

# **Government Investigations and the External Auditor**

**Tips for legal departments  
in interacting with external auditors  
during an investigation**

Timothy R. McCormick – Thompson & Knight LLP

Jeff Ferguson – Ernst & Young LLP

Holly Tucker – Deloitte Advisory

Kelvin F. Sellers – Interstate Batteries

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## Tips for legal departments in interacting with external auditors during an investigation

- A. In any government investigation, who should conduct the company's internal and factual investigation is a major threshold issue and will have an impact on how the following issues are addressed.
1. The audit firm focus on the financial statement impact, allegations about management integrity, whether regulators may rely on the investigation, and potential 10A investigations<sup>1</sup>.
  2. As always, the audit firm will be evaluating compliance with Generally Accepted Auditing Standards) ("GAAP") and, in particular, Accounting Standards Codification 450-20 regarding potential loss contingencies (evaluation standards matters).
  3. An auditor's review, particularly with respect to potential illegal acts, is governed by GAAP and a probability of assertion by reasonably possible Section 10A of the Private Securities Litigation Reform Act of 1995. Section 10A requires audit procedures designed to provide reasonable assurance of detecting illegal acts that would have a direct and material effect on the financial statements. It also requires specific actions by the auditors if they detect or become aware of information indicating that an illegal act has or may have occurred – regardless of whether it is

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<sup>1</sup> [Private Securities Litigation Reform Act of 1995](#)

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