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September 30, 2025

Ms. Jennifer Burns
Chief Auditor
Professional Standards and Services
American Institute of Certified Public Accountants
1345 Avenue of the Americas, 27th Floor
New York, NY 10105

**GAO's Response to the American Institute of Certified Public Accountants' July 2025
Exposure Draft, *Proposed Statement on Auditing Standards, The Auditor's Responsibilities
Relating to Fraud in an Audit of Financial Statements***

Dear Ms. Burns:

This letter provides GAO's comments on the American Institute of Certified Public Accountants' (AICPA) *Proposed Statement on Auditing Standards, The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*. GAO promulgates generally accepted government auditing standards, which provide professional standards for auditors of government entities in the United States.

We support the AICPA's efforts to update the auditor's responsibilities related to fraud and ensure that they converge, as appropriate, with the related International Auditing and Assurance Standards Board standards. We believe that the increase in requirements may be achievable for auditors of large and complex organizations, like large federal entities, but we believe that auditors of smaller and less complex entities may find the standard harder to apply. We believe that additional application paragraphs or a practice aid would be beneficial, as small entities may not have the same level of maturity in their internal control systems or whistleblower programs. Finally, we believe that relying on links to other standards may make future updates more difficult to make. Our responses to AICPA's questions are in the enclosure to this letter.

Thank you for the opportunity to comment. If you have questions about this letter or would like to discuss any of our responses, please contact me at dalkinj@gao.gov.

Sincerely,

//SIGNED//

James R. Dalkin
Director
Financial Management and Assurance

Enclosure

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Responses to Questions on the AICPA Exposure Draft, *Proposed Statement on Auditing Standards the Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

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.

We believe that a proposed implementation timeline of periods ending on or after December 15, 2028, is appropriate, if the standard is issued by October 1, 2026.

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.

We agree that the proposed Statement on Auditing Standards (SAS) clearly sets out the auditor's responsibilities relating to fraud in an audit of financial statements. We agree that the language in paragraph A1 provides necessary clarity for auditors of nonprofits and government entities. Additional clarification could be added to paragraph 2(b) to provide more detail on the communication related to fraud. This can be achieved with additional detail in paragraph 2(b) or by including an additional application paragraph describing the nature of the communication and to whom.

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.

We believe that the proposed SAS clearly identifies the key concepts and the relationship with other AU-C sections in paragraphs 4 through 15.

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 did not identify any instances where "fraud," "suspected fraud," or "fraud or suspected fraud" were used inappropriately.

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.

We believe that the proposed SAS adequately explains the relationship between the proposed SAS and AU-C section 250.

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.

We support the AICPA's efforts to make the proposed SAS scalable for a wide range of sizes, complexities, and circumstances. We believe that providing additional application material or developing a practice aid for auditors of small or less complex entities would be beneficial, as small entities may not have the same level of maturity in their internal control systems or whistleblower programs.

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.

We believe that generally the proposed SAS has the appropriate linkages to other AU-C sections. We do believe that in paragraph 14 and related application paragraphs A17 through A19, the standard departs from adding relevant paragraphs in the linking AU-C section in a footnote. While a link to AU-C section 250, *Consideration of Laws and Regulations in an Audit of Financial Statements*, is present, there is no linkage to any specific requirement paragraphs in paragraph 14. We believe that it would be appropriate to reference AU-C section 250 paragraphs .04 through .08, which identify the auditor's responsibilities.

In addition, while we believe the linkages are generally appropriate, we note that whenever the related linked AU-C sections are subsequently revised there may be a need to revise AU-C section 240.

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.

We agree that the proposed SAS appropriately reinforces the auditor's responsibility to maintain professional skepticism about matters relating to fraud in an audit of financial statements.

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.

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.

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 proposed SAS should list the risks of material misstatement due to fraud related to management override of controls as a risk of material misstatement due to fraud at the financial statement level.

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 misstatements due to fraud in fraud in revenue recognition. We believe that the government-specific application guidance is useful to auditors of government entities as well.

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 is appropriately establishing proper work effort requirements and application material to address circumstances when instances of fraud or suspected fraud are identified in the audit.

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.

While we believe that the Auditing Standards Board should be careful in adding stand-back provisions to standards, we believe that the stand-back provision included in the proposed SAS is appropriate and in the correct place. We believe that in the case of the consideration of fraud, it is important to evaluate toward the end of the engagement whether the assessments of the risks of material misstatement due to fraud remain appropriate and that sufficient appropriate audit evidence has been obtained in response.

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 believe 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 and believe that it can be beneficial to have the auditor communicate with those charged with governance identified fraud or suspected fraud involving others, except for matters that are clearly inconsequential. This allows those charged with governance to understand what is being seen and occurring in the audited organization.

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

We believe that the additional and revised documentation requirements in the proposed SAS are appropriate. We believe that the proposed documentation revisions will be helpful to peer reviewers in understanding the decisions of the auditor.

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

We believe that the changes and relocation of requirements related to making required inquiries about matters related to fraud are appropriate.

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.

We did not identify any other matters, not covered above, that we want to raise in relation to the proposed SAS.