



Minimum Level of Audit Activities

NATIONAL AUDIT GUIDELINE CHARTER

BIEM – Doc 1619 FV
20-26 Bd du Parc – 92200 Neuilly sur Seine
Tel. (33) 01 55 62 08 40 - Fax (33) 01 55 62 08 41

February 2016

1 / INTERNATIONAL AUDIT GUIDELINE CHARTER for National Independent Producers



This Audit Charter is an undertaking between the member societies of BIEM for the purpose of setting standards in relation to royalty audits of producers using the BIEM member societies' repertoire.

1 INTRODUCTION

Each Society is a member of BIEM and under the statutes of BIEM it enters into a representation agreement with each other Society authorising the other Society, in the territory of the other Society, to manage and to represent the Society's Repertoire, including licensing and controlling the exploitation of the Society's Repertoire in that territory.

Each Society shall ensure that every Licence/Agreement which it enters into with a Producer shall be in writing and validly executed and shall contain provisions entitling the Society to conduct audits of that Producer.

Furthermore, each Society shall ensure that it carries out audits of Producers to whom it has granted a Licence/Agreement and that it carries out every audit in accordance with the applicable minimum common standards relating to audits of Producers as set out in this Audit Charter and without limitation shall do so with not less than the minimum frequency laid down by such minimum common standards and shall in each audit cover every accounting period since the immediately preceding audit of the Producer.

The attention of the Societies is particularly drawn on the fact that specialist products (i.e. Premiums, Cover-mounted products, etc.) as well as products that are not sold through usual practice of the retail trade [Art II (2) of the Standard Contract] may not fall under the application of the CL/International audits. In any case, they should be checked through local audits of national Independent producers.

Bearing in mind the importance to each Society and its members of ensuring that its Repertoire is properly managed and represented in the territory of each other Society, the Societies have resolved to adopt certain minimum common standards to be observed by each Society in carrying out such management and representation (as it is provided for by BIEM Statutes and BIEM contracts of representation), including, without limitation, common standards relating to audits of Producers.

The purpose of such minimum common standards relating to audits of Producers is to ensure that:

- Audits are undertaken by each Society in the best possible and most effective way and sufficiently frequently;
- Audits of Producers who have a Licence/Agreement for the production, manufacture and distribution of Carriers in the territory of more than one Society are carried out in the best possible and most effective way, sufficiently frequently and on a well co-ordinated basis;
- The information provided by the Producer, also in relation to the usage of repertoire, is complete, correct, and has been supplied in time, to ensure royalties are properly accounted for by the Producer

Therefore, this Audit Charter and supporting schedules set out matters in relation to, amongst others:

- Autonomy of Societies in their own territories of administration
- Responsibility for audits
- Reporting requirements
- Non-compliance with minimum common standards
- Cross border transactions

1 / INTERNATIONAL AUDIT GUIDELINE CHARTER for National Independent Producers



2 DEFINITIONS

In this Audit Charter (including the schedules) the following words and expressions have the following meanings:

“BIEM” is an international organisation that groups together societies administering or having through their statutes the capacity to administrate the mechanical reproduction rights, in view to represent and defend their interests.

“Supply Centre” means a central warehouse from which the producer supplies Carriers to affiliates, subsidiaries and/or licensees.

“Licence/Agreement” means a Licence/Agreement between a Society and a Producer which grants the Producer the right to proceed to the making of sound recordings of the works of the BIEM Societies repertoire, to make copies of these recordings by way of carriers and to put such carriers into circulation with a view to their sale to the public for private use.

“LAR” means the Licensing Annual Review.

“Producer” means a producer of carriers which incorporate reproductions of any Musical Works included in the Repertoire owned, controlled and represented by the Society which enters into a Licence/Agreement.

“Society” means a body of rights owners, member of BIEM, which owns, controls and represents the repertoire within a territory.

“Repertoire” is defined as the musical works for which rights have been entrusted to the Society can be granted to Producers within Licenses/Agreements.

3 ROLE OF LAR

LAR exchanges experiences, information, and discusses problems encountered in the auditing field to find solutions which are applicable at national level.

LAR recognise that there are different categories of Producers which enter into Licence/Agreements with the Societies and that, as far as royalty audits are concerned, LAR has a role to play according to the type of Licence/Agreement.

4 PERFORMANCE OF AUDITS

Each Society must be alert to the Statute of Limitation period in its own territory and where any delay in settlement of an audit has occurred, they have within the legal powers, remedies to ensure claim remains within the Limitation period.

1 / INTERNATIONAL AUDIT GUIDELINE CHARTER for CLA Producers



5 RESOURCES

Each Society may carry out audits of Producers in the most effective possible way, using the most appropriate resources. Each Society will use its own suitably qualified and experienced audit staff and /or suitably qualified and experienced independent external auditors/accountants.

Each Society may use such external auditors/accountants (either alone or, in appropriate cases, in combination with such own audit staff) where the audit being carried out relates to a national independent producer.

6 AUDIT COSTS

Each Society shall be responsible for the planning and budgeting of its audit costs.

7 CROSS BORDER OUTGOINGS (for sales outside the territory)

In the frame of exports to an affiliate of the producer in territories not covered by a BIEM/IFPI agreement, the society should recover all information from this territory.

8 CONFIDENTIALITY

Audits of Producers are carried out according to obligations of the confidentiality provisions in the Licence/Agreement with each Producer.

Each Society shall treat as confidential all information resulting from any audit undertaken except that it may disclose information for well founded reasons if and to the extent:

- Required by the law of any relevant jurisdiction;
- Required for disclosure according to its constitutional obligations;

The information has come into the public domain through no fault on its part.

2/ THE SCHEDULES



1- SCHEDULE ONE -

Minimum common standard relating to audit of a National Independent Producer.

2- SCHEDULE TWO -

LAR SHEET

Attached are the Guidelines for National Producers Full audit, and details of the procedure for the carrying out of sample checks within the full audit period.

3- SCHEDULE THREE -

Typology of Adjustments.

4- SCHEDULE FOUR -

Audit program summary.

1

SCHEDULE ONE -

Minimum common standard relating to audit of a National Independent Producer

Attached are the Guidelines for National Producers Full audit, and details of the procedure for the carrying out of sample checks within the full audit period.

GUIDELINES FOR NATIONAL PRODUCERS FULL AUDIT

- 1- AUDIT SCOPE**
- 2- AUDIT PROCESS**
- 3- DATA REQUESTED**

In order to monitor and manage control procedures and tasks to be effected in the frame of full audit concerning national producers' signatories of BIEM standard agreement or any other agreement, it is advisable to undertake a full audit defined on the basis of the here-above approach.

It has to be pointed out that the frequency of full audits must be defined locally by the involved Author's Society, and also that this guideline is submitted to the application of the local conditions of each country.

1- AUDIT SCOPE

The audit scope covers the areas of Works Documentation, Stock movements and Copyright. It thus comprises:

- All systems and procedures in use to ensure completeness and accuracy of works documentation and relative claims databases,
- All matters related to product manufacture and Stock movements, which cover together the areas of Stock Movements Management, those of Sales and Distribution (third party or own distribution) and of Purchasing,
- All systems and procedures adopted for copyright calculation and paying processes.

2- AUDIT PROCESS

The audit process should include 6 steps to be followed by the auditor and the auditee which are the following:

2.1 - Introducing letter (specimen)

Dear Mr.....,

In the frame of our Agreement and also in the frame the audit charter approved by authors' societies, we wish to inform you that we have planned to carry out an audit concerning your Society.



2.1 Introducing letter (specimen)

You will find enclosed a summary of our audit procedures, which describes our own method of auditing which is based on overall controls as well as the testing of a sample of references selected by the audit team.

The Audit will concern the reporting periods to [the Society], from “period” up to “period” and we intend to check all the contractual data in the frame of our agreement and of the local conditions.

Among this audit procedure summary, an audit time schedule is included. Could you please let us know if the below dates are convenient for you i.e.:

Audit on site: two weeks to be defined and planned for two auditors:

Mr..... and Mr..... (phone number:.....email:.....)

We suggest weeks “n°... and week n°.....

You will also find included in our audit procedure summary a list of the data, reports and records requested which covers all the audited periods and since “period”.

Please be advised that prior to any onsite examination work, we have to be sure that workable information should be available: our intent is to be able to trace and cross-check all stock data which lead to copyright reporting in the frame of your country’s local conditions.

Should you have any questions or require any further information at this stage, please do not hesitate to contact us.

We remain,

Sincerely yours,

2.2 - Planning

The planning phase has to be engaged by both involved parties (producer audited and auditors). Conclusions of such a phase must be the formal approval on the scope, place of the audit, the preparatory audit file, the booking of resources and the planning defined during the audit start-up meeting.

2.3 - Audit start-up meeting:

The audit process and objectives must be presented to auditees as well as its present scope and duration to allow common understanding and ensure co-operation.

2.4 - Audit program:

The audit program to be followed by the auditor and the auditee allows to:

- Provide a framework to guide intervening parties,
- Ensure optimal coverage of the audit scope to assess quality of data and processes at stake,
- Facilitate communication between all intervening parties on site and off site.





2.5 - Closing meeting

It should be organised with management of the structure audited. Clear understanding on the results of the audit must be reached as well as on the draft of the audit report presenting summary of conclusions and agreed corrective actions to be undertaken by the auditee.

2.6 - Audit Report and Settlement

The audit report, summarising tasks effected and related results (adjustments if any), aims at informing all authorised parties of the situation of internal controls and of possible corrective actions to be followed up. This report could be a simple layout of the form concerning Central Licensing full audit results.

3. DATA REQUESTED

Such an audit approach is based on the fact that the auditee's organisation and information systems should allow to bring together all relevant data to allow copyright society to assess overall internal controls surrounding copyright reporting. This procedure is based on a wide sample analysis of references reported to test mechanism and quality of reporting process. The method developed for reconciliation of stock and copyright liable units is applied to evaluate in a first stage problem areas.

The following data are deeply requested:

DATA REQUESTED when the producer is concerned (This list is not exhaustive)

For Copyright Auditing

- Published catalogue list (per item and with the relevant prices) since: (year)
- Exhaustive list of retentions made since: (year)
- Exhaustive list of free goods (promos, bonus) per period since: (year)
- Exhaustive list of club sales per period since: (year)
- Exhaustive list of bargain sales per period since (year)
- Exhaustive list of budget sales per period since: (year)
- Reporting files/lists to copyright society (gross and net values) per period since: (year)
- Exhaustive list of returns per period since: (year)
- Exhaustive list of deductions per period since: (year)
- Exhaustive list of exports per period since: (year)
- Exhaustive list of all catalogue numbers concerned by any movement (sales) since: (year)
- Exhaustive list of sales, exclusive of copyright per period since: (year)
- Exhaustive list of TV and radios campaigns since (year)
- Exhaustive list of labels

For Stock Auditing

- Inventory lists since: (year)
- List of shipments and origin per period since: (year)
- Supplier's invoices per period since: (year)
- The Purchase Ledger since: (year)
- List of movements (incoming and outgoing) per period since: (year)
- Exhaustive list of destructions per period since: (year)
- Exhaustive list of imports per period since: (year)



2 SCHEDULE TWO - LAR SHEET

Full Audit

For the necessary sample checks within the full audit procedure, the attached list LAR could be used by the Local Society.

Instructions and application of the LAR

LAR

Audit on local warehouse of the National Producer.

LAR contains not only detailed stock movements but relevant accounting matters as well.

Stock movements shown in the first column have to be calculated from the top downwards whereas the contractual and accounting matters have to be calculated from left to right.

Related stock movements (sales channels / returns) are represented alternately by light blue and white fields.

Free goods (e.g. buy 8 / receive 10) have to be incorporated into the relevant sales channel (e.g. normal sales).

Differences have to be cleared and explained.



2/ THE SCHEDULES



LAR : LICENSING ANNUAL REVIEW FOR NATIONAL/LOCAL PRODUCERS

Audit period :	Catalogue No. :	Currency :
Local Society :	Type of support :	
Local Producer name :	Date of first outgoing :	
	TV advertised (yes/no):	

DETAILED STOCK MOVEMENTS	GROSS STOCK MOVEMENTS
+Opening stock 1 st January	
+Entries	
-Closing Stock 31 st December	
=Total outgoings	0

- 1 Accounted Allowances concerns local conditions deductions such as : deduction for TV Campaign, free goods,
- 2 When Different PPD : Please add as many lines of normal sales, club sales, export sales.....as there are different PPD.

DETAILED STOCK MOVEMENTS	Local PPD	CONTRACTUAL MATTERS				TO BE ACCOUNTED (=)	ACCOUNTED TO CLA to local Society (/)	DIFFERENCE (to be explained) (=)
		Net sales	Retentions	Reconciliation	Allowance			
		(+)	(/)	(+)	(-)			
/ Promotional units actual		0			0	0		
/ Normal sales		0			0	0		
'+ Returns								
/ Club sales inc copyright		0			0	0		
'+ Returns								
/ Club sales excl. copyright		0			0	0		
'+Returns								
/ Others inc copyright		0			0	0		
'+ Returns								
' / Bargain sales		0			0	0		
' / Export sales inc copyright		0			0	0		
'+ Returns								
'/ export sales excl. copyright		0			0	0		
'+ Returns								
'/ Destructions								
'/ Adjustments								
'/ Others								
Local difference					Total	0	0	0

(+) (/) (+) (/) (=) (/) (=)



3 SCHEDULE THREE - Typology of adjustments

1. Quantities not reported in the reporting statement: concerns missing quantities.
2. Stock discrepancies between the producer reporting and the stock result calculation: concerns adjusted quantities.
3. Stock discrepancies between the stock incoming and the quantities manufactured: concerns adjusted quantities.
4. Stock discrepancies between opening stock and the closing stock of the previous period: concerns adjusted quantities.
5. Stock inventory discrepancies not reported: concerns adjusted quantities.
6. Stocks destructions not certified: concerns adjusted quantities.
7. Club sales not reported: concerns adjusted quantities.
8. Deduction of quantities exceeding the maximum allowed: concerns adjusted quantities.
9. Deduction of unjustified quantities: concerns adjusted quantities.
10. Deduction of quantities according to the maximum allowed by contract instead of the official quantities: concerns adjusted quantities.
11. Deduction of promotional quantities without respecting the consolidation of type of support: concerns adjusted quantities.
12. Deduction of quantities after the first period of sales: concerns adjusted quantities.
13. Export deductions unjustified: concerns adjusted quantities.
14. Export returns: concerns adjusted quantities.
15. Incorrect TV advertised deductions (quantities or rate): concerns adjusted quantities.
16. Deduction of TV advertised quantities exceeding the maximum allowed: concerns adjusted quantities.
17. Deduction of TV advertised quantities without respecting the consolidation of type of support: concerns adjusted quantities.
18. Constitution of retentions not allowed: concerns adjusted quantities.
19. Constitution of retentions not allowed in the frame of bargains sales, clubs, exports...: concerns adjusted quantities.
20. Retentions not reconciliated: concerns adjusted quantities.
21. Reconciliation of retentions outside the contractual reporting period: concerns adjusted quantities.
22. Deduction of returns unjustified: concerns adjusted quantities.
23. Wrong calculation regarding the constitution of retentions: concerns adjusted quantities.
24. Deduction of bargain returns: concerns adjusted quantities.
25. Other stocks discrepancies: concerns adjusted quantities.
26. Unjustified appliace of the minima license instead of the calculation of the normal license: concerns adjusted license.



2/ THE SCHEDULES



27. Unjustified use of the budget minima license: concerns adjusted license.
28. Exceeding duration depending on the type of support: concerns adjusted license.
29. Exceeding work and/or fragment allowed by the contract: concerns adjusted license.
30. Error within the components of an album: concerns adjusted license.
31. The reporting PPD is lower than the published PPD: concerns adjusted license.
32. Error occurred in the license calculation (ratio, minima, etc...): concerns adjusted license.
33. Different reported PPD linked to exports for a non-affiliate: concerns adjusted license.
34. Deduction from the normal sales of the returns instead of the retentions (in case of different PPD's): concerns adjusted license.
35. Retentions reconciliated with wrong PPD: concerns adjusted license.
36. Bargain deadlines are not respected: concerns adjusted license.
37. Reference reported as bargain but has not been removed from the producer catalogue: concerns adjusted license.
38. Reference manufactured in order to be sold as a bargain sale: concerns adjusted license.
39. Exceeding authorized quota: concerns adjusted license.
40. Bargain minima have not been respected: concerns adjusted license.
41. Other complementary license adjustments: concerns adjusted license.
42. Documentation modification: concerns documentation adjustments.
43. Missing recovery: concerns documentation adjustments.