AASB
Auditing and Assurance Standards Board

Audit Insights: Testing Journal Entries in Audits of Less Complex Entities (Part 2)

September 2026

This Auditing and Assurance Standards Board (AASB) staff publication is part of a series of non-authoritative guidance developed for auditors in smaller practices who perform audits of less complex entities (LCEs). It is intended to assist in applying certain requirements in Canadian Auditing Standards (CASs) to audits of non-listed entities, including smaller owner-managed entities and smaller not-for-profit organizations. These types of entities may require a financial statement audit for statutory or other purposes, such as meeting loan covenants, obtaining government funding, raising private capital or responding to third-party audit requests.

Introduction

This publication focuses on obtaining audit evidence about the completeness of the population of journal entries and other adjustments made throughout the period. It builds on Part 1, which explains why journal entry testing is needed.

In practice, auditors of LCEs often ask how they can be sure they have identified the entire population of journal entries for testing, particularly when clients use different types of accounting systems or tools. The publication covers:

- why obtaining evidence about the completeness of the population of journal entries is important; and
- how to identify the complete population of journal entries when a client uses off-the-shelf accounting software or Excel or similar spreadsheets.

For this publication, "journal entries" includes journal entries and other adjustments.

Disclaimer: This Audit Insight is non-authoritative and supplements, but does not replace, detailed knowledge of the CASs. A practitioner may use this publication to help understand certain requirements in the CASs when planning and performing an audit.

This AASB staff publication was written with input from the Audits of Less Complex Entities Working Group. The Working Group acts in an advisory capacity to the AASB and assists in addressing matters related to audits of LCEs, focusing on supporting practitioners in small and medium-sized practices and sole practitioners.

Flowchart of journal entry testing

This flowchart depicts how journal entry testing is designed and performed in an audit engagement. This publication focuses on the red-shaded requirement in the bottom row.

Perform risk assessment procedures and identify fraud risks

Perform risk assessment procedures related to journal entries (CAS 240.35/CAS 315.25, CAS 240.36/CAS 315.26(a)(ii), CAS 315.26(d))

Identify journal entries that are susceptible to unauthorized or inappropriate **intervention or manipulation** (CAS 240.A99)

Identify fraud risk factors (CAS 240.38)

Identify and assess risks of material misstatement due to fraud. Determine if it exists at the financial statement level or assertion level (CAS 240.29/CAS 315.28)

Always treat the risk of management override of controls as a fraud risk at the financial statement level (CAS 240.40(a)). Also, determine whether this risk affects the assessment of risks at the assertion level (CAS 240.40(b)).

Journal entry testing is an overall audit response to the risk of management override of controls (CAS 240.47).

Test the appropriateness of journal entries recorded in the general ledger made in preparation of the financial statements (CAS 240.48)

Make inquiries (CAS 240.49(a))

Obtain evidence about the completeness of the population (CAS 240.49(b))

Select journal entries at period end (CAS 240.49(c))

Determine the need to test throughout the period (CAS 240.49(d))

Test that selected entries are authorized and approved and supporting documentation is appropriate

Why is it important to obtain evidence that the population of journal entries is complete?

When designing procedures to test journal entries recorded in the general ledger that make up the financial statements, CAS 240 requires the auditor to obtain evidence about the **completeness of the population of journal entries made throughout the period**.[1] This is because journal entry testing can be effective only if it is performed on a population that includes *all* journal entries that could be subject to unauthorized or inappropriate intervention or manipulation by management.

If the auditor doesn't get sufficient appropriate evidence that the population is complete, there is a risk that certain journal entries – particularly those susceptible to the fraud risk of management override of controls – are excluded from the underlying population subjected to testing. As a result, the journal entry testing may **not effectively respond to the fraud risk of management override of controls**, even if the procedures themselves are well designed.

Accordingly, before performing journal entry testing, the auditor needs to understand how the entity's accounting system records transactions and determine what constitutes the complete set of journal entries for the entire period, regardless of whether they are automatically recorded by the accounting system or manually recorded directly to amounts in the financial statements.

[1] CAS 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, paragraph 49(b)

The auditor's approach to identifying the complete population of journal entries will depend on how the entity maintains its accounting records. Let's explore two different scenarios auditors may face at LCEs:

- the use of off-the-shelf accounting systems; and
- the use of Excel or similar spreadsheets.

The auditor's use of automated tools and techniques

The auditor may use automated tools and techniques to perform audit procedures related to journal entry testing in a more efficient and effective manner (CAS 240, paragraph A9).

For example, the auditor may use data analytics to:

- obtain evidence about the completeness of the population; and
- find and extract journal entries in the population that exhibit characteristics of fraudulent journal entries.

How do I identify the complete population of journal entries when the entity uses off-the-shelf software?

Some LCEs use off-the-shelf software, such as Sage, Xero or QuickBooks.[2] In these cases, a detailed general ledger that includes all the recorded journal entries can typically be extracted directly from the accounting system.

If the auditor extracts the listing directly from the accounting system, they can confirm that the LCE has applied appropriate report parameters (e.g., date range or account numbers). The auditor may be able to rely on the completeness of the listing if the client cannot modify system-generated report settings within the off-the-shelf system. If this cannot be confirmed, or if there is a risk that entries could be excluded, additional procedures are needed to assess completeness.

If the entity provides the journal entry listing as an extract to an Excel file, the auditor will need to assess if the extract is complete by doing what are sometimes referred to as "roll-forward procedures". For example, the auditor might:

- reconcile all the opening trial balance accounts to the previous period's ending balances; and
- reconcile all the closing trial balance accounts to the journal entries included in the extract by agreeing the total of debits and credits per the journal entry extract to the corresponding totals per general ledger or trial balance for the period.

If journal entries are numbered sequentially, the auditor may also request a listing of all journal entries and analyze the sequence for exceptions (e.g., missing or duplicated numbers), which may indicate that entries have been omitted from the population.

How do I identify the complete population of journal entries when the entity uses Excel or similar spreadsheets?

Some LCEs maintain their accounting records using Excel or similar spreadsheet programs rather than a structured accounting system. The nature and extent of procedures required to address completeness will depend on how the spreadsheet is designed and used.

The entity may use a sophisticated Excel model in which all journal entries flow through to a trial balance and draft financial statements. In this case, the auditor would focus on testing the mathematical accuracy and integrity of the formulas to obtain evidence that the population of journal entries is complete.

Alternatively, the entity may have a more rudimentary spreadsheet consisting of a simple listing of debits and credits to a basic chart of accounts. In this case, there is a greater risk that journal entries could be omitted. The auditor may need to perform additional procedures to obtain evidence of completeness, such as roll-forward procedures similar to those performed when an Excel extract is provided from an off-the-shelf accounting system.

2 Note that references to these companies are not meant to be endorsements of their products.

Conclusion

Note that there is not one right way to obtain evidence about the completeness of the population of journal entries. Understanding the entity, how they process journal entries and how a journal entry listing can be generated are the first steps.

What are your thoughts? Do you have any other questions on journal entry testing? Let us know by submitting an issue.

Read our next Audit Insights on journal entry testing, which will discuss how to effectively perform journal entry testing.

Additional Resources

For further information, the following resources may be helpful:

- Audit Insights: Testing Journal Entries in Audits of Less Complex Entities (Part 1)
- Audit Insights: Testing Journal Entries in Audits of Less Complex Entities (Part 3)
- IAASB Non-authoritative Guidance: The Fraud Lens – Interactions between ISA 240 and Other ISAs (May 2022)

Questions?

Have a question or comment?

Contact us: **info@aasbcanada.ca**