



ILLINOIS CPA SOCIETY

October 3, 2025

AICPA Auditing Standards Board
commentletters@aicpa-cima.com

RE: Proposed Statement on Auditing Standards - *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

Dear Committee Members:

The Audit and Assurance Services Committee of the Illinois CPA Society (the "Committee" or "we") is pleased to comment on the Auditing Standards Board's (ASB's) proposed Statement on Auditing Standards ("SAS") *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements* dated July 2, 2025. The organizational and operating procedures of the Committee are reflected in the attached Appendix A to this letter. These comments and recommendations represent the position of the Audit & Assurance Services Committee of the Illinois CPA Society rather than any members of the Committee, the organizations with which such members are associated, or the ICPAS Board.

The Committee represents a diverse group of auditors with respect to firm demographic and role, including members of academia and the consulting profession. As such, we feel that we bring a unique perspective to respond to this proposal and appreciate your consideration of our thoughts herein.

Overall

In general, the committee supports the proposed standard and appreciates the detailed application guidance and appendices that incorporate many practical examples to assist auditors in implementation and future application of the requirements. Further, particularly considering certain differences between the extant SAS and the International Standards on Auditing (ISA) regarding key audit matters (KAMs), the Committee agrees with the comments in the Auditor's Report section of the Explanatory Memorandum and those found in Fraud Supplement No. 1 regarding potential changes to the auditor's report. These comments indicate that ASB may consider any changes to the auditor's report in a separate project that would more comprehensively consider the impact of other potential standards changes.

The Committee's chief concerns relate to: (1) applying the concept of "clearly inconsequential"; (2) the engagement partner's role in determining the sufficiency of resources dependent on engagement complexity; (3) scalability across entities subject to audit; and (4) the extent of certain procedures to be performed in response to fraud risks. These are discussed in relation to the specific questions posed in the exposure draft. The Committee offers the following comments in response to the issues and specific questions the ASB posed.

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.**



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Yes, the Committee believes issuing a final standard no later than October 1, 2026 will provide firms and practitioners sufficient time to implement a final standard effective for periods ending on or after December 15, 2028.

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, overall, the Committee agrees the proposed standard clearly sets out the auditor's responsibilities related to fraud in an audit of the financial statements. However, in reading through the Explanatory Memorandum, the Committee had the following recommendation.

- Application guidance should address all five key takeaways discussed from the ASB's 2022 research synthesis project. Specifically, the third takeaway (page 8 of 175) titled "Fraud Risk Assessment" posed a concern related to the potential counterproductive work associated with preliminary analytical procedures. The Disposition column addresses this concept via the ideas of professional judgment and possible "nonauthoritative guidance" rather than in the application material itself (as with the other four takeaways). The Committee believes additional application guidance addressing professional judgment associated with the risk of ineffective or counterproductive risk assessment analyses may be helpful.

Key Concepts and Relationship With Other AU-C Sections

- 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.**

Yes, the Committee agrees the proposed standard appropriately uses the terms "fraud" and/or "suspected fraud" throughout and the definition utilized is consistent with the meaning of fraud.

Additionally, the Committee agrees with the concept in paragraph 6 of the proposed standard that auditors are not in the position to determine whether an act, unless adjudicated, should be considered fraud in a legal sense. Instead, the auditor's focus is on identifying material misstatement due to fraud as the term "fraud" is defined in the proposed SAS.

We appreciate that this is clear in the guidance and that it accurately and appropriately sets forth the expectations and requirements of the auditor with respect to their responsibilities surrounding fraud.



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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.**

In terms of scalability, the Committee's concerns relate to the ability for smaller firms to either a) substantiate that a specialist is likely not necessary or b) identify and leverage specialists should the need arise. While these paragraphs discuss leveraging those with specialized knowledge or skills within the context of overall entity or engagement complexity and circumstances (i.e., situationally), there may be a significant gap in professional judgments in relation to situational complexity and the need to seek out such skills. This determination also may not take place until after client engagement and during the audit, at which point such a conclusion as to the need for additional resources or the ability to identify/engage them may be challenging. Therefore, examples in the application guidance of the proposed standard would be helpful to address more clearly under which circumstances auditors may require assistance or how a practitioner's documentation could best substantiate the absence of the need for a specialist (i.e., support a lack of complexity). For example, proposed SAS paragraph 23 indicates that the engagement partner *should* ensure the engagement team has appropriate skills or knowledge to identify and assess risks of material misstatement due to fraud, etc. The application material referenced, specifically paragraph A42, indicates the engagement partner "may" involve such specialists when the partner determines it necessary. Given commentary in the exposure draft materials regarding the impact of certain specialists on the risk assessment process, we are concerned that the application material may imply that lack of specialist involvement may be viewed unfavorably. Therefore, we ask the ASB to consider clarifying that while a specialist may add value in certain circumstances, it should not be inferred that one need to have a specialist.

Finally, the Committee has a scalability request related to paragraph A120. The paragraph discusses a situation more common in smaller, less complex entities – the potential for extreme domination of controls by an individual. Expansion of this paragraph with example(s) of this condition's impact on fraud risk paired with examples of additional procedures may be helpful.

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.**

In general, the Committee agrees with the linkages to other sections, and we appreciate the information provided in the supplements, which aided in interpreting the proposed standard. That being said, the Committee would appreciate further consideration of the following.



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- In relation to paragraph A39, the Committee considered the following.
 - For documents that may not be authentic, paragraph A39 of the proposed SAS suggests additional audit procedures that include “[u]sing the work of a specialist to evaluate the document’s authenticity” and “[u]sing automated tools and techniques, such as document authenticity or integrity technology, to evaluate the authenticity of the record or document.” This is premised on an auditor identifying potentially unauthentic documents. Further guidance on the expectations for auditors to initially identify potentially altered documents would be appreciated, especially for electronic audit evidence such as digital signatures, which are becoming more prevalent in the current technological and business environment. Examples of what characteristics may exist for unauthentic documents, as well as when such specialists and tools and techniques would be expected to be used along with how this interacts with identifying and responding to fraud risks would be helpful in this digital and evolving environment.
 - Additionally, the Committee is unsure of the authentication expectations for audit evidence gathered via remote observation tools (e.g., video conferencing, drones, etc.). For example, assigning audit personnel who are experienced for the location at which remote observation is being used. The Committee notes the link to AU-C 500 and requests further guidance within the standard. For example, clear expectations as to what validation procedures are expected to be applied for audit evidence gathered via remote observation tools would be beneficial here as opposed to linkage to another standard.

Further, we appreciate the link to updates made to AU-C 200 by SAS 142. We provide additional comments in our response to #8.

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, the Committee agrees with the emphasis on maintaining professional skepticism throughout the audit. We appreciate that it conveys an ongoing mindset to be applied throughout the audit as opposed to the implication that exercising professional skepticism is a distinct task that, once completed, is done. As auditors are required to consider susceptibility of their judgments throughout the audit to potential cognitive biases, an appropriate response throughout the audit is to maintain professional skepticism and apply an objective, unbiased approach. The Committee notes that the updates to AU-C 200 per SAS 142 also support the focus on maintaining professional skepticism.

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**



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identification and assessment as it relates to fraud? Respondents are asked to state their reasons.

Paragraph 33(a)(i) in the proposed SAS expands the auditor's requirements related to fraud to include, "how management's oversight responsibilities are carried out, such as the entity's culture and management's commitment to integrity and ethical values, including how management communicates to its employees its views on business practices and ethical behavior with respect to the prevention and detection of fraud." In relation to this reference, the Committee seeks clarity as to whether the expectations related to AU-C 240 are in excess or include additional expectations outside of what may otherwise be done as part of entity level risk assessment in AU-C 315. For example, the Committee questions whether there is an expectation for auditors to review less formal forms of communication between management and employees such as e-mails and instant messages from management to employees. If so, we feel that this may extend past the scope of an auditor's overall role in the audit of financial statements. More clarification on the interplay between the two standards and any additional expectations would be appreciated.

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.

Yes, we agree that the requirement for the auditor to treat the risk of material misstatement due to fraud related to management override of controls at the financial statement level and that should carry down to assertion-level assessments.

However, we suggest that the language in paragraph 41b be revised to replace the word "determine" with the word "consider" as we question whether "determine" implies the need for additional documentation of a sub-conclusion related to management override for each assertion. We believe that in practice the connection between RMM and fraud risk (associated with management override) is already considered when applying AU-C 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.

While we agree that there is a presumption that there are risks of material misstatement due to fraud in revenue recognition, we are concerned that the updated language may remove some of the room for auditor judgment regarding the presumed fraud risk in revenue recognition and do not fully understand the rationale for such a change in language. Extant paragraph A35 indicates that, "The presumption that risks of fraud exist in revenue recognition may be rebutted." The proposed standard A132 indicates that, "The significance of fraud risk factors (see paragraphs A118–A120) related to revenue recognition, individually or in combination, ordinarily makes it inappropriate



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for the auditor to rebut the presumption that there are risks of material misstatement due to fraud in revenue recognition.” and A133 further states that “There may be limited circumstances in which it may be appropriate to rebut the presumption that there are risks of material misstatement due to fraud in revenue recognition.” We request clarification regarding the nature of “limited circumstances” as the proposed language may unnecessarily limit an engagement team’s ability to rebut the presumption.

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.

The Committee believes the standard is clear as to overall procedures and those at the assertion level, which could lead to identification of fraud or suspected fraud, and that these are largely in alignment with what is done in practice. Specifically, Paragraph 47 (supported by application paragraphs A136-147) refers back to AU-C section 330, regarding procedures responsive to fraud risk.

With regards to how auditors should address circumstances when audit procedures uncover fraud or suspected fraud, we agree with paragraph 55 related to obtaining an understanding of the situation. However, we recommend additional guidance related to determining whether fraud or suspected fraud is clearly inconsequential (as noted in paragraph 56) through potential questions to consider or a visual decision tree (e.g., a flowchart).

The overarching concern of the Committee is that, even with management taking responsibility, the auditor must still investigate fraud or suspected fraud that may be deemed immaterial under the extant standards but may now be considered consequential under the proposed standard. The relationship between consequential and material and inconsequential and immaterial should be further explained in the proposed SAS.

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 with the inclusion of the stand-back provision as included in paragraph 59 of the proposed SAS. However, we suggest placement of the provision after the current paragraph 54 of the proposed SAS as the provision relates to consideration of audit procedures performed and the assessed risks of material misstatement due to fraud, while the current paragraphs 55 and 56 of the proposed SAS relate to the identification of fraud or suspected fraud.



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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.**

Overall, the Committee agrees with the requirements for the auditor to communicate fraud or suspected fraud with those charged with governance to allow them to fulfill their oversight responsibilities.

- 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.**

The Committee agrees regarding it being appropriate for the auditor to communicate with those charged with governance on identified fraud or suspected fraud that is considered more than inconsequential. However, the Committee is concerned with the following.

- The phrasing found in paragraph A198—“except for matters that are clearly inconsequential”—does not offer a clear definition or items to consider when reaching that conclusion. It is unclear whether the ASB intended for “clearly inconsequential” to be analogous with “clearly trivial” or other related terms. Further, we believe qualitative and quantitative considerations impact this determination, which is not clear in the current draft proposed standard.

This lack of a clear definition may create inconsistencies in audits of financial statements as auditors may reach different conclusions regarding how consequential an identified instance of fraud or suspected fraud may be to a particular entity, whether due to quantitative or qualitative factors. See our suggestion in response to Question #12 regarding the application of “clearly inconsequential.”

- Paragraph A198 of the proposed SAS also states, “[t]he auditor may reach agreement in advance with those charged with governance on the nature of matters that would be considered clearly inconsequential and, thus, need not be communicated.” This wording creates concern over the potential for bias being introduced by those charged with governance in the audit process. Auditors should look to maintain professional skepticism related to fraud or suspected fraud, regardless of conversations with those charged with governance, and thus we suggest that this provision be removed to avoid confusion and unintended consequences.



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Inquiries

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

While the Committee generally agrees with the required and/or suggested inquiries about matters related to fraud, our primary concern is with the potential scalability for smaller, less-complex entities that will be audited.

- To obtain an understanding of the fraud or suspected fraud, paragraph A176 of the proposed SAS states an auditor may do one or more of the following: (1) “[i]nspect the entity’s whistleblower program files;” (2) “[m]ake further inquiries of: the entity’s in-house counsel or external legal counsel” or “individuals within the internal audit function (if the function exists);” and (3) “[i]nvolve an auditor’s specialist, such as an individual with forensic skills.”

These suggestions may not be feasible for smaller, less-complex entities without whistleblower programs or other resources available to perform suggested procedures. In the absence of these resources, there is question as to whether any alternate procedures or communications would be necessary in addition to what is already performed under current standard, and if yes, what those suggested procedures might be.



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APPENDIX A

AUDIT AND ASSURANCE SERVICES COMMITTEE
ORGANIZATION AND OPERATING PROCEDURES
2025 – 2026

The Audit and Assurance Services Committee of the Illinois CPA Society (Committee) is composed of the following technically qualified, experienced members. The Committee seeks representation from members within industry, education, and public practice. The Committee is an appointed senior technical committee of the Society and has been delegated the authority to issue written positions representing the Society on matters regarding the setting of audit and attestation standards. The Committee's comments reflect solely the views of the Committee, and do not purport to represent the views of their business affiliations.

The Committee usually operates by assigning Subcommittees of its members to study and discuss fully exposure documents proposing additions to or revisions of audit and attestation standards. The Subcommittee develops a proposed response that is considered, discussed and voted on by the full Committee. Support by the full Committee then results in the issuance of a formal response, which at times includes a minority viewpoint. Current members of the Committee and their business affiliations are as follows:

Public Accounting Firms:

National:

Phillip Austin, CPA	EisnerAmper, LLP
Cody Bowman, CPA	CBIZ CPAs P.C.
Scott Cosentine, CPA	Ashland Partners & Company LLP
Timothy Delany, CPA	RSM US LLP
Erik De Vries, CPA	CohnReznick
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Jodi Seelye, CPA	PKF Mueller, LLP
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