



A Study of Audit Procedures

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ABSTRACT :

This paper examines how audit procedures and financial statement analysis are applied in the day-to-day practice of a small Chartered Accountancy (CA) firm in Pune, India. It is based on a 30-day on-the-job training placement (3 August to 3 September 2026) during which the researcher took part, under supervision, in company and stock audit assistance, accounting data entry, bank reconciliation and the preparation of draft financial statements. A descriptive, observation-based design was used, with primary evidence drawn from participation in live client engagements and secondary evidence from the Standards on Auditing, the Companies Act, 2013 and standard auditing and financial management texts. Client details and figures were anonymised or generalised for confidentiality. The observations indicate that the firm's procedures follow the planning, evidence-gathering and reporting logic of the ICAI framework, scaled to the informality of small-enterprise clients, and that most discrepancies encountered were timing-related or documentary rather than indicative of deliberate misstatement. The paper recommends standardised reconciliation and vouching checklists and a phased adoption of cloud-based accounting and audit tools. Because the evidence comes from a single firm over a short period, and the figures presented are illustrative, the findings are exploratory and not generalisable.

Keywords: Audit procedures; Financial statement analysis; Bank reconciliation; Stock audit; Chartered Accountancy firm; Small and medium enterprises

Introduction

1.1. Background and context

Auditing is the independent examination of an entity's financial information with a view to expressing an opinion on it (Tandon et al., 2018). In India, a statutory audit under the Companies Act, 2013 is carried out in accordance with the Standards on Auditing (SAs) issued by the Institute of Chartered Accountants of India (ICAI) (ICAI, 2024b; Ministry of Corporate Affairs, 2013). Financial statement analysis complements the audit by interpreting the Balance Sheet, the Statement of Profit and Loss and cash flow information through ratio, comparative, common-size and trend analysis (Khan & Jain, 2020; Pandey, 2021). Audit procedures establish whether reported figures are true, fair and free from material misstatement; analysis explains what those figures imply for financial position and performance.

The study is set in India's accounting, audit and tax services sector, which ranges from the large multinational networks to a very large number of small proprietorship and partnership firms serving small and medium enterprises (SMEs) at city level (India Brand Equity Foundation [IBEF], 2026). Large listed companies typically engage large networks, whereas SMEs, partnership firms and trusts form the principal client base of small practices. Competition among small firms rests on fees, relationships and turnaround time, and the compliance workload is shaped by frequent amendments to company, income tax and GST law (Government of India, 1961, 2017; Ministry of Corporate Affairs, 2013). ICAI regulates the profession, while the National Financial Reporting Authority (NFRA) oversees audit quality for specified classes of companies (National Financial Reporting Authority, 2024). Digital tax administration, cloud accounting software and emerging AI-assisted audit tools are changing how audit evidence is gathered and documented. The host organisation is a Pune-based practising Chartered Accountancy (CA) firm registered with ICAI. It provides statutory, internal and stock audit, taxation, GST, accounting and company-law compliance services to SMEs, partnership firms, proprietorships and individuals in trading, manufacturing and service businesses. Work is organised in engagement teams led by the proprietor and supported by article assistants, semi-qualified accountants and accounts staff. This paper offers a first-hand, practice-based account of how audit procedures and financial statement analysis are applied in such a setting, with the aim of connecting classroom knowledge with professional practice.

1.2. Conceptual and regulatory framework

Audit theory rests on providing reasonable assurance that financial statements are free from material misstatement, whether due to fraud or error. The SAs, which are largely converged with the International Standards on Auditing, structure this assurance around planning (understanding the entity, assessing risk and setting materiality), execution (tests of controls and substantive procedures) and reporting (evaluating evidence and forming an opinion). Foundational standards include SA 200, SA 315, SA 330, SA 500, SA 530 and SA 700 (ICAI, 2024b). Core concepts used in this study are

materiality, audit evidence, vouching (examining documents to verify recorded entries), verification (confirming the existence, ownership, valuation and disclosure of assets and liabilities), internal control and audit sampling (Ghosh, 2019; Tandon et al., 2018). Conduct is governed by the ICAI Code of Ethics, including independence and confidentiality (ICAI, 2024a). The firm's engagements also involve the Income-tax Act, 1961 and the Central Goods and Services Tax Act, 2017.

Objectives of the study

The study pursued four objectives:

- To understand how audit procedures are applied in examining the financial records of client entities in a small CA practice.
- To study how financial statements and supporting documents are verified for accuracy and completeness.
- To identify the common errors, discrepancies and inconsistencies encountered in financial records, and the audit responses used.
- To examine how audit documentation and basic financial analysis, including ratio analysis, support the review and finalisation of financial statements.

Research methodology

1.3. Research design and data sources

The study follows a descriptive, observation-based, single-organisation design. Primary evidence was obtained through direct participation in, and observation of, audit and accounting engagements at the host firm during a 30-day on-the-job training (OJT) placement (3 August to 3 September 2026) as a finance trainee, under the supervision of the industry mentor and the firm's audit staff. Secondary evidence was drawn from the SAs and the ICAI Code of Ethics (ICAI, 2024a, 2024b), the Companies Act, 2013, the Income-tax Act, 1961, the CGST Act, 2017, and standard texts on auditing and financial management. No survey, sampling frame or statistical testing was used.

1.4. Work streams and procedures

The placement covered four work streams, summarised in Table 1. Audit assignments followed a common sequence: receipt of the assignment and understanding of the client's business; collection of books, vouchers and supporting documents; preliminary review of the trial balance and ledgers; vouching of sampled transactions; for stock audits, physical verification and a check of the valuation basis; recording of observations in working papers; discussion with the audit in-charge or partner; and finalisation of the report by the partner. Standard formats were used throughout: vouching sheets, a stock audit checklist (book quantity, physical quantity, variance), a bank reconciliation format and a checklist mapping trial balance heads to Schedule III classifications.

Table 1 - Work streams, procedures, tools and outputs

Work stream	Principal procedures	Tools	Output
Company and stock audit assistance	Vouching of sampled purchases and sales to invoices; verification of statutory registers and minute books; checks of TDS and GST compliance on sampled items; agreement of ledger balances to client schedules; physical stock counts compared with stock registers and valuation basis	Audit working papers; physical verification sheets; MS Excel	Working papers, query sheets and audit or stock audit report (finalised by the partner)
Accounting data entry	Sorting and checking source documents (GSTIN, number, amount, narration); voucher entry under correct ledger heads and GST codes; periodic review of entries against source documents	Accounting software	Updated ledgers and trial balance
Bank reconciliation	Matching bank statement to cash book; identifying unmatched items; flagging unusual or long-outstanding items for follow-up	Bank statements; cash book; MS Excel	Finalised reconciliation statement for each bank account
Financial statement preparation	Trial balance check; adjusting and closing entries (depreciation, provisions, prepaid and outstanding expenses); drafting of Trading and Profit and Loss Account and Balance Sheet in Schedule III classification; comparison with prior year; basic ratio computation	Trial balance exports; MS Excel; accounting software	Draft Balance Sheet and Profit and Loss Account for partner review

Source:

1.5. Confidentiality and data treatment

In line with the ICAI Code of Ethics (ICAI, 2024a), client identities and actual figures are not disclosed. The tables in Section 4 are illustrative reconstructions of the type of analysis performed and are not verbatim client records. The frequency ratings in Table 5 are the researcher's qualitative judgements, not systematic counts.

Analysis and findings

This section presents an illustrative analysis based on a representative, anonymised engagement, to show the form of work carried out at the audit finalisation stage. Amounts are in Indian rupees (₹).

1.6. Bank reconciliation

Table 2 reconciles the bank statement and the cash book to a common adjusted balance. Timing differences (cheques deposited but not yet credited, and cheques issued but not yet presented) require no change to the books. Items already recorded by the bank but not by the client (interest credited and bank charges) require entries in the cash book.

Table 2 - Illustrative bank reconciliation statement (₹)

Particulars	Amount (₹)
Balance as per bank statement	1,25,000
Add: cheques deposited but not yet credited by the bank	18,500
Less: cheques issued but not yet presented for payment	(22,300)
Adjusted bank balance	1,21,200
Balance as per cash book before adjustment	1,20,450
Add: interest credited by the bank, not yet recorded	1,200
Less: bank charges debited by the bank, not yet recorded	(450)
Adjusted cash book balance	1,21,200

Note: Illustrative figures. The cash book balance before adjustment is derived so that both sides reconcile.

1.7. Stock verification

Table 3 shows the form of the stock observation checklist. Variances were compared with a tolerance judgement, and items outside tolerance were referred to the client for explanation. Slow-moving stock with no quantity variance was still noted for ageing and a possible provision for obsolescence.

Table 3 - Illustrative stock verification checklist

Item category	Book qty (units)	Physical qty (units)	Variance	Variance (%)	Remarks
Raw material A	500	492	(8)	(1.6)	Minor shrinkage, within tolerance
Finished goods B	220	220	0	0.0	No variance
Packing material	1,000	960	(40)	(4.0)	Variance flagged for client explanation
Slow-moving stock	80	80	0	0.0	Ageing noted; provision for obsolescence discussed

Note: Illustrative figures. Variance and percentage columns are computed from the book and physical quantities.

Financial statement analysis

Ratio analysis was used as a review tool, alongside comparison with the prior year, before draft statements went to the partner. Table 4 illustrates the ratios computed. With a single period and no sector benchmark, the interpretations are indicative only.

Table 4 - Illustrative financial ratio analysis

Ratio	Computation (₹)	Result	Interpretation
Current ratio	5,00,000 ÷ 2,50,000	2 : 1	Comfortable short-term liquidity
Quick ratio	3,50,000 ÷ 2,50,000	1.4 : 1	Good immediate liquidity
Gross profit ratio	3,00,000 ÷ 10,00,000 × 100	30%	Healthy trading margin
Net profit ratio	80,000 ÷ 10,00,000 × 100	8%	Moderate overall profitability
Debt-equity ratio	4,00,000 ÷ 8,00,000	0.5 : 1	Low leverage; financially stable

Note: Illustrative figures; ratio definitions follow standard financial management texts (Khan & Jain, 2020; Pandey, 2021).

1.8. Recurring discrepancies

Table 5 groups the discrepancies encountered during audit work into five categories. Timing differences in bank reconciliations were the most frequent. Misclassification of expense heads and missing or incomplete supporting documents occurred at a moderate frequency. Stock valuation inconsistencies and TDS or GST compliance gaps were less frequent.

Table 5 - Categories of discrepancies identified during audit work

Category	Illustrative description	Frequency observed
Timing differences in bank reconciliation	Cheques issued but not presented; deposits not yet credited by the bank	High
Misclassification of expense heads	Expenses recorded under an incorrect ledger head, for example capital expenditure booked as revenue expenditure	Moderate
Missing or incomplete supporting documents	Invoices or vouchers unavailable or incomplete for certain high-value transactions	Moderate
Stock valuation inconsistencies	Differences between physical and book stock, or inconsistent valuation method	Low to moderate
TDS and GST compliance gaps	Short deduction of TDS; mismatches between GST returns and books of account	Low

Note: Frequency is the researcher's qualitative assessment, not a systematic count.

1.9. Findings against the objectives

Objective 1. At the SME-client level, audit procedures followed the planning, risk assessment, evidence-gathering and reporting logic described in the SAs, but were scaled to the size and informality of client operations. Vouching and verification remained the core, time-intensive procedures where internal controls were limited.

Objective 2. A large share of audit time went into matching supporting documents (invoices, bank statements, registers) with recorded entries. The accuracy and completeness of client records varied with the sophistication of each client's accounting function.

Objective 3. Discrepancies were predominantly timing differences in bank reconciliations and misclassified expense heads, with less frequent but potentially more significant problems of missing documentation and stock valuation. For this client base, control weaknesses appeared to arise more from inconsistent documentation practices than from deliberate misstatement.

Objective 4. Structured working papers, reconciliation statements, draft financial statements and ratio analysis formed a documented trail that supported partner review and finalisation of accounts.

Discussion

1.10. Interpretation of the findings

Taken together, the observations suggest that, despite the smaller scale of engagements compared with large audit firms, the fundamentals of the audit process (evidence-based verification, systematic documentation and analytical review) remain consistent with the framework prescribed by ICAI. Vouching and physical verification correspond to the collection of audit evidence (SA 500), the use of sampled transactions reflects the logic of audit sampling (SA 530), and informal review of client controls and assessment of unusual balances reflect a scaled form of risk assessment (SA 315, SA 330) (ICAI, 2024b). These links are drawn from the stages the researcher observed and should not be read as an assessment of the firm's compliance with the SAs.

The discrepancy pattern points to documentation discipline at the client end as the main lever for improving audit efficiency. Even so, a predominance of process-related discrepancies does not remove the need for professional scepticism: information supplied by clients still has to be questioned and corroborated rather than accepted at face value.

1.11. Practical challenges and professional learning

Five challenges shaped the work. First, adapting to the firm's accounting software was addressed through guided practice, beginning with simpler data entry. Second, GST, TDS and tax audit deadlines converged and required careful prioritisation. Third, incomplete or ambiguous client records slowed vouching, and unresolved queries were escalated to supervising staff. Fourth, stock audits depended on client staff who were not always available, which advance scheduling and document checklists reduced. Fifth, confidentiality had to be protected in how information was recorded and later used for academic purposes. These experiences reinforced the value of clear working papers, documented audit queries, task prioritisation and proactive communication with supervisors and client representatives.

Limitations

- The evidence comes from one CA firm over a short placement, so the findings are exploratory and not generalisable to all firms in India.

- Client figures were generalised or reconstructed for confidentiality, so the tables are representative rather than verbatim, and discrepancy frequencies are qualitative judgements.
- All work was supervised and reviewed by qualified staff, which limited the independent judgement the researcher could exercise on audit matters.
- No complete annual audit cycle was observed for any single client, which restricted exposure to detailed planning, risk assessment and final sign-off.
- The sector overview rests on secondary sources and general industry knowledge rather than a primary survey of several firms.

Recommendations

1.12. For the host firm

Two recommendations follow from the findings. First, the firm may adopt a standardised bank reconciliation and vouching checklist across all client engagements, to reduce recurring timing-related and classification-related discrepancies. Second, it may make greater use of cloud-based accounting and audit tools, to reduce manual ledger scrutiny and release time for analytical review and client advisory.

For implementation, new tools can be introduced in phases, starting with a pilot on a few engagements and supported by staff training. A short documentation checklist can be shared with each client at the start of the engagement or financial year. If implemented, these steps are expected to shorten the time spent resolving recurring discrepancies at finalisation, make documentation more consistent across engagements and improve overall efficiency.

1.13. Scope for future research

Future studies could compare audit practices across several small and mid-sized CA firms, examine technology and analytics adoption in SME-focused practices using primary data, or assess how changes in reporting requirements such as the Companies (Auditor's Report) Order affect the workload and service model of small firms.

Conclusion

This study documented how audit procedures and financial statement preparation are carried out in a small CA firm, using a 30-day placement as the basis of observation. The procedures observed followed the standards-based sequence of evidence gathering, documentation and review, adapted to SME clients, and most discrepancies arose from timing differences and inconsistent documentation rather than from deliberate misstatement. The recommended checklist standardisation and phased adoption of digital tools address these recurring issues directly. The single-firm scope, short duration and illustrative data limit the strength of these conclusions, and multi-firm studies with primary data would test them more rigorously.

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