

# **Dealing with External Auditors**

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# Agenda

- Introduction
- Role of the External Auditors
- Involvement of the In-house Counsel
- How External Auditors Perceive In-house Counsel -  
Expectation of Auditors
- How Should you "Handle" External Auditors?
- Open Discussion

# Introduction

- Do you always feel guilty when external auditors call?
- Recent survey shows that relationship between external auditors and in-house counsel is not free of problems
- Purpose of presentation
  - Point out potential issues when working with external auditors
  - Suggestions on how to improve the relationship with external auditors and to efficiently work with them
  - Open discussion to share experiences

# Role of the External Auditors (1)

- Main Tasks of External Auditors
  - Financial:
    - Review of annual accounts / give opinion on annual accounts (i.e. they are free of material misstatements) / review of underlying documents and information / statement regarding internal control system
  - Transactional
    - Appointment on a case by case basis for e.g. capital increases, corporate restructurings etc.
    - Provision of legal and tax advice
    - M&A due diligence review
    - Not permissible: implementation of IT system, accounting services

## Role of the External Auditors (2)

- Independence
- Internal Audit vs External Audit
- Role of External Auditors and In-house Counsel under SOX

## Involvement of In-house Counsel (1)

- Review of engagement letter
- Review of representation letter ("Vollständigkeitserklärung")
- Definition of Scope of External Audit
- Release of information to external auditors

## Involvement of In-house Counsel (2)

- Compliance with Corporate Law
  - Repayment of share capital / hidden profit distribution / cash pooling
- Loss contingencies
- Procurement / review of lawyer's letters

# How External Auditors Perceive In-house Counsel - Expectation of Auditors

- Open, timely and complete communication
- Understanding for accounting questions
- In-house counsel as member of the board



## How Should you "Handle" External Auditors?

- Block vs Open / Triage
- Relationship of trust
- Auditors help in-house counsel to ensure compliance
- In-house counsel should have at least a general idea of accounting
- Be proactive

## Open Discussions

- What you always wanted to tell your auditors?
- Conflicts of interest
- Sharing of experiences made with external auditors
- Impact of financial crisis / economic downturn on relationship with auditors