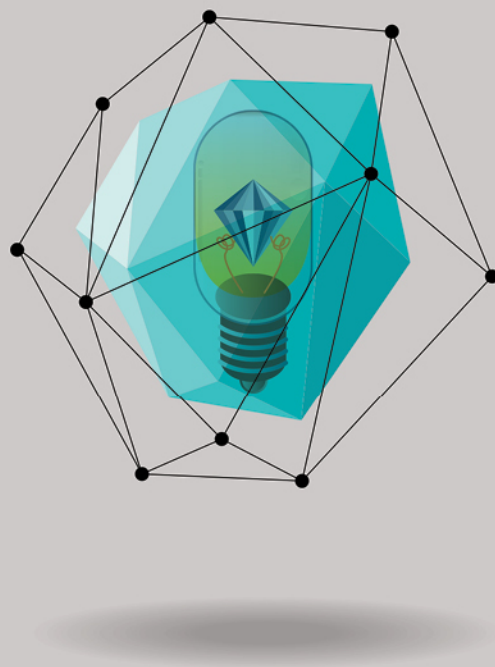


Making Best Use Of All Your Valuable Assets

How to manage your intellectual property using audits and assessment tools





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Introduction

A long-standing business maxim says, 'If you can't measure it, you can't manage it'. This is as applicable to your intellectual property and intangible assets as anything else in your company. To manage your IP well, you have to know what it is, where it is, how it works, and whether it is doing the job intended. An IP audit, or similar form of assessment, gives you the baseline you need to get good practices in place.

This guide introduces you to the different levels of IP investigation — IP diagnostic, IP audit and IP due diligence — with an indication of when each one might be appropriate. It also sets out the nature and purpose of an intangible asset register which each of these activities can help you to create.

The guide is intended to be read in conjunction with others in this series, particularly those covering the different types of IP rights, developing an IP strategy and gathering IP intelligence.

A diagnostic can be viewed as a general 'health check' to ensure that a company knows what its assets are and how they are being used and maintained. An audit (a term borrowed from accounting) is a more detailed study that considers whether a business has the assets it needs in order to achieve its strategic objectives. Due diligence is an even more 'forensic' investigation of a company's IP that is often directed at risk assessment — particularly in terms of ownership and litigation.

If you have a good level of business knowledge and general understanding of IP rights and how they operate, you will probably be equipped to undertake the most basic level, the IP diagnostic, yourself. By contrast, IP audits usually benefit from being conducted by an external expert. Due diligence is invariably done by a specialist in order to ensure impartiality and is not covered in detail in this guide.

The main body of this guide focuses on IP audits, which are normally the most relevant and beneficial exercises to conduct (unless you are selling or listing your company, in which case you will need due diligence). It sets out the areas the audit should cover; what is generally involved and the preparations you may wish to make; the information you will need to provide; how you can expect to benefit; and how to build the results into an effective strategy.

Produced by IPOS International (formerly IP ValueLab), these intellectual property management (IPM) business guides aim to deliver a suite of IP solutions for enterprises based on industry best practices. As the expertise and enterprise engagement arm of the Intellectual Property Office of Singapore (IPOS), IPOS International helps enterprises and industries use IP and intangible assets for business growth. Some of these engagements may be eligible for Enterprise Singapore (ESG) funding, such as the intangible asset audit and strategy development aligned with business goals. IPOS International's business portal www.iposinternational.com also contains case studies and videos of enterprises leveraging IP to gain a competitive edge in their innovations. Should you have questions on IPM matters or wish to speak with our Intellectual Property Strategists, do email us at enquiry@iposinternational.com or call +65 63308660.

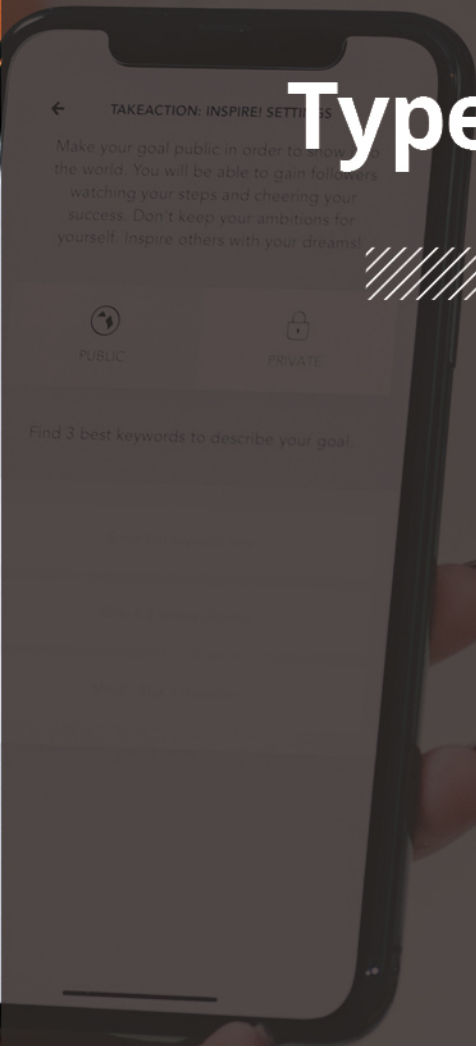


Types of IP assessment



01

*Why worry about things
I can't see and touch?*



1. Types of IP assessment

Why worry about things I can't see and touch?

Your intellectual property, together with the other intangible assets that surround it, are likely to be the most valuable things your business owns — so it really pays dividends to look after them properly.

If physical assets like plant and machinery, real estate, vehicles or IT hardware are important to your business, the chances are you will have an inventory for all of them. You will be thinking about whether they are being utilised to their full potential, planning for maintenance or replacement and having measures in place to keep them secure.

However, many businesses do not take the same rigorous approach when it comes to looking after intellectual property (IP). It is generally because these types of asset, together with all other 'intangibles' are not physical things, so they are not 'front of mind' in the same way. Their value would not usually be represented on your balance sheet, and you are unlikely to be spreading their cost over their useful economic life.

At best, this is a missed opportunity. At worst, it places your business at unnecessary risk. That is because it is often the IP and intangibles you have created that form the lifeblood of your organisation. These are the things that protect your competitive advantage, market standing and distinctiveness and stop imitators encroaching into your space. If someone started walking off with your computers, you would notice pretty quickly — but what about your reputation?

“An IP assessment is like having a 'health check' on all the non-physical things your business owns and uses”

An IP assessment is a review of all the non-physical things your business owns and uses. It tells you what to do to ensure these assets are fit for purpose. If you ever want to sell or hand over your business, a lot of its value will depend on whether your IP and other 'intangibles' have been well managed.



What types of assessment are available?

Just as IP is unique (because no two companies will own the same thing), each IP assessment should be tailored specifically to your company. There are three main types of processes that go into varying levels of detail. Whichever

one you choose, it will reflect the IP position at a particular moment in time.

“You can assess your intangibles in a number of different ways and in varying levels of detail”



IP diagnostic

An IP diagnostic provides an overview of the company's intangible assets. It looks at what broad categories of IP you have (for example, do you own anything that is inventive that might form the basis of a patent application?). At this general level, the focus is on developing an appreciation of the key intangible assets owned by the business and where your IP management priorities lie.

This guide can help you to perform an IP diagnostic yourself, provided you already have a reasonable understanding of the different types of intellectual property and when they are useful. Other guides in this series can help fill in any gaps in your knowledge.



IP audit

An IP audit goes into each class of assets in considerably more detail. It will identify exactly what assets a company has and what it is engaged in developing. It will also establish where the company is in a strong position and where there are issues or opportunities.

Audits are usually best conducted by an external IP specialist to ensure that their findings are objective. A good audit provides you with specific, prioritised conclusions that form the basis for an action plan.



Due diligence

Due diligence involves an even more detailed and rigorous interrogation of your IP. It is conducted for a specific purpose such as an Initial Public Offering (IPO), fundraising, merger, acquisition, or some other transaction involving company IP. It will invariably need to be carried out by an independent, specialist legal or accountancy firm — otherwise, its findings will not be considered reliable.

Any of these processes may lead to the creation of an intangible asset register, briefly described in the following section.

1. Types of IP assessment

Which type of assessment do I need?

The assessment process will examine your intangible assets in various levels of detail and may focus on different aspects (legal, practical or technical). Which one is best will depend on what you hope to achieve and the reason for the assessment.

Figure 1 provides an overview of the main reasons for considering an audit of some kind.

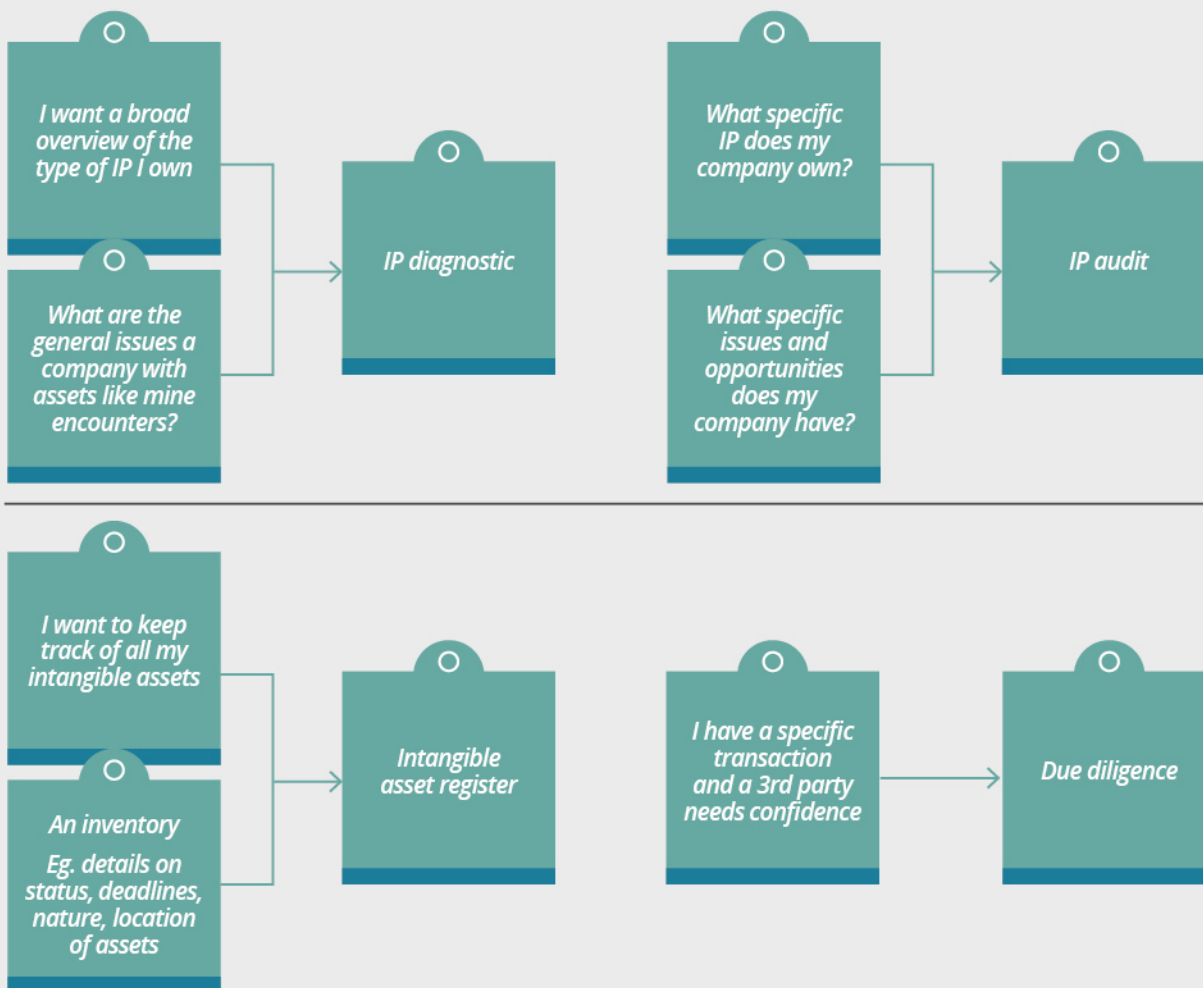


Figure 1. IP Assessment overview

It may be helpful to provide a direct comparison of the approach each of these assessments might take, using a specific example.

Via an IP diagnostic, you may establish that you have a logo that is used to advertise and promote your products, and that this is (or should be) covered by a trade mark. This provides a basis for you to make sure your mark is obtained and renewed when necessary and provides visibility of the countries and activities that are protected.

“IP diagnostic, IP audit and IP due diligence are terms to describe different levels of enquiry into the intangible assets you own and use”

In an IP audit, your logo and any associated trade mark protection will be examined in more detail. Ownership details will be checked to make sure an existing mark is correctly registered, or to see who owns any other marks that might be considered similar. An independent assessment will also be made to determine whether the scope of protection is appropriate (has protection been obtained in all the territories where it should be, and is the registration in the correct classes, given the current and future activities of the business?). If there are unregistered trading styles in use, official databases will be examined to determine whether they can be protected through registration.

During due diligence, the audit information will be supplemented with even more details. The legal status and ownership of the mark will be confirmed and the possibility that the mark may be open to challenge from a competitor will be examined.



As part of performing an IP audit or during due diligence, it is also possible that a detailed intangible asset register will be produced. An intangible asset register usually takes the form of a spreadsheet that lists each asset you own in detail, along with some basic information about the asset. This is described in more detail later in the guide.

This guide explains what an audit typically contains, and provide templates that should enable you to conduct your own IP diagnostic (and create an intangible asset register if needed). It does not cover the due diligence process in detail.



SUMMARY

The following may be helpful as a summary of the different types of assessment and the categories of asset that you may own as a business.

IP DIAGNOSTIC	IP AUDIT	DUE DILIGENCE	INTANGIBLE ASSET REGISTER
<ul style="list-style-type: none"> • Can be done internally • Identifies types of assets • Focuses on creating a “baseline” assessment • Useful to highlight issues that need addressing and opportunities for improved protection 	<ul style="list-style-type: none"> • Usually performed by an external specialist • Considers the company's current and future assets • Focuses on company priorities • Useful starting point for developing an IP strategy 	<ul style="list-style-type: none"> • Always performed by an external specialist • Detailed assessment of individual current assets • Focuses on risks as seen from an external perspective • Useful in company sale and listing 	<ul style="list-style-type: none"> • Can be created internally or externally • Detailed list of assets and their features • Focuses on the legal ownership and location of the assets • Useful for maintaining an inventory



Things you can do for yourself



02

*What sort of assessment might
I be equipped to do in-house?*

What sort of assessment might I be equipped to do in-house?

“If you have good business insights, a working knowledge of IP and sufficient access to internal information, you’ll be able to conduct your own IP diagnostic”

What types of assets am I looking for in a diagnostic?

As long as you, or members of your team, have a reasonably good working knowledge of intellectual property, you should be able to do the most basic level of assessment — the ‘IP diagnostic’ — in-house.

Your level of basic IP knowledge should be the main determinant of whether you should conduct an initial diagnostic step yourself, or go directly to an external specialist. As a general guide, if you know what the different types of IP are and how they operate; if you have some understanding of how to search official IP databases; and (most critically) if you have a good overview of your business’s strategy and operations, then you probably know enough with the support of this guide.

In the process of compiling the diagnostic, your appointed ‘internal auditor’ will need to think about how to classify your assets (what categories they fall into). Once the types of IP that you own and use are captured and described, you can document any that are registered (when were they filed, what do they cover, when are they due for renewal) and ensure that someone within your team is responsible for monitoring them. You can also then list the types of non-registrable assets you have and which people or departments are responsible for looking after them too.

In the course of conducting an IP diagnostic, it is very likely that areas for improvement will be found. Even if you are not in a position to act on all of these immediately, they should still be recorded as they form valuable inputs to an IP strategy.

There are a number of different ways of defining, describing and sub-dividing the non-physical assets that a company has. The important thing is to start with a broad sweep, so you don’t miss any opportunities to gain better protection or overlook any important threats to your business.

Intellectual property is the sub-set of intangible assets that has special protection in law. When considering how to categorise this wider body of assets, it’s important not to simply focus on the three main types of IP rights that can be registered (patents, trade marks and designs), but to also look at the various copyrights, contractual, non-contractual trade secrets and other rights that may be important to your business.

Accounting standards illustrate the breadth of things you might find. In particular, International Financial Reporting Standard (IFRS) 3 (that governs how multinational corporations account for assets obtained as a result of mergers and acquisitions) suggests five main headings for intangible assets and a representative set of contents for each one.

This is summarised in Figure 2.

2. Things you can do for yourself

IFRS 3 shows how wide-ranging an intangible asset assessment should be. However, it is important to note that even this lengthy list of categories may not cover all types of asset that may be found in a business, because it is limited to those that are underpinned by legal or contractual rights, or which are theoretically separable from the business that owns them.

Marketing-related assets <ul style="list-style-type: none">• Registered and unregistered trade marks• Internet domain names• Trade dress (colours, shapes and packaging designs)• Newspaper mastheads• Non-compete agreements	Technology-related assets <ul style="list-style-type: none">• Patents• Computer software• Unpatented technologies• Breeding rights• Databases• Trade secrets, such as secret formulations, processes or recipes
Customer-related assets <ul style="list-style-type: none">• Customer lists• Order or production backlogs• Customer contracts• Other non-contractual customer relationships	Artistic-related assets <ul style="list-style-type: none">• Plays, operas and ballets• Books, magazines, newspapers and other literary works• Pictures and photographs• Video and audio-visual materials
Contract-related assets <ul style="list-style-type: none">• Advertising• Construction, service, delivery and supply contracts• Licences and similar agreements• Permits• Franchising agreements• Broadcasting and operating rights	

Figure 2. Typical assets that may be included in an IP assessment

How should I structure my IP diagnostic report?

“The six headings shown here should act as a useful set of categories to help you find all the key intangible assets your business owns”

While you should tailor your report to suit your individual business needs, it is generally helpful to have a structure in mind to make sure you don't miss anything important. Experience suggests that six headings should be sufficient to spot the assets that matter most.

The IFRS headings provide useful pointers of where to look within your business in order to find intangible assets. It's likely that some will be 'owned' by your sales and marketing team, some by whoever looks after your creative or technical development activity, and some by the person responsible for legal matters. However, if you use them to compile the actual diagnostic, you'll end up putting assets with similar qualities under different headings. As one example, assets protected by copyright might be found under all five of them.

You can start with a simple list. Examples of possible categories or headings are as follows:



Registered IP rights



Copyright



Contract



Internal resources



External relationships



Approvals & endorsements

- **Registered IP rights** — either obtained or in progress — should have their own heading. There are statutory procedures to follow to maintain their protection so they require careful monitoring.
- **Copyright** should have its own heading because the assets it covers are so diverse and widespread. As well as creative assets like books, pictures and music, it includes software code, process maps, notebooks and marketing literature. The accompanying guides in this series contain further details on other things that fall under this heading.
- **Contracts** come next because these assets are binding commitments. Not all of them will be with outside parties; for example, employment contracts are very important in protecting IP rights.
- **Internal resources** provide a useful heading to record other things that are unique to you but are not (or are not yet) IP such as trade secrets and confidential trading records.
- **External relationships** consider all the dealings you have that are not contractual but nevertheless, contribute to your business model. These may include customer and supplier lists, for example.
- **Approvals and endorsements** can be used to record awards, permissions to trade, quality certification and other assets that are not necessarily unique to your business but help customers have confidence in your company.

2. Things you can do for yourself

When you are compiling a diagnostic report, it is important to consider all the intangible assets available to the company. You should also consider assets you have acquired (which might be through buying another business), assets you do not own but nevertheless use (for example, under licence) and assets you have created but are not using (there may be commercial opportunities in these unexploited assets also).

Can I use my diagnostic to create an intangible asset register?

While you are in the process of categorising the types of asset your business has and uses, you may find yourself going into some detail on the identity of the individual assets themselves. If this happens, you will already be part of the way to creating an intangible asset register.

“An asset register makes it easier for you to retrieve data on any IP or intangible you own, and can help you to formulate IP policy”

You are especially likely to get drawn into the detail if you have a wide product range with distinctive styling or features. It may also happen if you have an extensive catalogue of copyright-protected assets (like musical compositions, photographs, drawings or articles).

In this case, your ‘internal auditor’ should be well placed to start creating a detailed intangible asset register — in essence, a list of all the IP and intangibles the company owns, when they were created, who created them, their status and where they are located (using electronic file links, for example).



This thorough level of understanding can be very helpful in developing an IP strategy or policy because it gives you clarity regarding the assets that you are trying to nurture, protect and exploit commercially.

You can use the same headings as those proposed for the IP diagnostic to sort your assets into types. For each individual one, it is good practice to record some details of its name and description together with the date of creation, inventor’s identity and the basis of the rights to use it. If a legal document (e.g. an assignment, licence, IP right or other contracts) is associated with the asset, then a link or reference to this document should be included to indicate where it is located.

Figure 3 provides an extract from an imaginary register to show you the level of detail that might be required.

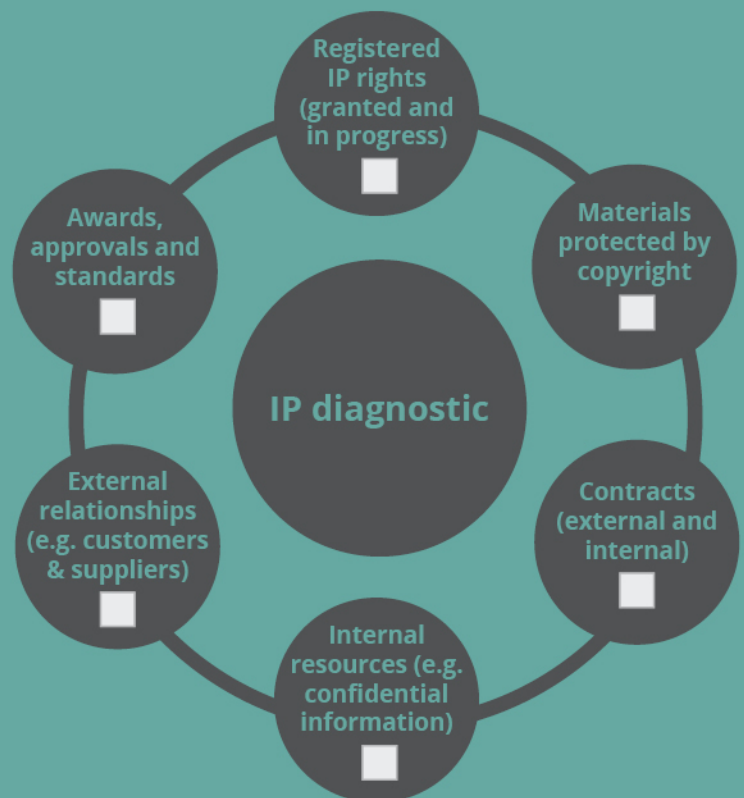
ASSET	DATE CREATED	DESCRIPTION	WHERE LOCATED/ STORED	TYPE	ORIGINAL IP CREATOR & OWNER	RIGHTS VIA
Photos of team on away day	4th June 2016	Photographs used on website and in marketing materials	F Drive	Copyright	Event Photos SG	Contract (assignment signed 20th June 2016)
Trade Mark SG 12334334 Classes 9 and 35	16th March 2014	Company logo in greyscale	SG TM SG 12334334	Trade mark	Internally owned. Drawn by employee	Employment
Service agreement	8th February 2016	Key contract with XXY to supply our services	Filing cabinet 1 Drawer 2	Contractual	Internal	

Figure 3. An extract from a sample IP asset register



SUMMMARY

The following summary provides a simple reference to the categories you may wish to consider when compiling your own IP diagnostic report.





IP audit



03

What does an IP audit cover?

What does an IP audit cover?

Five principles will feature in a good IP audit. It should be focused on your business model, set out clear priorities, take a broad view of IP, be forward-looking in nature and cover threats as well as opportunities.

“An IP audit should be broad in scope and help you focus on the intangible assets that are most important to your business”

- 1.** The audit will focus on the things that are most critical to the success of your business model, and check that you have the necessary degree of ownership or control over them. For instance, if you are a business developing or manufacturing a new ‘high-tech’ product, it may be that you have or should consider, patent protection. By contrast, if you are a creative business (e.g. a design studio) or a software/mobile app developer, the audit will likely spend the most time looking at assets that are protectable under copyright, and might also be protectable using registered designs, such as a mobile device app graphical user interface.
- 2.** An IP audit will set out clear priorities. Few businesses have the luxury of being able to do everything at once — and it may not always be feasible (or desirable) to protect absolutely everything you own to the maximum extent legally possible. The audit will identify the areas that demand your urgent attention, and others which can wait for a little while.
- 3.** An audit will be broad in scope. It will certainly look closely at any ‘formal’ IP (like patents, trade marks and registered designs), to see whether they are properly maintained and licensed and whether they give you protection in all the territories where you trade. It should also cover all the other non-physical things you own — like your customer relationships and confidential information. It may suggest things you should do differently; it may also identify that there is greater scope for protecting your assets than you have realised — some of which might be done using contract law rather than IP law. The level of detail provided will be much greater with an IP audit than with an IP diagnostic.
- 4.** The audit will be forward-looking. It will not simply examine what you already own, but how you innovate. As a result of the audit, you may discover additional scope to manage and transact business with your IP and intangibles in the future.

3. IP audit

5.

The audit will cover threats as well as opportunities. Threats may be external or internal — from hostile competitor action or shortcomings in internal procedures that jeopardise trade secrets. It might find that IP created with the help of an external agency is still formally owned by the contractor, not your firm. It may also find that registered rights and/or domain names are incorrectly registered to another entity (most commonly, one of the directors or the web hosting company).

Figure 4 summarises the five points an audit should cover for ease of reference.



Figure 4. An IP audit is a detailed review of the key intangible assets that drive your business







What will I gain from an IP audit?

An IP audit is more detailed than an IP diagnostic and looks specifically at the most important non-physical things you own. It explores the opportunities and threats that are most important for your business.

Once completed, it becomes an asset in its own right.

There is compelling evidence that businesses find a professional IP audit helpful, as shown by recent international research. Companies had benefited from having an audit conducted in a number of ways:

“Audit recipients report a range of financial benefits, as well as opportunities to improve their IP protection”

	How businesses have benefited from IP audits
	Most businesses (82%) had either acted on or were in the process of acting on practical recommendations outlined in their reports.
	19% of businesses surveyed had registered one or more new trade marks; 17% were in the process of filing new patents; 15% were introducing appropriate use of non-disclosure agreements.
	31% of businesses reported that the audit recommendations identified new business opportunities; 43% identified new ways to exploit their IP through initiatives like licensing and franchising.
	28% of audit recipients reported that they had experienced some financial gain as a result of the audit. 23% of businesses reported that the audit assisted in raising equity funding, and 30% reported that it helped obtain grant funding.
	Just 14% of businesses thought that they would have achieved similar results without the IP audit.

What are the benefits of using an external auditor?

Unlike an IP diagnostic which is typically performed internally, an IP audit is usually led by an external auditor. This offers a number of advantages in terms of IP knowledge and impartiality. To get the most from their expertise, you will need to help them understand your priorities and find the right information.

Firstly, most auditors will have detailed knowledge of how IP works and will have experience in getting it registered and protected. They may also be experienced in related areas that are helpful for commercial exploitation of IP rights, such as valuation and/or licensing.

Secondly, being external, the auditor can be impartial and should not be influenced by any 'internal politics' or the fear of delivering bad news by highlighting issues. Also, you may feel there are fewer issues with sharing sensitive strategic information with an external consultant (who is bound by conditions of confidentiality) than with an employee.

Most importantly, the auditor will be experienced in the specific business of auditing. They will be more efficient with their time because they will know what to look for, and how to conduct all the necessary background checks before proposing a strategy.

“External scrutiny is usually beneficial: it gives you a professional ‘second opinion’ on whether your rights are ‘up to the job’”

3. IP audit

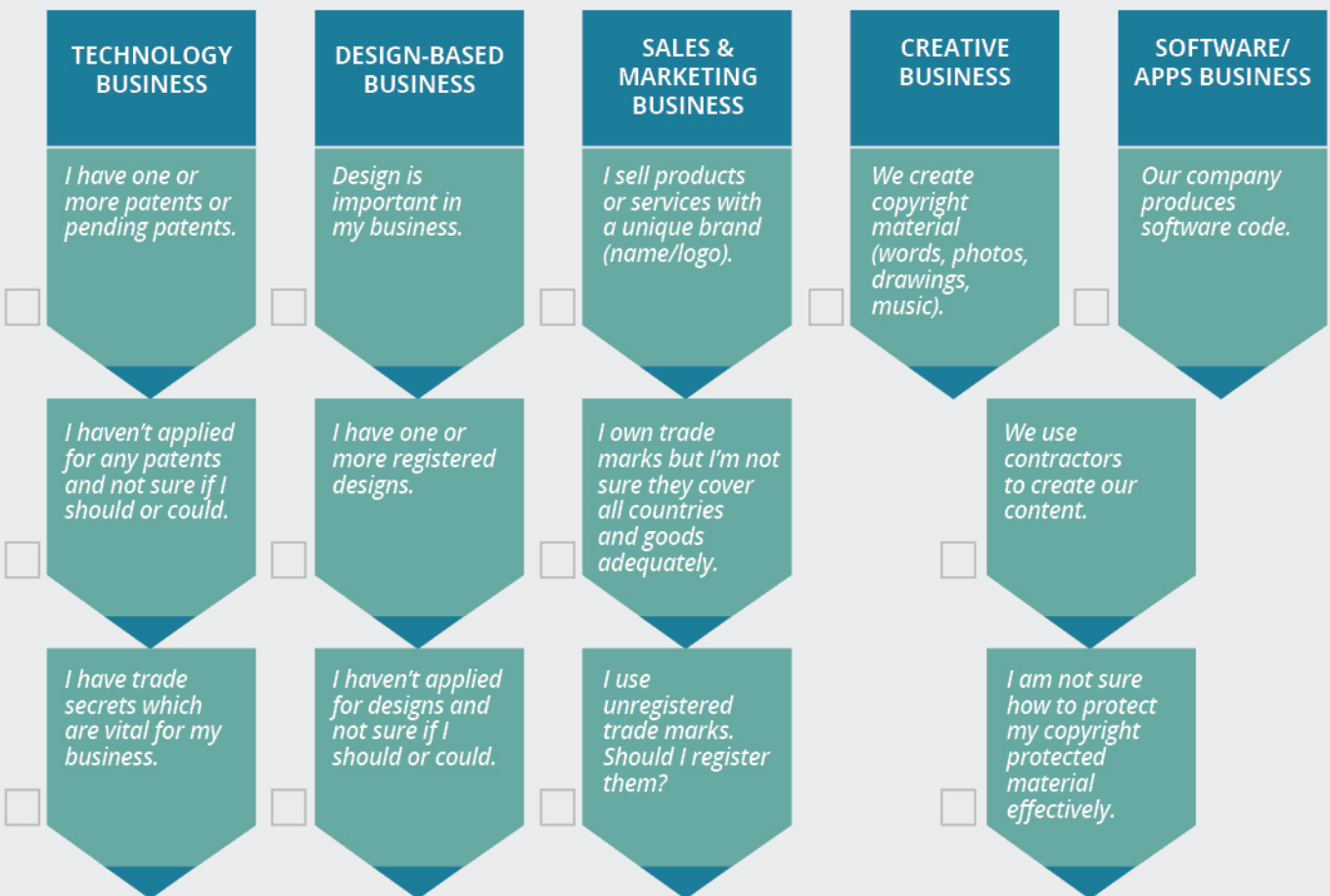
However, it is important to recognise that an external auditor is likely to lack specific knowledge of your company and sector, and some time will need to be invested in explaining these aspects by the best-placed people.

For this reason, it is important to involve relevant members of your team in any IP audit. This will invariably include senior management to feed in information on company management structure and business strategy, and members of your R&D team or its equivalent who may be better placed to discuss means of capturing IP such as processes, improvements and the like. The following chapter sets out more details on this aspect.



SUMMARY

The following summary provides some reasons to consider an IP audit if you are a technology, design, creative, software or sales/marketing-centric business (or employ teams involved in any of these activities).





How do I prepare for an IP audit?



04

What sort of commitment am I looking at — in people and time?

4. How do I prepare for an IP audit?

“An audit will require information to be collated from across your organisation”

What sort of commitment am I looking at — in people and time?

The length of time an audit will take depends on the complexity of your organisation and your business model. As a guide, an audit for a small or medium-sized enterprise might take a specialist around 4-5 days to complete, spread across a period of 2-3 weeks.

There are a number of key people who will need to be consulted before and during the audit process, ideally to input on IP matters related to the following:



Senior management



IP management



Legal counsel



R&D



Production/
operations



Sales and
marketing

- **Senior management** — in particular, the representatives who take overall responsibility for business strategy, technical/creative development, human resources and sales. In a small company, this may all be one person!
- **IP management** — anyone in the business (or outside it) who takes responsibility for filing or monitoring intellectual property (patents, designs & trade marks).
- **Legal counsel** — if your organisation has an internal legal department, they will need to be consulted. The auditor will generally want to review sample contracts (employment, non-disclosure, supplier/distributor agreements and any terms of sale) to ensure that the IP provisions are strong. The auditor will also require details of any licensing arrangements your company has entered into. It may be necessary to involve an external law firm if you retain one.
- **R&D** — to provide details of your development pipeline and whether there may be new inventions that are yet to be protected. Also, information on whether the company owns and wishes to maintain any technical information as a trade secret, and whether any software code is being currently generated.
- **Production and operations** — details of technical production processes.
- **Sales and marketing** — details on the use of trade marks. Also samples of product catalogues and company brochures, information on any trade fairs and what is disclosed at such events, and policies for blogging and website updating.



HR

- **HR** — induction of new staff (the standard induction process and any education provided on the importance of IP for your company). How staff are informed of any trade secrets owned by the company to which a new employee requires access, and their responsibility not to disclose them.

If your IP is managed externally (for example by a patent agent) and you have asked someone other than your agent to do the audit, it may be necessary for the auditor to engage in discussions with the agent in order to understand the current status of any applications and how any objections to registration are being handled. The auditor should ask your permission first, as the agent may charge you for the time taken in answering his or her questions — although any such charges should normally be modest.

What information will I need to provide or obtain?

“To get the best from an IP audit, it needs to look beyond any registered rights you have now, to consider what you might have in the future”

A good audit looks at your likely future needs as well as current opportunities and challenges. Be prepared to share your product development plans as well as details of the intangible assets used in your business today, and your thoughts on your competition.

Each auditor will have their own preferred method of making sure they build up a comprehensive picture of your business's IP health. They may well start by asking you to identify any particular aspects that you are keen to ensure the audit covers — perhaps because they relate to a known opportunity, but possibly because they are known 'problem areas'.

It is not uncommon for the process to start with any registered rights that you may own, in fact, the most widely held type of intellectual property is copyright.



An experienced auditor will be able to help by prompting you with questions that help to uncover just how many copyright assets (as one example) you own and highlight the presence of rights that are not registered but could be.

Because not all your intangible assets can be protected using IP laws, an audit should also look at some of your key contracts. Any templates that you use (particularly relating to matters with relevance for IP, such as non-disclosure agreements, distribution agreements and employment contracts which govern IP ownership) should be shared — in confidence, naturally. It will also be important for an auditor to be able to form a picture of when these templates have (and have not) been used in the past.

4. How do I prepare for an IP audit?

All auditors will also want to know your plans for future innovations. Is there, or could there be, another patent application in preparation? Is a new recipe being formulated, a new artistic work being produced, or a new software package being written? Also, separately, are you thinking of expanding into any new geographic markets or product/service sectors? Or are you considering licensing your IP to other people? All of these are likely to influence the IP strategy that the company should adopt, and therefore the recommendations the audit should make.

Among other things, your auditor will also want to know your views on competitor activity and whether any competitors are getting uncomfortably close to your IP (as this will assist offline searches that will usually need to be conducted).

What shall I tell the team?

In order to get the best from an audit, it is important for all staff involved to speak freely and 'tell it like it is' — otherwise, the auditor might miss opportunities to help you run your business better.

“Your team should be happy to contribute to an audit, provided they recognise that its purpose is to safeguard their work”

Unless your organisation is very small (for example, if you are yet to commence trading), it is unlikely that senior management will have all the information that the auditor requires on hand. However, this shouldn't be a problem — simply direct him or her towards whichever employees are best placed to discuss how your business innovates. If you have a person, a team or a department that deals with R&D, this should be a particularly productive conversation.

Normally, everything else being equal, your staff should be happy to contribute. They may, however, need to understand that the purpose of the audit is not to poke holes in anything they have (or have not) done, but rather to make sure that their contribution does not go to waste.

Sometimes an auditor will request a specific 'bundle' of documents and/or other information to be sent in advance of the main meeting. If these are sensitive, you may wish to put a non-disclosure agreement or ensure that there is a general confidentiality obligation in place within the engagement agreement before sending them, or seek other assurances that they will be treated in confidence. It is generally easiest if you make one person responsible for collating the information required.

One point to consider, however, is that the audit report will no doubt contain commercially sensitive information on your valuable intangible assets. It, therefore, should be clearly marked as 'STRICTLY CONFIDENTIAL' on each page.



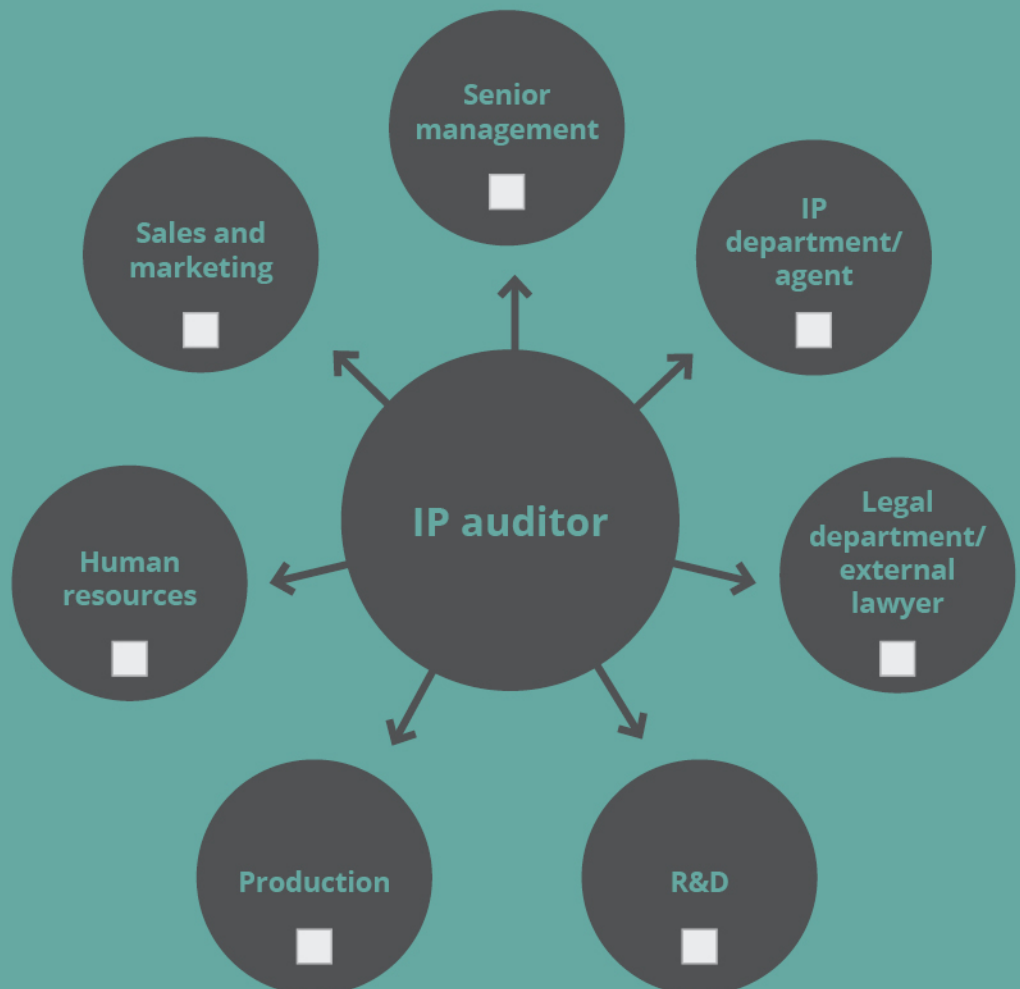
It should not contain written details of any contentious matters (like suspected infringement of your IP); these are best dealt with separately because the audit itself might become evidence in any future dispute (if you know an infringement is happening but do nothing about it, this can impact your ability to mount a legal challenge in future).

As the audit may also contain recommendations that are sensitive for other reasons — for example, because it uncovers missed opportunities to protect your IP — it is worthwhile giving some thought at the outset to how widely you undertake to share it with your business stakeholders.



SUMMARY

The auditor will require access across your company. He or she is also likely to need to speak to some of your external advisors (for example your patent/trade mark agent or your lawyer). Here is an overview of the connections you may need to facilitate to get best results: of course, in a small business, one individual may cover several areas.





What happens during an IP audit?



05








*What will an external auditor
actually do?*

What will an external auditor actually do?

“ You may be sent questions in advance of the audit visit, in order to make best use of everyone’s time ”

Each auditor works in a slightly different way, but there are six steps that are normally involved in the production of an IP audit (not necessarily in the order featured).

While there are no set standards for an audit of this type, it is usual for an auditor to include the following points:

	Audit process
	<p>Before commencing the audit, you will often be asked to provide some preliminary information on the types of IP you already have and your perceived needs in this area — it is always helpful for an auditor to understand where any ‘pain points’ may lie.</p>
	<p>Publicly available data on your company and its IP assets will generally be accessed ahead of an initial meeting so that the auditor can understand the stage of development of both the IP and the company. This will assist in the formulation of appropriate questions and might lead the auditor to send some of them in advance of a meeting.</p>
	<p>A visit to your firm is usually conducted as this is the best way to see innovation in action, hear about your company’s objectives, discuss your business model, procedures and policies, understand where you sit in the competitive landscape, and run through your most important contractual relationships and networks.</p>
	<p>Once the auditor understands more about the current assets and future direction of your company, additional searches can be conducted to gather data on the surrounding IP landscape. This, in turn, enables an informed view to be developed on how much freedom your business has to expand, and where you need to be particularly aware of competitor activity. Supplemental questions may be raised at this point in order to ensure the information contained in the audit report is relevant and timely, to clarify points or speak to any key staff members unavailable at the time of the main visit.</p>
	<p>A report is then compiled, breaking down the assets found into categories, providing your company with a high-level intangible asset register. This should be accompanied by a prioritised list of action points, so it is clear what you need to do next (based on the objectives you have described to the auditor).</p>
	<p>You may then review the report and raise any questions prior to finalisation.</p>

5. What happens during an IP audit?

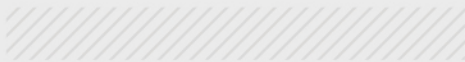
POS International conducts the intangible asset audit to help businesses understand and articulate where the true value of their company resides. This is done through a stocktake and identification of the entire spectrum of intangible assets, and analysis of their strength, scope and alignment. The audit also identifies both the internal and external risks and gaps in the current management and protection of these assets. Intellectual property strategists will provide specific recommendations in the audit report regarding areas in which to strengthen or re-align protection to improve long term competitive edge and mitigate risk if required.

The amount of time needed will vary substantially depending on the size and structure of your company. For example, if your business is large enough to be organised into separate divisions, it will probably make sense for each division to provide a designated coordinator or contact point so that no one person has to extract information from multiple business units.

In larger firms, it will be important to ensure that departmental heads sanction the release of information to these coordinators, and allow their staff sufficient information to retrieve all the relevant data (or, more likely, a representative cross-section of it). In a smaller company with a flatter and less complex structure, this should be comparatively easy, though it is not unusual for a degree of friction to be encountered whenever information requests fall outside the realm of 'business as usual'.

Once the information is collected, it needs to be analysed, collated and critically assessed. This is where the degree of subject and IP knowledge and the professional standing of the designated auditor come in, as this will have an impact on the credibility of the findings. As with an external audit, it is likely that the auditor will need to come back with supplemental questions or clarification before a final report is presented to management.

However, once the exercise is complete, the designated auditor will be uniquely well-placed to take the audit one step further and compile a comprehensive intangible asset register. This not only categorises assets by type but also lists each separate identifiable asset that exists. It can be a particularly challenging task in a creative business but can be extremely useful (for example, if the company is acquired and needs to set up a 'data room').



“It can be harder for an internally appointed person to command the authority an auditor needs to produce best results”



SUMMARY

The following summary gives you an overview of the steps taken to develop recommendations in a typical audit process.





How should I use the audit report?



06

Prioritisation: first things first!

Prioritisation: first things first!

An IP audit report should be a comprehensive document. Since intellectual property is a complex area, there is nearly always scope to do a number of things better — but your auditor will make clear where your priorities should lie.

It may be helpful to bear in mind that almost every company, regardless of size, is resource-constrained when it comes to IP protection. Not even the largest technology firm protects all the IP it possibly can in every country in which it may trade. Instead, the geographic reach of the protection is usually limited to key markets based on sales value or strategic importance and regions where either the company or its competitors have chosen to manufacture.



A good report will be both comprehensive and pragmatic, factoring your development stage and financial resources into the recommendations it makes. It may be quite a long document: it is not uncommon for an audit to make a large number of recommendations (as many as 40-50 points, of varying levels of importance, might be raised for senior management to consider). However, it does not follow that the business is doing a bad job: some companies have far more opportunities to innovate than others.

“Not even the largest technology firm protects everything wherever it can: all innovators need to prioritise to make sure their IP protection really counts”

It is important, therefore, to prioritise and act on the most pressing aspects first. Some recommendations are likely to be obvious to address immediately, budgets permitting; for example, if the report identifies that your company's trade marks don't cover a territory where you are starting to sell in large volumes.

Your IP audit report will list the priority points, which will represent the opinion of the auditor, based on their understanding of the business strategy. Should you receive a report that contains many actions but does not make it obvious where to start, it would be wise to revert to the auditor and ask them to provide this information.

However — at the end of the day, it is your business. Your IP and intangibles should serve your objectives, so it pays to be clear on what benefit you will derive from spending more money on protection (if that's what's being advocated). You are entitled to expect a professional service from any external auditor; you should not feel obligated to use their services for follow-on activity they have recommended you to consider.

6. How should I use the audit report?

Aligning IP and business strategy

Once an IP audit report has been produced, it is important to ensure future IP-related activities are consistent with any wider corporate strategy.

“Your IP audit should allow you to draft an IP strategy that fits with the overall business strategy and objectives”

For example, if it is coming up to the point in the patenting process where your company has to decide the countries in which protection should be obtained, it would be beneficial to consult (or develop) the international product roll-out strategy to identify the priority countries required to meet your needs in the years ahead.

Once the audit is produced and the IP is being well-managed, the occasions where your company finds it has the right protection in the wrong territory or the wrong protection in the right territory should be minimised.

The IP audit should also equip you to write an IP strategy that will feed into your overall business planning. A separate guide is available in this series dealing with IP strategy development that you may find useful.

How do I keep my audit (and any asset registers) up-to-date?

An IP audit captures the situation at a certain point in time. No good company stands still, and without some attention, parts of the audit can quickly become obsolete, as identified issues are addressed and the company produces new intellectual property.

“It is important to put procedures in place to update any intangible asset register and check that audit recommendations are being followed up”

The audit should prompt you to put good working practices in place that will ensure your IP is well-managed and protected in the longer term.

The audit process is a great way to make an organisation's senior management more aware of the importance and value of your IP.



An audit often provides a good starting point to develop an intangible asset register, if you do not already have one. As explained in a previous chapter, this translates your non-physical property into an organised inventory that can then be updated as new IP is created. Should your business ever need to undergo due diligence examination (for a company listing or sale, for example), it is a very helpful starting point provided it is kept up-to-date.

In particular, undergoing the audit process should increase your focus on what needs to be done when new IP is created. This means different things to different companies. If you are a software house, IP is created

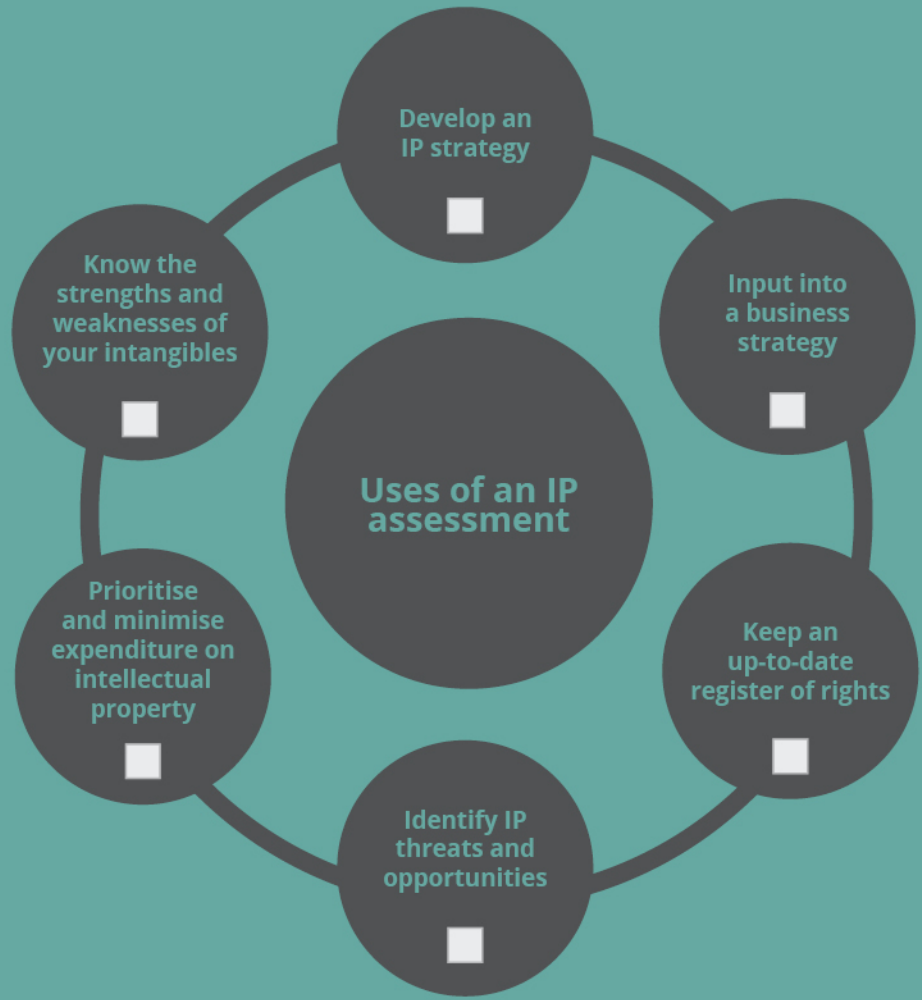
when a new piece of software is completed; for scientific R&D organisations, it will be when a new feature is invented and developed; for a creative business, it will be when a new song or article is written or a new image is taken or designed.

It is important to develop internal processes to identify and then record new IP as it is created. It is then easy to update your internal records when a patent is granted or when a new family member is filed. Similarly, if a trade mark is extended to a new territory, it is important to keep track of this as you do not want protection to be lost or compromised by failure to renew it.



SUMMARY

A thorough IP assessment is useful for businesses of all sizes. The benefits you should derive from it are summarised in the checklist below.





Where do I get help?



07

GETTING RIGHTS GRANTED

IPOS : www.ipos.gov.sg/resources
IP ValueLab Directory :
www.ipvaluelab.com.sg/news-events

GETTING IP ADVISORY

- Intangible asset audit
- Intangible asset strategy and management
- Business and technology intelligence
- Commercial analytics on patents
- Due diligence on intangible assets
- Bespoke advisory services

GETTING IP TRAINING

- Executive programmes
- Certifications
- Undergraduate and postgraduate courses
- Regional training

GETTING PATENTS RIGHT

- Patent search and examination
(for both national and international
PCT applications)
- Patent analytics
- Customised search services

DEALING WITH DISPUTES

IP Legal Clinic (IPOS) : www.ipos.gov.sg/e-services

FOR INFORMATION AND ENQUIRIES

Website : www.iposinternational.com

Email : enquiry@iposinternational.com

Telephone : +65 6330 8660



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