

## BASIS FOR CONCLUSIONS

### CANADIAN AUDITING STANDARD (CAS) 240, The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

September 2025

This Basis for Conclusions has been prepared by staff of the Auditing and Assurance Standards Board (AASB). It relates to, but does not form part of, Canadian Auditing Standard [\(CAS\) 240, The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements](#).

#### Purpose of this Basis for Conclusions

This Basis for Conclusions has been prepared to make Canadian interested and affected parties aware of the following:

- (a) A Basis for Conclusions [prepared by International Auditing and Assurance Standards Board \(IAASB\) staff for International Standard on Auditing \(ISA\) 240, The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements](#), and related conforming amendments to other International standards, available on the IAASB website. It provides information on how the IAASB dealt with comments received in response to its Exposure Draft, “*Proposed International Standard on Auditing 240 (Revised), The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*” (ED-ISA 240) issued in 2024.
- (b) Information on how the AASB dealt with significant matters arising from comments received in response to its Exposure Draft, “*Proposed Canadian Auditing Standard 240, The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*” (ED-CAS 240), set out below.

#### Background

In February 2024, the IAASB issued ED-ISA 240. In March 2025, the IAASB approved the final ISA 240 (Revised), and related conforming and consequential amendments to other International standards. In July 2025, the Public Interest Oversight Board certified that the IAASB followed due process.

In March 2024, the AASB issued ED-CAS 240. The Board proposed to adopt, subject to comments received on exposure, ISA 240 (Revised) and related conforming and consequential amendments to other ISAs as:

- [CAS 240, The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements](#), and
- related conforming amendments to other CAs.

To inform its response letter to the IAASB, and to consider whether any Canadian amendments were needed, during the ED-CAS 240 comment period, the AASB sought input on the proposals through:

- a survey;
- several consultation sessions; and
- field-testing with practitioners.

The AASB also received four written comment letters.

At its June 2025 meeting, the AASB discussed the final issues and approved [CAS 240 and the related conforming amendments](#).

#### Significant Matters

##### AASB's Consideration of Amendments to ISA 240 (Revised)

1. The AASB did not propose any Canadian amendments in ED-CAS 240 other than retaining the existing amendment to the footnote to paragraph [CA57 of extant CAS 240. The Board's practice is to replace references to the International Ethics Standards Board for Accountants' \(IESBA\) Code with ethical requirements that are relevant to the audit of the financial statements in Canada. Consequently, the footnote to paragraph A175 \(CA57 in extant CAS 240\), continues to reflect the relevant ethical requirements in Canada](#).
2. No other situations were identified that met the Canadian amendment criteria as stated in [Appendix 1 to the Preface](#) to the CPA Canada Handbook – Assurance in both ED-CAS 240 or the changes made from ED-CAS 240 to the final standard.

#### Scalability and Proportionality

3. Scalability and proportionality considerations for less complex entities (LCEs) was a key focus for the AASB during development and outreach on ED-CAS 240.

4. The AASB understands that there are known challenge areas in extant [CAS 240 where certain requirements are particularly difficult to apply in audits of LCEs. While requirements in these challenge areas still existed in ED-CAS 240, the requirements were revised, and the related application material was clarified or expanded to help address issues raised.](#)
5. The AASB's outreach on ED-CAS 240 aimed to determine whether the challenge areas would persist under the proposed standard. Feedback from outreach, including field-testing on LCE audits, indicated that the revisions improved the clarity and application of the standard in these areas. Many of the additional comments or suggestions raised related to implementation guidance to the standard.
6. During the finalization of [CAS 240, further revisions were made in these challenge areas.](#)
7. Overall, the AASB believes that the revisions to CAS 240 from extant [CAS 240 clarifications address many of the concerns raised by Canadian interested and affected parties. See Appendix 1 for further details on how the challenge areas have been considered in the final standard. Where areas for implementation guidance and support were identified, the AASB has shared the feedback with the IAASB and will continue to support other implementation and application efforts – including its Audits of Less Complex Entities Working Group.](#)

#### **Key Audit Matters (KAMs) Related to Fraud**

8. During the AASB's consultations on ED-CAS 240, revisions to KAMs related to fraud was the topic that garnered the most significant discussions.
9. ED-CAS 240 proposed to increase transparency through additional requirements around communicating KAMs related to fraud in the auditor's report.
10. The following concerns were raised during AASB outreach on ED-CAS 240 and were communicated in the AASB's response letter to ED-ISA 240:
  - A risk of further widening the expectation gap. Specifically related to:
    - the reference to fraud in the KAM section heading and subheading;
    - the requirement to have an explicit negative statement when no KAMs related to fraud are included in the auditor's report; and
    - instances where there is an ongoing investigation of identified fraud or suspect fraud.
  - Challenges with the practical application of the requirements. Concerns expressed included:
    - risk of including original information where the entity has not disclosed the matter in the financial statements;
    - given the topic of fraud, it is possible management may frequently assert that disclosing the fraud-related issue could have adverse consequences for the entity, as it could be misconstrued as an indication of actual fraud; and
    - risk of boilerplate disclosures.
11. The IAASB received support for the need to enhance transparency regarding fraud-related matters in the auditor's report but received mixed views on how to operationalize the approach. Areas of concern globally were similar to those expressed by the AASB. After considering feedback from its interested and affected parties, the IAASB concluded that the requirements to enhance transparency in the auditor's report are appropriately placed in ISA 240. Additionally, the IAASB removed the requirement for a negative statement in the auditor's report when no KAMs related to fraud are identified. The title of the KAM section was also amended by removing the phrase "Including Matters Related to Fraud". However, the subheading requirement was retained, as it provides fraud-specific context to the requirement in paragraph 11 of ISA 701, which differentiates each KAM. The IAASB modified application material and believes the removal of the requirement for a negative statement will help drive auditors to make KAMs related to fraud entity-specific.
12. The AASB believes that, based on the changes outlined above, ISA 240 (Revised) addresses the key concerns raised by Canadian interested and affected parties regarding KAMs related to fraud.

#### **List of Written Response Letters**

The AASB received four written responses. Respondents include:

- MNP LLP
- Provincial Auditor Saskatchewan
- Raymond Chabot Grant Thornton
- Office of the Auditor General – Newfoundland and Labrador

#### **Field-testing**

The ED-CAS 240 was field-tested on seven files, consisting of different types of entities (government corporations, private entities, public companies and not-for-profit organizations) and across different industries. Field testers were asked to comment on the merit and practicality of the proposed changes in ED-CAS 240.

#### **Summary of Participants in Consultations**

AASB staff had 18 engagement opportunities with participants comprising a broad range of interested and affected parties, including:

| Format                    | Large firms | SMPs | Public sector | Regulators | Academics | Provincial institute | Financial statement users and preparers | Other | Total |
|---------------------------|-------------|------|---------------|------------|-----------|----------------------|---|-------|-------|
| Consultation participants | 22          | 18   | 3             | 16         | 6         | 23                   | 3                                       | 13    | 104   |

**Appendix 1: Addressing Key Challenges Areas for Audits of LCEs from Extant CAS 240  
Identification and Response to Fraud Risk**

| Challenge area  | Enhancements to CAS 240   |
|---|---|
| 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**

| Challenge area   | Enhancements to CAS 240   |
|--|---|
| 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. | 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. In addition, the standard expands the list of examples of unpredictable procedures to support the implementation of the requirement. |

**Journal Entry Testing**

| Challenge area  | Enhancements to CAS 240  |
|---|--|
| Under extant CAS 240, feedback received suggests the journal entry testing requirement is not well understood when a fully substantive audit approach is taken. | The revisions clarify the requirements and make linkages to CAS 315, <i>Identifying and Assessing the Risks of Material Misstatement</i> . 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, to inform the selection of journal entries for testing that specifically focus on the risks of material misstatement due to fraud. |

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