

DFPEI 2017-05
DAIRY FARMERS OF PRINCE EDWARD ISLAND

BOARD ORDER: DFPEI 2017-05

EFFECTIVE: 01 February 2017

Under the *Natural Products Marketing Act*, R.S.P.E.I.1988, Cap. N-3, and the Dairy Farmers of Prince Edward Island Regulations thereunder, Dairy Farmers of Prince Edward Island makes the following Order:

Milk Utilization Audit Order

Application

1. This order establishes the policy and authorities to conduct milk utilization audits.

Definitions

2. The words herein shall have the meanings as found in the *Natural Products Marketing Act*, the Dairy Farmers of Prince Edward Island Regulations under that Act unless differentiated herein and as hereinafter defined:
 - (a) “Canadian Milk Supply Management Committee” or “CMSMC” means the federal-provincial organization created under the authority of the National Milk Marketing Plan to provide administrative governance to the operation of the plan;
 - (b) “DFPEI” means Dairy Farmers of Prince Edward Island
 - (c) “milk” includes whole milk and such products of milk that are supplied, processed, distributed or sold in any form;
 - (d) “milk buyer” means a processor that purchases milk directly from DFPEI;
 - (e) “milk components” means the three identified types of solid material derived and marketed from milk, referred to as butterfat, protein and other solids.
 - (f) “milk utilization audit” is the verification process that confirms processors’ milk utilizations have been recorded accurately and in compliance with Milk Utilization Standards;
 - (g) “Milk Utilization Standards” is a document that records all established requirements for recording milk utilizations in the Canadian Dairy industry;

(h) “non-milk buyer” means a processor that does not purchase milk directly from DFPEI;

(i) “processing” means heating, pasteurizing, sterilizing, evaporating, drying, churning with other substances by any process, or otherwise treating milk in the manufacture or preparation of milk products and for clarity, includes any reworking, reprocessing or repackaging of previously manufactured dairy products.; and

(j) “processor” means a person or partnership performing any processing of milk.

Requirement to Audit

3. All milk components sold to processors are subject to: classification as established under the DFPEI Milk Classification Order; component prices as established under the DFPEI Price Determination Order; and pricing policy applications as established under the DFPEI Price Application Order. In order to ensure the policies in these orders are applied correctly, all sales are subject to confirmation by milk utilization audit to confirm their accuracy. The requirement to audit is extended to milk buyers, non-milk buyers and further processors purchasing milk components or ingredients for use in milk products and other food products. Audits shall be conducted in accordance with Generally Accepted Auditing Standards.

Engagement of an Auditor

4. DFPEI shall engage an auditor to perform milk utilization audits on its behalf. The selection of milk utilization auditor shall include an assessment of a perspective auditor’s understanding of the industry. Perspective auditors must demonstrate comprehension of the complexities of the provincial and national milk marketing systems and the Milk Utilization Standards.

Efficiency Encouraged

5. Wherever possible, the auditor shall utilize proven auditing techniques that improve efficiency, such as risk base auditing, provided those techniques ensure a high degree of assurance in the accuracy of milk utilization reporting.

Use of Technology Encouraged

6. Wherever possible, the auditor shall utilize technology, such as milk utilization recording software, to improve efficiency of the audit process and reduce cost, provided the use of technology does not compromise the accuracy of the audit.

Cost of Audits

7. Milk utilization audits shall be conducted under contract at an agreed price between DFPEI and the selected auditor. DFPEI shall consult processors when negotiating audit contracts. The cost of each audit will be evenly divided between DFPEI and the processor that is audited.

Authority of Auditor

8. The auditor and any employees of the auditor who conduct milk utilization audits (hereinafter referred to as "auditors") are acting on behalf of DFPEI. Therefore, auditors shall exercise the authority to inspect the books and premises of persons involved in the production or marketing of milk and milk products that is granted to DFPEI under the Act.

Audit Adjustments

9. Where any person engaged in the production or marketing of milk and milk products has been found to have incorrectly recorded transactions, be it with regard to classification, price, price application, volume or any other material factor, the auditor may issue an audit adjustment that directs correction of the error. Audit adjustments must be settled within thirty (30) days of the date on which they are issued.

Suspected Fraudulent Activity

10. In any instance where auditors suspect fraudulent activities have occurred, the auditors shall report the suspect transactions to DFPEI for further investigation and possible corrective action.

Transactions between multiple entities

11. Any transaction conducted between multiple entities subject to the authority of DFPEI shall be subject to audit from the sale of milk from the farm to delivery to an entity not subject to this regulation. This includes, but is not limited to, transactions between:
 - (a) two or more plants owned by the same processor;
 - (b) two or more processors;
 - (c) processors and distributors; and
 - (d) processors or distributors and further processors engaged in the manufacture of food products other than dairy products.

Interprovincial Transactions

12. In any instance where milk or milk products are reported

to be delivered to a processor or further processor in another province, the auditors may communicate to, and coordinate audit activities with, the auditors for that province to ensure the final disposition of the product is verified and all related transactions comply with DFPEI Orders.

International Transactions

- 13 In any instance where milk or milk products are reported to be delivered to an international buyer, the auditors may request confirmation of transaction details as required in the Milk Utilization Standards, to confirm the disposition of the product and eligibility for any related component pricing.

Commencement

14. This Order comes into force on the first day of February 2017.

DATED at Charlottetown, Prince Edward Island, this 31st day of January 2017.

<Original signed by>

Harold MacNevin, Chair

<Original signed by>

Ronald Maynard, Secretary