

# Year-End Audit Preparation Checklist for Small and Mid-Sized Businesses

## Is “Audit Season” the Villain in Your Business Story? Here’s How to Defeat It.

It starts as a subtle feeling of dread in late October. By November, it becomes a persistent worry. And by the time December closes, it can feel like a full-blown crisis.

Without adequate **year-end audit preparation**, the annual financial statement audit becomes the ultimate villain for many small and mid-sized business owners and controllers. It looms over year-end, threatening to consume your time, disrupt operations, and expose even the smallest accounting missteps made over the past 12 months.

You are the hero of your business. You grow revenue, lead teams, and make strategic decisions. Yet when the auditors arrive, confidence can give way to uncertainty. Late nights digging through records, frantic emails about missing documentation, and uncomfortable pauses when an auditor asks a question you can’t immediately answer suddenly feel inevitable.

But what if it didn't have to be this way?

What if the audit wasn't a punishment, but a confirmation of your success?

What if your financial statement audit experience was efficient, predictable, and even confidence-building —helping you earn trust with stakeholders and banking partners?

At **IKRG CPAs and Consultants PC**, a trusted **Michigan CPA firm**, we believe businesses shouldn’t dread verifying their own success. We understand the realities small and mid-sized organizations face. You don’t have a Fortune 500 accounting department, yet you are held to the same standards of financial rigor by banks, boards, and regulators.

We are here to be your guide. We have helped countless businesses navigate the stormy waters of audit season and come out the other side stronger. The secret to defeating the anxiety of the audit isn’t magic; it’s preparation.

Below is a comprehensive **Year-End Audit Preparation Checklist** designed to transform your audit from a chaotic scramble into a streamlined, manageable process—whether you work with nonprofit audit firms, construction auditing companies, or a general Michigan audit firm.

## Phase 1: The Pre-Game Strategy

*(Planning & Administration)*

Before diving into the general ledger, you must set the stage. Many audit delays occur before fieldwork begins—simply because expectations and timelines were never clearly defined.

### 1. Establish a Timeline With Your Auditors

Don't wait for the auditors to tell you when they are coming. Be proactive.

- **Action Item:** Contact your audit firm early to schedule preliminary and year-end fieldwork.  
**Why It Matters:** If audited financial statements are required by March 31 for bank or investor reporting, starting fieldwork on March 15 is already too late.

### 2. Designate an "Audit Champion"

- **Action Item:** Appoint one primary point of contact, typically the Controller or CFO.
- **Why it Matters:** Audit requests multiply quickly. If requests need to go to different people, things can easily get lost. A single coordinator prevents confusion, delays, and lost documentation.

### 3. Review Prior-Year Adjustments

- **Action Item:** Pull out the "Adjusting Journal Entries" (AJEs) and the management letter from last year's audit.

- **Why it Matters:** Auditors expect prior issues to be resolved. Repeating the same control deficiency signals risk and increases scrutiny.

#### 4. Finalize the Trial Balance

- **Action Item:** Ensure your General Ledger (GL) is closed for the year before fieldwork begins.
- **Why it Matters:** Giving auditors a "preliminary" trial balance that changes three times during the audit is a recipe for disaster (and higher fees).

## Phase 2: Balance Sheet Clean-Up

The Balance Sheet is the backbone of your audit.

Auditors focus heavily on the balance sheet because if it's accurate, the income statement usually follows.

### Cash and Cash Equivalents

Cash is king, and it's the easiest thing to verify—which means it must be perfect.

- **Bank Reconciliations:** Ensure every single bank account is reconciled to the penny as of year-end.
- **Review Outstanding Items:** Look at checks that have been outstanding for more than 90 days. Are they lost? Should they be voided? Old outstanding checks are a red flag for unclaimed property issues.
- **Petty Cash:** If you have petty cash, count it on the last day of the year and have a supervisor sign off on the log.

### Accounts Receivable (AR)

This represents the money you are owed.

Auditors want to know: Does this money actually exist, and will you actually collect it?

- **The Aging Report:** Run an AR Aging report as of year-end. This *must* match your General Ledger balance. If it doesn't, find the variance now.

- **Allowance for Doubtful Accounts:** Review your past-due accounts. If a customer hasn't paid in 180 days, are they going to? You need to document your logic for why you believe specific debts are collectible or why you are writing them off.
- **Cutoff Testing:** Ensure invoices sent in the last week of the year correspond to goods shipped or services performed *in that year*. If you shipped it on Jan 2nd, it's not revenue for this year.

## Inventory

For product-based and **construction companies**, this is often a high-risk audit area.

- **The Physical Count:** If you do a physical inventory count, ensure you have clear instructions. Don't count items you've already sold but haven't shipped (unless terms are FOB Destination), and don't count consignment goods you don't own.
- **Price Testing:** Auditors will test if the "cost" on your books matches the invoice you paid to buy the item. Have those purchase invoices ready.
- **Obsolete Inventory:** Identify obsolete or slow-moving inventory and record appropriate write-downs.

## Fixed Assets

- **Additions:** Did you buy new computers, machinery, or vehicles? Pull the invoices for any major asset purchases.
- **Disposals:** Did you sell or dispose of any old equipment? Make sure it's removed from the books.
- **Depreciation:** Run your depreciation schedule. Make sure the total ties back to the GL.

## Accounts Payable (AP) and Accrued Expenses

Auditors are obsessed with "unrecorded liabilities"—expenses you incurred but didn't record.

- **The Search for Unrecorded Liabilities:** Review all invoices received in the first 30 days *after* year-end. Check the dates. If the service happened in December but the bill came in January, you must accrue it in December.
- **AP Aging:** Just like AR, ensure your AP Aging report matches the GL.

- **Accruals:** Maintain detailed schedules for accrued payroll, accrued vacation, and accrued bonuses.

## Debt and Equity

- **Loan Statements:** Have year-end statements for all lines of credit and loans.
- **Amortization Schedules:** Ensure the split between "Current Portion of Long-Term Debt" and "Long-Term Debt" is correct.
- **Covenant Compliance:** This is critical. Calculate your debt covenants (e.g., Debt Service Coverage Ratio) *before* the auditors do. If you failed a covenant, you need a waiver from the bank *before* the audit report is issued.

## Phase 3: The Income Statement Review

While the Balance Sheet is about "existence," the Income Statement is about "accuracy" and "classification."

### Revenue Recognition

This is the number one area for fraud risk, so auditors scrutinize it heavily.

- **Contracts:** Maintain signed customer contracts.
- **Deferred Revenue:** If you billed a client for a year of service upfront, ensure you are only recognizing the portion of revenue earned in this fiscal year.
- **Consistency:** Apply consistent recognition policies, especially for long-term or construction contracts

### Expense Analysis

- **Flux Analysis:** This is a pro tip. Run a "Year over Year" comparison of your expenses. If "Legal Fees" went up 50% this year, write a memo explaining why (e.g., "We had a lawsuit in Q3"). Auditors *will* ask this. If you address it before they ask, you demonstrate strong preparation and control.
- **Repairs vs. Capitalization:** Review your "Repairs and Maintenance" GL account. Did you accidentally expense a \$10,000 machine that should have been capitalized?

## Payroll

- **Reconciliation:** Reconcile your total payroll expense per the GL to your 941 quarterly tax returns and W-3. They should match. If they don't, you have a tax issue or an accounting error.

## Phase 4: Internal Controls & Compliance

### The Invisible Shield

Audits evaluate systems—not just numbers.

- **Update Process Documentation:** Has your approval process for writing checks changed? Did you implement new inventory software? Update your process narratives.
- **Board Minutes:** Auditors need to read the minutes from all Board of Directors meetings to understand high-level decisions (like declaring dividends or approving budgets). Have these been signed and organized.
- **Legal Letters:** Auditors will send letters to your attorneys asking about pending litigation. Inform your lawyers this is coming so they can respond promptly.

## Preparation doesn't just affect the audit—it also affects how your organization is perceived

At first glance, this checklist may feel overwhelming. That's understandable.

But let's put this in proper perspective.

- **The Path of Failure:** You can ignore preparation. Hand auditors incomplete records. React instead of plan.
  - **The Result:** Extended audits, higher fees, stressed teams, and potentially strained banking relationships.

- **The Path of Success:** You can use this checklist. Prepare proactively. Partner with an experienced **Michigan audit firm**, like IKRG CPAs and Consultants PC.
  - **The Result:** Your audit finishes on time. You receive clean **CPA reviewed financial statements**, gain valuable insight into your business's financial health, and earn confidence with your lenders, investors, and boards.

## How IKRG CPAs and Consultants PC Can Help

We know you still have a business to run. You shouldn't have to choose between generating revenue and preparing for an audit.

As a **Michigan CPA firm providing audit services for construction companies, nonprofits, and closely held businesses**, IKRG CPAs and Consultants PC serves as the bridge between daily operations and audit requirements.

Our audit services include:

- **Pre-Audit "Clean Up" Services:** We help you with proactive GL review and reconciliation.
- **Audit Liaison Support:** We can direct communication with auditors on your behalf; answering their technical questions and translating "accountant speak" into plain English for you.
- **Technical Accounting Memos:** For complex or non-routine transactions, we write the memos proving your accounting treatment is correct.

Whether you are evaluating **nonprofit audit firms, construction auditing companies**, or need reliable **audit services** from a seasoned Michigan CPA firm, our focus on preparation, clarity, and confidence sets the standard.

## Take the Next Step

The end of the year is approaching quickly. Don't let lack of preparation dictate your audit outcome.

1. **Download and share this checklist** with your internal team
2. **Schedule a pre-audit consultation** to address your specific risks

Stop worrying about what auditors might find. Prepare with confidence, audit with ease, and get back to growing your business.

**Contact IKRG CPAs and Consultants PC today.**

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