

Solutions- The Legal Process and Expense Audit

In the current economic climate, business owners and operators need to look at their expenses. This review needs to include a review of legal expenses. Just as you may have reviewed your production, order processing, sales, or distribution systems, you should conduct a Legal Process and Expense Audit to determine how, why, and where your precious \$\$ are being spent on legal matters.

What is a Legal Process and Expense Audit?

A properly conducted legal process and expense audit should include (i) an analysis of how legal decisions are made within your business and how many individuals are involved in the process of hiring, talking to, and dealing with lawyers; and (ii) an analysis of how much money is being spent, both internally and externally, on legal matters and in working with lawyers.

Who can conduct a Legal Process and Expense Audit?

The answer to this question depends in part on the size and complexity of your business. For businesses that have lawyers on staff or individuals that are skilled in working with lawyers, and for businesses with a chief financial officer, if time permits, then this audit may be conducted internally. For companies without these skilled individuals or without the resources or time to devote to this effort, then there are service providers that can provide you with a Legal Process and Expense Audit at a reasonable price.

How can you determine if conducting a Legal Process and Expense Audit will save you money?

For larger organizations, studies have been conducted and metrics have been developed to measure legal expenses in comparison with the size and types of business operations. While there are many different possible metrics, one of the most accepted metrics is the company legal expense as a percentage of the company revenue. For smaller organizations, reported metrics are limited. If your company does not have metrics to apply, then your best bet is to work with legal and financial experts that have experience analyzing legal and financial functions and who understand the legal industry.

What are potential outcomes of conducting a Legal Process and Expense Audit?

A major reason for conducting a legal process and expense audit is to lower your legal expenses. An audit will determine if you are spending your legal \$\$ in the areas that are most critical to your company. Recommendations from the audit may include bringing legal work inside; changing law firms that are as skilled, but less expensive; the use of contract counsel based in the U.S. or internationally, such as India; the use of non-lawyer professionals; technology and legal software products; and the training of personnel. Another major reason is the identification of potential legal risk areas that may exist within your company and its operations. Early risk identification will avoid future legal expenses.

What can you do if you are interested in conducting a Legal Process and Expense Audit?

Here are a few of my suggestions:

1. Find an experienced business lawyer that has had responsibility for managing a legal function – Managing a company's legal function is much different than being an outside provider of legal services. While your current lawyer may provide you with great legal results, it is a different skill set to understand how to analyze the legal process and manage a legal budget.
2. Have the lawyer conducting the audit work with an experienced financial manager – Having an experienced business lawyer and an experienced financial manager working together on the legal process and expense audit is optimal. Not only will this effort focus on preventative legal matters, risk areas, and alternatives to your current legal process, it will allow you to have the benefit of a financial analysis and metrics to support the process change recommendations.
3. Take time to understand the how, why, and where of your legal risks and expenditures - Strict attention to legal risks and the management of legal expenditures are needed especially in a down economy. The investment you make now will likely pay dividends for years to come.