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10 Steps To Help Law Firms Prepare For The End-Of-Year Audit

Joseph Benstowe · Wednesday, November 29th, 2023

As the year's end approaches, it's time for law firms to close their books and start end-of-year audits. This annual task ensures that accounts are balanced and sets the stage for a financially sound start to the new year. However, this process can be stressful if your law firm doesn't follow accounting best practices.

Here's a step-by-step guide that will help your law firm sail through the audit process. (You can also [download our handy end-of-year accounting checklist for law firms here.](#))

Step 1: Organize your financial records

Review and organize all financial records, including invoices, receipts, bank statements, and expense reports. Ensure that all transactions are accurately recorded and categorized throughout the year to maintain a real-time overview of your firm's financial health.

Step 2: Tell timekeepers to enter their time

Check whether billable hours are up to date. Nudge your attorneys and other timekeepers to get their time in regularly as you head into the holidays. [Automated time capture](#) can make it easier for your timekeepers to stay on top of their billables.

Step 3: Update all client billing records

Run your accounts receivable reports to understand what amounts are outstanding. These reports can help you determine [what amounts to chase down and what to write off.](#)

Develop a comprehensive list of clients with unpaid invoices, including their name, matter number, amount owed, and date overdue. Prioritize invoices for action, starting with the most recent unpaid ones. The odds of collection decrease with time, especially when you're trying to collect over the holidays. Start reaching out before Thanksgiving to clients who have been historically slow to pay outstanding balances.

We recommend starting the collection process by sending reminders to clients regarding their outstanding balances. If you aren't already, [accept online payments](#) to make it easier for clients to pay you in just a few clicks.

For aged invoices, consider offering clients the opportunity to settle a portion of the debt in exchange for forgiveness of the remaining balance. You may also want to set up a payment plan for clients who might need another quarter or two to pay your law firm back in full.

Step 4: Review expenses

Review all expenses your firm incurred throughout the year. Verify that these expenses are accurately recorded, categorized, and supported by proper documentation. If you have any outstanding debts with vendors or contractors, settle them before you close your books.

Step 5: Update your fixed asset records

Update records of your firm's fixed assets. These long-term assets have a usage life of longer than a fiscal year. Some examples of fixed assets are new laptop computers, software, and office furniture.

Run depreciation calculations for these assets using your accounting software. You may be able to write off this depreciation as a tax deduction.

Step 6: Verify your payroll tax

Review and verify all payroll tax withholdings and payments. Make sure you accurately report these taxes to federal and state authorities.

Step 7: Check your employee records

Verify and update employee and contractor records for W-2s and 1099s. Confirm that all necessary information is accurate.

Step 8: Study your financials

After you have finalized and entered all of your revenue, expenses, and data into your financial systems, run the following financial statements:

- Prior year profit and loss statement for comparison with current year profit and loss statement
- Accounts receivable statement to review outstanding balances per month
- Cash flow statement to analyze cash flow changes by month
- Opening and ending operating account balances to review account balances year-to-year, quarter-to-quarter, and month-to-month
- The annual budget for comparison with actual financials and any other statements necessary for end-of-year tax purposes

Step 9: Reconcile bank and trust accounts

After you record all revenue and expenses, perform bank reconciliations to ensure that all financial records line up with bank statements. Investigate any discrepancies thoroughly.

A best practice is to reconcile your statements monthly and as soon as bank statements arrive. Otherwise, your law firm will need to contend with 12 months of bank statements in a short period,

making it more challenging to identify errors.

Additionally, many jurisdictions require law firms to reconcile client trust accounts at least quarterly, if not monthly. You should still complete year-end trust account and retainer reviews. Your annual review is an opportunity to double-check reconciliations done throughout the year and correct any mistakes. The ledger sheet for each client's trust account should line up completely with the corresponding bank statements.

Also review client retainer balances to determine which retainers need to be replenished. Ensure that all earned funds have been appropriately transferred into operating accounts from retainers held in trust.

Step 10: Close your books and plan for the future

After you have finalized and studied your year-end financials, close your books. You may want to set a lock date to prevent future changes plus a password to limit access.

The next step is to review and adjust your billing and accounting practices based on what you learned. For example, your data will show whether you need to adjust your time tracking and billing practices to ensure that all timekeepers record their tasks and send out bills on time.

Every day is the right day to get your law firm's books in order

The best way to prepare for the end-of-year audit is to stay on top of your firm's accounting all year long. By following these best practices, your firm won't build up problems over the year.

Stay tuned for our next blog, where we'll explore how law firms can financially prepare for the new year. In the meantime, [contact us to learn how we can help you close the books on this year.](#)

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