



INTERNATIONAL  
INDEPENDENT  
PRODUCERS  
AUDIT

# 1 / INTERNATIONAL AUDIT for International Independent Producers



## 1 INTRODUCTION

We all know several International Independent Producers with cross border activities (Further IIP). Due to the cross-border activities, it is difficult to audit such companies for an individual society and a standard schedule / scheme is not possible. This document must be seen as a guideline for audits of IIP.

### What is the definition of an IIP?

In this document, an IIP is:

1. A company which is situated in one country and reports sales/manufactured quantities to two or more societies
2. A company which is situated in one country and has affiliates/subsidiaries in one or more other countries. Reporting is based on sales/manufactured quantities to different societies (cross border)
3. A company which is situated in one country and has affiliates/subsidiaries/licensees in one or more other countries. Reporting is based on export to many countries and/or local manufacture on license

One of the reason of acting like an IIP is the difference of tariffs, but there could be other benefits for the IIP as well, like distribution benefits and knowledge of the local market. Point of particular interest is that some companies have grown so rapidly that even the organisation itself is not clear anymore on what products are reported to which society.

Our goal with such audits is to have a clear insight of the IIP and their activities and to achieve that the IIP report correct and complete to societies.

## 2 PROBLEMS OF AUDITING INTERNATIONAL INDEPENDENT PRODUCERS (IIP)

Societies may have difficulties in auditing these international companies due to the facts like:

- Companies are situated in more than one country
- Companies report to more than one society (which part is reported to whom?)
- We are not aware of all their activities
- Manufacturing orders are given from the parent company, subsidiaries or even labels in different countries to several plants in different countries
- The repertoire is not reported by the record company, but through other companies.
- Lack of co-operation of the IIP
- Lack of co-operation of some pressing plants

We all know IIP's, but we have no full sight on what they are doing. Distributions including and excluding of copyright, reporting to different societies, who is responsible for manufacturing orders of the labels etc.



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## 3 AUDIT APPROACH WITHIN THE MAC AUDIT GROUP

Periodically (half year) all audit departments of the societies participating in the MAC audit group provide BIEM with a list of companies they label as IIP. Additionally, they provide per company when (or whether) they think this company should be audited and what the timeline for this audit should be. This should be accompanied with a good motivation for the proposed audit.

## 4 AUDIT PLAN OF IIP

A society or societies ask for an IIP audit and they must in writing explain why.

A working group is made and a chair society is elected.

A starting paper describing the IIP's activities are created by the society where the main copyright is paid. This paper must contain information on:

1. The Corporate/Legal structure of the company
2. The activities of the IIP and its affiliates
3. Which companies/affiliates give manufacturing orders
4. Confirmation of licence agreements and element of reporting to society
5. Which distributors are involved with the IIP and their stock situation
6. The full catalogue of the IIP
7. Kind of repertoire of the IIP
8. Which repertoire / part of the catalogue of the IIP is licensed to which society
9. Exports including copyright or exclusive of copyright
10. Which licensing societies are involved
11. Does the IIP make use of intermediaries for reporting

Before the start of an IIP audit societies involved must make clear which period the audit covers. Cross border audits must be performed on the same time.

To get a good overview of the company and its activities we can use schedule one and collect all the information during a first visit at the IIP or its subsidiaries.

It may be clear that in case of work by work reporting an audit is easier to perform, because it is only a comparison between manufactured quantities and reported quantities. When an IIP reports on shipments or sales, we have to use a reconciliation of stock movements, manufacturing and sales.

Regardless of the method of reporting, discussion will need to be in place on the proposed audit approach (i.e. full census or sample), whilst there may be agreement by members on the MAC Audit Group, the audit approach may require confirmation from the relative producer or IIP before the commencement of any examination.

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## Proposal for future audits

Our experience based on such audits is that acquiring the right information is quite time-consuming. Therefore, we propose that the society in the country where the controlling (parent) company is situated, takes the initiative to make the controlling company formulate and sign a statement every year. In this statement, the company gives all the essential information such as:

- Legal structure of the international operating company
- Which subsidiaries are selling sound carriers?
- Which subsidiaries give manufacturing orders and to whom?
- Are there any brokers involved?
- Where are the mechanical copyrights settled?
- Which repertoire is involved (local, budget, classical)?
- New labels and to whom are these new labels reported

We suggest to make the companies provide a statement based on the last year at the latest in January. As soon as the situation changes the parent company has to inform the licensing society. It will be the responsibility of the licensing society to distribute the documents to all other societies in countries where subsidiaries of the company are situated.

The company and its subsidiaries should be audited periodically with a frequency based on the findings in the initial audit.

# 2/ THE SCHEDULE



## **SCHEDULE ONE** – Overview activities

### Schedule One

#### **INTERNATIONAL OVERVIEW ACTIVITIES**

#### **Overview activities Independent Producer X**

##### **Subsidiaries of Producer X**

	<b>Company X</b>	<b>Affiliate X1</b>	<b>Affiliate X2</b>	<b>Affiliate X3</b>
Location				
Activity				
Repertoire and mechanical copyrights				
Society				
Manufacturing				

Basis for this sheet is the legal structure of the company and its affiliates. Based on this information per company it is possible to monitoring all the activities for example:

- Location
- activity per company/affiliate
- Kind of repertoire
- Reporting of mechanical copyrights to Society (Societies)
- Manufacturing information

Depending on the situation, other information like intermediaries can be added as well in the schedule.



## 1 AUDIT PROCESS

The audit process should include 5 steps to be followed by the auditor and the auditees which are the following .

### 2.1 Planning

For cross-border operations, the planning phase has to be engaged both by central co-ordination structures and by local organisations (auditors and local affiliate). 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.

### 2.2 - 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.

### 2.3 - 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.

### 2.4 - 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.

### 2.5 - Audit report and settlement

The audit report, summarising tasks effected and related results (differences if any), aims at informing all authorised parties of the situation of internal controls and of possible corrective actions to be followed up. In this document, a settlement will relate to differences that have to be settled





## 2 DATA REQUESTED (WHEN THE /INTERNATIONAL PRODUCER IS CONCERNED)

Such an approach is based on the assumption that the auditee's organisation and information systems should allow to bring together all relevant data to allow the copyright society to assess overall internal controls surrounding copyright reporting.

The following data are deeply requested:

### *For Auditing*

1. Legal structure of the company
2. The activities of the IIP and its affiliates
3. Which companies/affiliates give manufacturing orders
4. Names of the pressing plants used
5. Reporting on work by work or based on sales
6. Which distributors are involved (stock situation)?
7. Full purchase ledger
8. Complete distribution statements
9. A list of stocks held at all locations (i.e. Opening & closing stock positions)
10. Unliquidated Retention figures (if any have been held)
11. Destruction figures (what kind of paper/certification is accepted by all societies?)
12. The full catalogue
13. A list of all promotional units including a list of recipients and control logs
14. Examples of promotional discs to ensure that they are correctly marked
15. A full Published Dealer Price list including any updates
16. Kind of repertoire
17. Which repertoire/part of catalogue of the IIP is licensed to which society
18. Exports including copyrights of exclusive of copyrights
19. Details of any promotional only releases
20. Which licensing societies are involved
21. Does the IIP make use of intermediaries for reporting

Published catalogue list (per item and with the relevant prices) since: "period/year".