could lead to unnecessary procedures in areas with minimal fraud risk. For example, the determination of useful lives for depreciable assets is an accounting estimate, but in many entities it would have a minimal fraud risk.

We suggest that the ASB either retain "significant" as part of the requirement or include application material to help further explain how to apply scalability, in terms of both the nature and significance of the accounting estimates, to the performance of the retrospective review of management's judgments and assumptions. We also suggest that the ASB include examples of potential procedures based on the nature and significance of the accounting estimates that may be performed during a retrospective review to illustrate how the requirement is scalable for different types of estimates.

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.

We agree that the risk related to management override of controls should be treated as a risk of material misstatement due to fraud at the financial statement level. As stated in paragraph A126 of the proposed SAS, management is in a unique position to perpetrate fraud because of management's ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Since management is present in all entities, the risk of material misstatement due to fraud related to management override of controls would also be present in all entities.

Presumption of 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.

We agree that the proposed SAS appropriately addresses the risks of material misstatement due to fraud in revenue recognition. The assessment of risks of material misstatement due to fraud include consideration of fraud risk factors that lead to improved identification of more specific risks of material misstatement due to fraud in revenue recognition. The examples in paragraph A131 of the proposed SAS include a good list of considerations for engagement teams to include in their brainstorming discussion to facilitate appropriate identification of risks of material misstatement due to fraud in revenue recognition.

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.

We 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 an audit. The requirements lay out clear expectations about the procedures that should be performed.

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.

We agree that the proposed SAS should include a stand-back provision as included in paragraph 59. We agree that the placement in the proposed SAS is appropriate for the auditor to consider all of the evidence obtained in the evaluation.

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.

We agree 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.

We agree that it is appropriate for the auditor to communicate with those charged with governance about 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.

Given our legal environment, we suggest adding application material on how and when “clearly inconsequential” should be determined and communicated or discussed with those charged with governance. We also suggest considering whether an amendment to AU-C section 260, *The Auditor’s Communication With Those Charged With Governance*, is warranted. We believe it would appropriate to communicate a description of what would be considered “clearly inconsequential” to those charged with governance as part of the planned scope and timing of the audit.¹

Documentation

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

We agree with the revisions to the documentation requirements in the proposed SAS, as they align with and are incremental to the documentation requirements in AU-C section 230, *Audit Documentation*, by applying them to the requirements in the proposed SAS.

¹ See paragraph .11 of AU-C section 260.

Inquiries

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

We agree that the required inquiries about matters related to fraud are appropriate. We appreciate that paragraph A102 of the proposed SAS includes some best practices on how to conduct the inquiries resulting from the ASB's research, such as:

- In-person inquiries are generally most effective.
- Video calls may be an appropriate method to conduct certain inquiries.
- Senior members of the engagement team may be best suited to conduct certain inquiries.

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.

There are no other matters we would like to raise in relation to the proposed SAS at this time.

We appreciate this opportunity to provide feedback on the Exposure Draft and would be pleased to respond to any questions you may have about our comments. Please direct any questions regarding this letter to Lauren Horneff, Senior Manager—National Professional Standards Group, at 202.629.5171 or Sara Lord, Chief Auditor, at 612.376.9572.

Sincerely,

RSM US LLP

RSM US LLP