



## EVERYTHING YOU NEED TO KNOW ABOUT MUSIC PUBLISHING ROYALTY AUDITS

Royalty Audit Manager Gary Groutage breaks down music publishing royalty audits – why you should consider them, what they entail and the costs involved.

**By Gary Groutage**

Do you trust your music publisher? Do you believe that they are accounting to you correctly? How do you know if you're receiving all of the income that you should be for streaming sales? Do royalty statements confuse you? If the answer to any of those questions is yes, then you should consider auditing your publisher's books and records.

### **How do you go about auditing the publishers accounts?**

In most publishing agreements there will be a clause which gives you the right to audit the publisher's books and records. You should always argue to keep this in any agreement – reputable publishers will always include this clause. The start point for any audit will be this publishing agreement. This details the term, royalty rates, income source basis, accounting periods and audit provisions – in short everything that dictates what you are paid from the money they

collect on your behalf.

Your first step is to issue a notice to the publisher stating the intention to audit, this can be prepared by your lawyer or accountant and indeed by you, but needs to be signed by all the writers. Once this is submitted to the publisher and acknowledged by them after giving them sufficient time, the audit process can begin.

### **What audits are available?**

There are two options for an audit, the first is the **desktop review** and the second is a

**full audit.** Let's see how these differ. In the desktop review all of the work is done in the auditor's office and the full audit also includes a site visit to the publisher's office. Let's see what work is involved in each.

Both audits will start with receipt and analysis of the detailed royalty statements provided to the writer by the publisher along with copies of the summary accounts provided for each accounting period. Nowadays, the detailed statements are usually provided in Excel or CSV format which enables much easier data manipulation and analysis to be undertaken.



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## **Once a combined statement for the audit period has been created then the following can be reviewed:-**

- Songs and compositions. Have all of the writer's compositions been reported during the audit period? Are the song shares correct? If not, why not?
- Advances. Have the contractual advances been paid in accordance with the agreement?
- Additional costs. Have any additional costs been charged to the writer's account? If so, are they in accordance with the agreement?
- Royalty rates. Are the royalty rates reported correct? There are different rates for different types of exploitation, has the publisher applied these correctly? Do the rates increase upon recoupment of advances or for different option periods? Has the rate for covers been applied correctly?
- Does performance income match back to the relevant PRO statements?
- Do mechanical and streaming units and income match with the comparable recording statement? This can be checked if the client also provides their recording statements.
- Is writer approval required for any type of exploitation? If so can the publisher provide a copy of the approval?

It is worth understanding how all these points work as they can be useful for you, as a writer, to spot check your statements as it may be a good indicator that an audit is worth commissioning.

All of this work will be undertaken at the auditor's office and a draft report will be provided to the writer(s) for their review and approval before it is sent to the publisher.

In a full audit all of the above work will be undertaken along with a site visit to the publisher's offices. During the site visit the publisher's source income statements will be analysed and where they have an intercompany license with their overseas affiliates these statements will also be reviewed. This is to ensure that the income on which the writer's royalty is calculated is correct. Any queries will be raised with the publisher during the course of the site visit.

Once the site visit is complete, and following any correspondence with the publisher relating to outstanding information and queries, the draft report is provided to the writer(s) for their approval before being sent to the publisher.

Following receipt of the report and schedules by the publisher there will follow a period of negotiation as to whether the claims are valid and accepted by the publisher. This may involve the writer(s) lawyer along with management. During this process the publisher may

provide evidence as to an overpayment by them to the writer, if accepted by the writer(s) representatives then this is factored in to the final settlement. The discussions will continue until a mutually acceptable settlement can be reached. Following this an audit settlement document will be prepared and signed by the writer(s) and the publisher and the audit will be considered complete and the statements audited will not be available for further audit.

### **Why should I consider an audit?**

Even if you are happy with the accounting from your publisher you should consider undertaking an audit. Where there is human involvement in the accounting process there is always a possibility of a mistake being made. The majority of audit findings relate to mistakes made in setting up songs or contracts in the royalty system, they are also caused by misinterpretation of the clause within the agreement.

In addition, an audit will show any legal deficiencies with contracts or rights that you may have with your works or masters. Given the value of the IP contained within these assets it's very important that full and clean legal documentation is kept to maximize their value. If these are ever sold then good documentation, historic accounts and audited statements adds a considerable amount to their value.

### **Will auditing spoil my existing relationship with my publisher?**

Definitely not. They will be expecting to be audited and the major publishers have dedicated staff to deal with audits.

### **How much is an audit and who pays for it?**

You can expect a desktop review to cost between £3,000 and £6,000, and a full audit from £10,000 plus costs. This very much depends on how much work is involved, if the deal is a complex one then more work will be required to unpick it and ensure that you are being accounted correctly. Every audit is different and the cost will be discussed with the writer(s) before the audit commences. If the audit is successful and the amount recovered is sufficient, then the publisher will make a contribution, or pay the audit costs in full. The wording varies in each agreement but is generally along the lines of if the shortfall is the greater of £X or X% of the amount that should have been paid then the publisher will pay the reasonable costs of the accountants. In some cases this is capped at a certain amount but the exact wording will be shown in your publishing agreement.

### **Where can I find out more?**

Feel free to contact me, [Gary.groutage@ccyoung.co.uk](mailto:Gary.groutage@ccyoung.co.uk)