



Standards in Focus

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

October 2025

Why has the Standard Changed?

Recent corporate failures have intensified public scrutiny, underscoring the need to clarify the auditor's responsibilities relating to fraud. This clarity is imperative for fostering public trust and reinforcing confidence in the audit profession.

International Standard on Auditing (ISA) 240 (Revised), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, clarifies the auditor's responsibilities, promotes greater consistency in audit procedures, and improves transparency and communication.

As part of Canada's adoption of the ISAs as CASs, the Auditing and Assurance Standards Board (AASB) has issued the revised CAS 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*. This revised CAS 240 has no new Canadian amendments other than retaining an existing amendment in the extant standard relating to relevant ethical requirements in Canada.



Refer to Revised CAS 240, [*The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*](#).

What do CPAs Need to Know?

Under the revised CAS 240, auditors shall apply a continuous "fraud lens" when identifying and assessing risks and exercise heightened professional skepticism at all stages of the audit. Auditors will also strengthen risk response procedures when risks of material misstatements (ROMMs) due to fraud or suspected fraud are identified. Documentation requirements are enhanced for fraud risk assessments, related judgments and procedures performed.

Additionally, the standard enhances transparency by encouraging clearer disclosures in the auditor's report and improving communication with management and those charged with governance (TCWG) throughout the audit.

The revised standard also highlights how auditors can leverage technology for fraud related procedures and provides application material and examples to support scalable and proportionate application for audits of smaller or less complex entities (LCEs).

The revised CAS 240 aims to:



PROMOTE

Promote consistent behaviour and facilitate effective responses to identified ROMMs due to fraud.



CLARIFY

Clarify the role and responsibilities of the auditor for fraud in an audit of financial statements.



REINFORCE

Reinforce the importance, throughout the audit, of exercising appropriate professional skepticism in fraud-related procedures.



ENHANCE

Enhance transparency with respect to fraud-related procedures, including strengthening documentation requirements, communication with management and TCWG, and reporting on financial statements.

For additional information, refer to:

Appendix A

Addressing Key Challenge Areas for
Audits of LCEs from Extant CAS 240

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Who is Impacted?

All stakeholders within the financial reporting eco-system are impacted. CAS 240 applies to audits of the financial statements of all entities, regardless of their size, type or complexity. For audits of financial statements of listed entities, the standard includes enhanced fraud reporting requirements.



For further information refer to IAASB's [Fact Sheet¹](#) and publication titled [How the IAASB's Revised Going Concern and Fraud Standards Reinforce Professional Skepticism²](#).

When is revised CAS 240 effective?

CAS 240 is effective for audits of financial statements for **periods beginning on or after December 15, 2026.**

What are the key changes?

The key changes in the revised CAS 240 include:

1. Clarification of Auditor Responsibilities

The revised standard clarifies the auditor's responsibilities relating to fraud in an audit of financial statements. This is achieved by:

- Moving the description of the auditor's responsibilities relating to fraud to the **beginning** of the standard, placing it **before** the description of the responsibilities of management and TCWG, making it more prominent. This does not alter the existing balance of responsibilities among the auditor, management and TCWG.
- Separating the description of the auditor's responsibilities from the inherent limitations of an audit to further emphasize these two distinct concepts.
- Clarifying that the existence of inherent limitations of an audit does not diminish the auditor's responsibility to plan and perform the audit to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement due to fraud.

¹ Published by IFAC in July 2025.

² Published by IFAC in July 2025.

2. Reinforcement of Exercising Professional Skepticism

The revised standard enhances auditor requirements and application material to reinforce the importance of exercising professional skepticism in fraud-related audit procedures. This includes:

- A new requirement for the auditor to remain alert throughout the audit to information that may indicate the presence of fraud risk factors or circumstances indicative of fraud or suspected fraud.
 - A new requirement for the auditor to design and perform audit procedures in response to the assessed ROMMs due to fraud in a manner that is not biased towards obtaining audit evidence that may corroborate management's assertions or towards excluding audit evidence that may contradict such assertions.
 - Removed the reference to "notwithstanding the auditor's past experience of honesty and integrity of the entity's management and those charged with governance" to emphasize that the exercise of professional skepticism requires the auditor to approach each audit with a "fresh pair of eyes".
 - Introduced a new "stand-back" requirement where the auditor shall evaluate, based on the audit procedures performed and audit evidence obtained, whether the assessments of the ROMMs due to fraud remain appropriate and whether sufficient appropriate audit evidence has been obtained in response to the assessed ROMMs.
- **Fraud risk factors** – Additional application guidance clarifying that the presence of fraud risk factors may affect the auditor's assessment of inherent risk or control risk.
 - **Management override of controls** – Clarifies that management override of controls is a risk of material misstatement due to fraud that resides at the financial statement level and thus a significant risk due to the unpredictable way in which it could occur. Therefore, the auditor must determine whether such risk affects the assessment of risks at the assertion level.
 - **Presumption of fraud risk in revenue recognition** – There is a shift of focus from the auditor developing a rebuttal of the presumption of the ROMM due to fraud in revenue recognition to emphasizing the importance of performing robust risk identification and assessment procedures. Note that the revised standard:
 - Clarifies that when identifying and assessing the ROMMs due to fraud the auditor shall, based on a presumption that there is a ROMM due to fraud in revenue recognition, determine which types of revenue, revenue transactions or relevant assertions give rise to such risks, considering related fraud risk factors.
 - Clarifies that it is "ordinarily inappropriate" to rebut the presumption that there is a ROMM due to fraud in revenue recognition.

3. Robust Risk Identification and Assessment

The revised standard requires a focused "fraud lens" when identifying and addressing ROMMs due to fraud.

The standard requirements now better align with the relevant provisions of CAS 315, *Identifying and Assessing the Risks of Material Misstatement* and are applied through a fraud-focused lens. Accordingly, the revised standard added the following new and enhanced requirements to be considered in addition to the changes made to obtaining an understanding of the entity and its environment:

- **Whistleblower program** – New requirement for the auditor to obtain an understanding of the entity's whistleblower program (i.e. any program for reporting fraud) and how management and/or TCWG address allegations of fraud made through the program.

- **Unpredictability procedures** – Highlights that the extent to which the auditor chooses to incorporate an element of unpredictability in the selection of the nature, timing and extent of audit procedures is a matter of professional judgment. CAS 240 Appendix 2 provides examples of possible audit procedures to address the assessed risk of material misstatement due to fraud that incorporate an element of unpredictability.
- **Testing of journal entries** – Highlights that the auditor’s understanding of the entity and its environment, the applicable financial reporting framework and the entity’s system of internal control under the revised CAS 315 helps with selecting journal entries and other adjustments for testing that are specifically focused on ROMMs due to fraud. CAS 240 Appendix 4 includes considerations that may inform the auditor when selecting journal entries and other adjustments for testing.
- **Completeness of population of journal entries** – Added requirement for the auditor to obtain audit evidence about the completeness of the population of journal entries and other adjustments made in the preparation of the financial statements throughout the period.
- **Accounting estimates** – Enhanced requirement for the auditor to review accounting estimates for “indicators of possible management bias” by adding a requirement for the auditor to consider audit evidence obtained from the retrospective review performed.
 - Additional application material added addressing indicators of possible management bias, including relevant linkages to CAS 540, *Auditing Accounting Estimates and Related Disclosures* (CAS 240.50-.51).

4. Enhanced Response to Identified Fraud or Suspected Fraud

Upon identifying fraud or suspected fraud, the auditor shall obtain an understanding of the matters to evaluate the impact on the audit engagement. To enhance the scalability and proportionality of the requirements related to fraud or suspected fraud, a threshold has been introduced that allows the auditor to exclude from further consideration instances of fraud or suspected fraud that are clearly inconsequential, provided the auditor has first obtained a sufficient understanding of the matters (CAS 240.55-.58).

The revised standard also clarifies that the engagement partner is responsible, with input from the engagement team, to evaluate the impact of identified fraud or suspected fraud on the audit approach, including whether to perform additional risk assessment procedures and/or design, and perform further audit procedures.

5. Strengthened Communications with Management and TCWG

The revised standard strengthens the importance of timely, two-way communication between the auditor and management and TCWG at appropriate times throughout the audit including discussing matters related to the identification of fraud or suspected fraud and how the entity assesses the risk of fraud.

Even though the revised standard expands the scope of matters to be communicated with management and TCWG, the primary responsibility for the prevention and detection of fraud rests with both management and TCWG. It is important that management with the oversight of TCWG, “place a strong emphasis on fraud prevention, which may reduce opportunities for fraud to take place, and fraud deterrence, which could persuade individuals not to commit fraud because of the likelihood of detection and punishment” (CAS 240.03).

6. Enhanced Documentation

The revised standard added a requirement for the auditor to enhance or expand documentation on:

- Key elements of the auditor's understanding (e.g. the entity and its environment, the applicable financial reporting framework, the entity's system of internal control), the sources of information from which the auditor's understanding was obtained, and the risk assessment procedures performed.
- Fraud or suspected fraud identified, the results of audit procedures performed, the significant professional judgments made and the conclusions reached.

7. Enhanced Transparency

The auditor's report **for all entities** must now provide added clarity about the auditor's responsibilities and procedures related to fraud. This has resulted in the following paragraph in the auditor's report being revised (changes are underlined):

"We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings that we identify during our audit, including any:

- Significant deficiencies in internal control that we identify during our audit;
- Identified fraud or suspected fraud; and

- Other matters related to fraud that are, in our judgment, relevant to the responsibilities of those charged with governance."³

In addition, revisions to CAS 240 drive the auditor to communicate fraud related matters as KAMs **for listed entities**⁴ by considering:

- Matters related to fraud are often matters that require significant auditor attention (CAS 240.A179).
- It may be rare that the auditor of a complete set of general-purpose financial statements of a **listed entity would not determine at least one key audit matter related to fraud** (CAS 240.A180).
- One or more of the matters related to fraud, such as revenue recognition and management override of controls, that required significant auditor attention in performing the audit would ordinarily be of most significance in the audit of the financial statements of the current period and therefore are KAMs.
- The auditor may determine certain ROMMs due to fraud did not require significant auditor attention and, therefore, these risks would not be considered in the auditor's determination of KAMs.

It is important to note that a KAM related to fraud (e.g. matters that require significant auditor attention and are of most significance to the audit) is not an indication of actual fraud, which is "an intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage".

³ See *Illustrations of Independent Auditor's Reports on Financial Statements* in CAS 700 (Illustrations 1-2 and 4), CAS 800 and CAS 805 (Illustrations 1-3) that have been updated to reflect changes made in the revised CAS 240.

⁴ CAS 701 applies to listed entities excluding listed entities required to comply with National Instrument 81-106, *Investment Fund Continuous Disclosure*.

What Can You Do?

01

Read revised CAS 240 and its Basis for Conclusions, which are available for CPAs via **Knotia.ca**.

READ IT

02

Regularly visit CPA Ontario's **Guidance on Compliance Knowledge Hub** to stay current on evolving standards.

CHECK FOR UPDATES

03

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Appendix A

Addressing Key Challenge Areas for Audits of LCEs from Extant CAS 240

Scalability and proportionality considerations for LCEs were a key focus when considering revisions to CAS 240 to address known challenge areas in extant CAS 240 where certain requirements are particularly difficult to apply in audits of LCEs. The following table is based on [Appendix 1, Addressing Key Challenge Areas for Audits of LCEs from Extant CAS 240 Identification and Response to Fraud Risk](#) of the Basis for Conclusions for the revised CAS 240 and it provides further details on how the challenge areas have been considered.

Challenge area	Enhancements to CAS 240
Identification and Response to Fraud Risk	
Although rebuttal of the presumed risk of fraud in revenue recognition was permitted under extant CAS 240, the work effort to support and document the rebuttal is onerous and not well understood.	<p>To support the application of this requirement the revisions focus the auditor's efforts on identifying areas where fraud risk factors may be present in revenue recognition. New application material further supports this identification by highlighting the relevant assertions and related classes of transactions, account balances and disclosures that may be susceptible to risks of material misstatement due to fraud, as well as circumstances where revenue recognition may present a greater risk of fraud.</p> <p>The revised standard clarifies that rebutting the presumption is "ordinarily inappropriate". However, there are enhanced examples tied back to fraud triangle concepts to clarify the limited circumstances in which rebutting the presumption of risks of material misstatement due to fraud in revenue recognition is appropriate.</p>
Incorporation of an Element of Unpredictability	
Under extant CAS 240 determining an effective unpredictable procedure could be challenging when taking a fully substantive audit approach, where many (if not all) transactions and balances are examined at the assertion level.	<p>The revised requirement allows for greater use of professional judgment, including the extent to which unpredictability is applied, as a response to assessed risks of material misstatement due to fraud at the financial statement or assertion level.</p> <p>In addition, the standard expands the list of examples of unpredictable procedures to support the implementation of the requirement.</p>
Journal Entry Testing	
Under extant CAS 240, feedback received suggests the journal entry testing requirement is not well understood when a fully substantive audit approach is taken.	<p>The revisions clarify the requirements and make linkages to CAS 315, <i>Identifying and Assessing the Risks of Material Misstatement</i>.</p> <p>CAS 240 builds on how the auditor's understanding of the entity, its environment, the applicable financial reporting framework and its system of internal control guide the selection of journal entries to test fraud related risk of material misstatements.</p>

Disclaimer

This article is intended for general informational purposes only and may not be applicable to all audit engagements or firm circumstances. It is your responsibility to ensure compliance with **CAS 240, The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements**, as outlined in the Assurance Handbook, based on your specific situation.