



Frequently Asked Questions

The revised Canadian Auditing Standard (CAS) 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

Revisions to CAS 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, were prompted by recent corporate failures. They aim to clarify auditor responsibilities in relation to fraud, enhance public trust, and ensure confidence in the audit profession and the broader financial reporting system.

To support implementation of these changes, CPA Ontario has published this FAQ, which addresses common questions about the revised standard.

What are some of the key changes to the revised CAS 240 standard?

Some key changes related to the revised CAS 240 include:

- A dedicated section outlining required procedures when fraud or suspected fraud is identified.
- A stand-back requirement is introduced to pause and reassess audit approach before wrapping up.
- Auditors must now explicitly consider how fraud could occur.
- Standard warns against relying on past trust in management and those charged with governance (TCWG).
- Fraud-related procedures may now be described in more detail in the auditor's report.

How does the revised CAS 240 reinforce the importance of professional skepticism in addressing fraud risk throughout the audit?

The revised standard reinforces the importance of professional skepticism in addressing fraud risk throughout the audit by:

- Adding a new requirement for the auditor to remain alert for additional fraud risk factors.
- Removing references to past experiences of the auditor relating to honesty and integrity of management and TCWG.
- Encouraging auditors to approach each engagement with a "fresh pair of eyes".
- Adding a stand-back requirement to pause near audit end to reassess evidence and responses to risks.

What are the most significant revisions to the requirements that apply when the auditor identifies fraud or suspected fraud during an audit?

The revised CAS 240 introduces several significant revisions to strengthen auditor's responsibilities when fraud or suspected fraud is identified during an audit:

- Explicit requirement for the auditor to obtain an understanding of the fraud or suspected fraud identified.
- Requirement to assess management's response; recognizing that lack of appropriate action may indicate internal control deficiency.
- Requirement for the engagement partner to consider the impact of the identified or suspected fraud on audit strategy and procedures.
- Provision allowing judgment in handling clearly inconsequential fraud matters.

How did the revised CAS 240 enhance transparency in the auditor's report?

The revised CAS 240 enhanced transparency on fraud-related procedures, including strengthening communications with TCWG and the reporting requirements in CAS 240 and other relevant CASs, by:

- Enhancing the description of the auditor's responsibilities in the auditor's report related to fraud.
- Emphasizing the importance of communicating key audit matters (KAMs) related to fraud.

How did the revised CAS 240 emphasize the importance of communicating KAMs related to fraud?

The revised CAS 240 emphasizes the importance of communicating KAMs related to fraud by requiring auditors to apply a fraud lens to the "filtering mechanism" in CAS 701. This ensures that fraud considerations are explicitly evaluated when determining which matters are reported as KAMs.

What fraud specific considerations are addressed by the fraud lens?

The "fraud lens" guides auditors to apply fraud focused judgment in determining KAMs by:

- Identifying matters requiring significant auditor attention in performing the audit.
- Determining which of those matters were of most significance to the audit and are therefore identified as KAMs.

What does the revised CAS 240 require auditors to communicate to TCWG about fraud?

Auditors must share information with TCWG on:

- Fraud risks identified during the audit.
- Suspected or actual fraud involving management, employees or third parties.
- Deficiencies in internal control that may have allowed fraud to occur.
- The planned audit approach and how fraud considerations affect it.

These communications are important for TCWG to understand the auditor's fraud risk assessment, monitor management's response to identified or suspected fraud, strengthen oversight of internal controls and ensure transparency in how fraud risks influence the audit strategy.

The revised CAS 240 places greater emphasis on TCWG's role in fraud oversight, encouraging earlier and more robust discussions about fraud risks and disclosures, especially for listed entities.

What is the expectation under the revised CAS 240 in terms of involving forensics specialists?

The revised CAS 240 does not mandate the use of forensic specialists in every audit. Instead, it requires auditors to exercise professional judgment in deciding whether specialist involvement is necessary, based on the nature and circumstances of the engagement.

Is the revised standard scalable for audits of less complex entities (LCEs)?

Yes. The revised CAS 240 is designed to be scalable and includes application material and examples that discuss proportionate application to LCEs.

When is the revised CAS 240 effective?

The revised CAS 240 is effective for periods beginning on or after December 15, 2026.