# Common Audit Findings in Construction—and How to Avoid Them

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Construction companies face unique financial complexities that make audits both essential and challenging. From job costing to revenue recognition, even well-run firms can face audit findings that affect bonding, financing, and compliance. Understanding the most common issues and how to prevent them can help contractors remain audit-ready and financially strong.

**1. Inaccurate Work-in-Progress (WIP) Schedules**
WIP schedules are critical for tracking project profitability and revenue recognition. Common errors include outdated cost estimates, unapproved change orders, and inconsistent application of percentage-of-completion methods. These mistakes can distort financial results and mislead stakeholders. To avoid this, ensure regular updates, involve project managers in forecasting, and implement standardized WIP review procedures.

**2. Improper Revenue Recognition**
Revenue recognition under generally accepted accounting principles (GAAP), requires careful alignment between contract terms and accounting treatment. Auditors often find inconsistencies in how revenue is recognized across projects or misclassification of contract modifications. Contractors should document performance obligations clearly and maintain consistent policies for recognizing revenue based on progress and milestones.

**3. Weak Internal Controls**
Construction firms—especially growing ones—may lack segregation of duties or formal approval processes. This can lead to errors or even fraud. Strengthening internal controls through documented procedures, role-based access, and periodic reviews can reduce risk and improve audit outcomes.

**4. Inadequate Documentation**
Missing or incomplete documentation—such as subcontractor agreements, change orders, or timecards—can raise red flags during an audit. A centralized document management system and regular internal reviews can help ensure records are complete and accessible.

**5. Misclassified Costs**
Auditors frequently identify costs that are incorrectly allocated between jobs, overhead, or general expenses. This affects job profitability and financial reporting. Training accounting staff and using construction-specific accounting software can improve accuracy.

Avoiding these common audit findings starts with proactive planning, strong internal processes, and industry-specific expertise. Regular internal reviews, collaboration between accounting and operations, and guidance from a CPA firm familiar with construction can make a significant difference.

Want to strengthen your audit readiness and reduce risk? Contact the construction assurance team at Dean Dorton to learn how our tailored audit services can help you stay compliant, improve financial reporting, and build trust with lenders, bonding agents, and stakeholders.