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How Law Firms Can Prepare for End-of-Year Audits

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New year, new you, same audit.

Every law firm should start the year with balanced accounts and a solid paper trail. But getting there can be tough. Closing the books on the prior year takes time and methodical thought. Your law firm can minimize the friction by streamlining its accounting process with the right technology. Getting started early doesn't hurt, either.

Your law firm's year-end closing process comes together through reconciling bank accounts, adjusting entries, and preparing financial statements for analysis. This article will guide you through the steps necessary for a sound end-of-year bookkeeping process. With this guidance, your law firm will welcome each new year with open arms. Let's get started.

What are good ways to prepare for end-of-year audits?

Start by getting your ducks in a row (and do it early). The new year always comes more quickly than we think it will, and completing a comprehensive financial review of your firm's successes is important to ensuring you can achieve more of the same—or better—the next year. Take the time now to review your records, get into contact with clients with outstanding balances, and budget properly. If you get started now, we bet you can still squeeze in some holiday cheer.

The following three steps can help you get your law firm's finances in order for the end of the year.

1. Account and collect now

Billing and collections are critical to the continuation of your law firm, so we recommend that you do indeed pass go and collect \$200 (we also understand that this is easier said than done).

As you know, it's best practice to collect accounts receivable as soon as possible. You also know that this isn't always possible with clients and that sometimes creative thinking is necessary to get paid. When it comes to end-of-year accounting and collections, you might have to get extra creative.

Start by double-checking that your law firm's time entries and billings are up to date. We recommend ensuring that all lawyers and other billing staff have tracked their billable hours through the end of November, with subsequent hours to be monitored at the beginning of December. Run all of your [end-of-year reports](#), including accounts receivable, to get an idea of

what's outstanding and which clients you'll need to nudge. [Use these reporting tools](#) to identify what is worth chasing and what your law firm can write off. As you know, the odds of collection decrease with time and only decrease further once the year has come to a close.

When it comes to the actual collections, start reaching out now (and certainly before Thanksgiving) to those clients that have been historically slow to pay outstanding balances. Remember to make your end-of-year bills clear and concise, and make it known that you expect to be paid before the conclusion of the year. If needed, try billing every two weeks in the month of December. We also recommend sending reminders to clients regarding their outstanding balance — clients are likely also wrapping up end-of-the-year financials and might even thank you for the reminder. The end of the year might also be the time to begin accepting credit card payments (or other alternatives) or setting up a payment plan for clients who might need another quarter or two to pay your law firm back in full.

By using the [right resources and technology advancements](#), your law firm can streamline its billing and collections process so that your end of year can be jolly and bright and not filled with paperwork.

2. Review your financials and plan for the future

The past is the best indicator of what's to come in the future. By taking stock of your most recent fiscal year, your law firm will be able to best prepare for the coming one. Once all revenue, expenses, and data are finalized and entered, your law firm should 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 (and to have cold, hard facts on how to improve cash flow)
- 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

The end of the year also presents a good opportunity for your law firm to review its practices related to legal [billing](#) and firm [accounting](#). Your firm can run helpful reports related to time tracking and billing to ensure that all firm members have been recording tasks in a timely and comprehensive manner. This data can also reveal any delays in the process of converting tracked time into client invoices (and then into income).

By reviewing and auditing your law firm's yearly finances, you'll be able to set intelligent goals for the year to come. You'll also know when to be conservative and when to reach. Your bottom line will thank you.

3. Perform reconciliations

After your law firm records all revenue and expenses, it should perform bank reconciliations to ensure that all financial records line up with bank statements. Any discrepancies need to be reviewed and investigated thoroughly. Best practices here are to reconcile 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 on a monthly (or at least quarterly) basis. This does not, however, negate your law firm's duty to complete year-end trust account and retainer reviews. An annual review is useful for double-checking reconciliations done throughout the year to ensure that no mistakes or miscalculations were missed. The ledger sheet for each client's trust account should line up completely with the corresponding bank statements. Get on top of this now, and it'll make a difference in your end-of-year audit and day-to-day operations.

What proactive actions can you take to prepare for an audit?

We get it — you're trying to minimize the pain of your end-of-year audit. The best way to go about doing so is to track regularly and prepare all year long. That means your law firm should be checking its receipts monthly.

Regular expense tracking must be a part of your law firm's year-end closing process. By following accounting standards and making sure your law firm's balances actually balance, and by tidying up any issues along the way, your law firm won't come into the audit with a buildup of problems. Be sure to account for money going out of the firm and to track revenue coming in. Without this vital information, your law firm will lack an accurate picture of its financial well-being. Don't go into the next year believing that your law firm is on more financially solid ground than it actually is. Accurate and regular review will help your law firm avoid common problems like inadequate cash flow and the inability to cover firm overhead.

Tech can make being proactive easier. The most successful law firms integrate their accounting processes with a cloud-based practice management software platform that helps them improve their firm's efficiency, leading to easier end-of-year audits. When your firm chooses the right technology, you help your lawyers reduce the time that they'd otherwise spend on administrative tasks (think timekeeping, invoicing, and collecting overdue invoices). You'll also be able to more accurately (and quickly) project your firm's finances and study your historical and projected cash flow so you can plan more accurately and set realistic goals for next year.

Save yourself headaches by going into your end of year armed with receipts.

How does an audit prepare you to enter the new year?

Auditing is key to success. It will provide you with a bird's-eye view of your law firm, giving your firm's management and administrators the tools they need to either shake things up or maintain the status quo. By conducting a proper audit, you'll have important data to move through the new year.

An audit will help your law firm compare this year's revenue to last year's revenue. Is your firm swimming in dough? Was Q3 tougher this year than last? Are you overspending on legal subscriptions? By comparing yearly revenue, your law firm will be able to make intelligent, data-driven decisions for the upcoming year. You'll also be able to determine and make adjustments on spending more broadly. Maybe your law firm is tight on cash at the beginning of the year but flush by the end. By reviewing smaller yearly trends, your firm can better account for when it can afford to spend and when it needs to be pennywise.

Your yearly audit can also inform billing and collection practices. Maybe your clients need more

regular reminders. Maybe your clients are all paying on time. Maybe it's even time to fire a client for regularly missing payments. By taking stock of these trends, your firm will be able to focus its efforts on paying clients.

Now's the time to get your law firm ready for an audit

By getting your law firm's end-of-year finances in order, your firm will be primed for growth and ready for change. Data collected in connection with your end-of-year audit will help guide your firm through the next year. With [the right practice management software](#), your firm will be able to do it all. This includes enjoying the holidays and decking the halls with bounds of billables.

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