O F P M C

Ontario Farm Products Marketing Commission

Newsletter

September 2002 - Issue #97

Board Exposure in the Wake of Enron & WorldCom

Wednesday, August 14th marked the deadline for executives from America's largest corporations to take pen in hand and personally vouch for the accuracy of their firms' financial statements. They do so knowing a false declaration could be the first step in a trip to prison. Such is the fervour over financial transparency south of the border.

Although Ontario's marketing boards and representative associations are not-for-profit organizations located a long way from Wall Street, these recent events have ramifications for all elected boards of directors. It has resonated in the ears of every board of directors that they are responsible for the accuracy of annual financial statements. It has shown that this responsibility can't be delegated away to auditors or management. It has also raised a warning flag, reminding directors that members, like investors, expect transparency and accountability in return for their money.

Enron and WorldCom events have prompted directors on all types of boards, profit and not-for-profit, to question how fairly their financial statements present the financial condition of their enterprise. Insolvency and restructuring lawyer, Robin Schwill, says, "many people mistakenly believe that because financial statements are prepared in accordance with generally accepted accounting principles or GAAP, it is not worth scrutinizing the numbers because they are objective facts. GAAP is, by definition, only generally accepted principles and, as such, provides for many different ways of accounting for the same economic transaction."

> "It's a common misconception to think of auditors as bloodhounds..."
>
> *Mr. Robin Schwill,*
> *Osler, Hoskin & Harcourt LLP*

continued on page 2

In This Issue

Directors' Workshop

OFPMC is sponsoring a Financial Management Seminar for Boards of Directors on November 8th in Guelph. Directors and senior staff from marketing boards and representative associations are invited to participate. Registration information can be found on page three of this newsletter.

2003 National Awards in Governance

Marketing Boards are eligible to enter the Conference Board of Canada's annual governance awards competition that closes on October 30, 2002.

The Conference Board is "searching for boards that have broken the mould and accomplished innovative and bold solutions to governance challenges." The national awards program is designed to give innovative boards a platform to share their experiences and results with others.

According to the Conference Board of Canada, "this event raises an important question: Just what does responsible board governance mean today?"

To enter and for more information on the National Awards in Governance, visit the Conference Board of Canada at www.conferenceboard.ca/governance or contact Catherine Gardiner at (613) 526-3280.

continued from page 1

Board Exposure in the Wake of Enron & WorldCom

The Enron and WorldCom events in the United States have also been played out in Canada according to Mr. Schwill. "Companies like Bre-X, Phillip Environmental and Livent are Canadian examples that come to mind. Regrettably, allegations of aggressive accounting are not new."

Where does this leave the people whose investments in any organization are what sustain the operation, whether they own stock in a company or pay licence fees to a marketing board? In Mr. Schwill's opinion, "the bottom line is, financial statements are the outcome of a number of judgements. Being aware of inherent and natural reporting bias is the first, big step."

Fortunately, not-for-profit organizations don't have the same rewards-based motivation as WorldCom, Enron or Bre-X. A marketing board's bottom-line doesn't impact a stock price. "But the natural human tendency to portray one's performance in the most favourable light will always exist," says Schwill. He believes that cautious boards try to assess and guard against these risks.

This prompts directors and member/investors alike to ask where are the auditors? Aren't they supposed to unmask aggressive accounting and even find fraud if it exists?

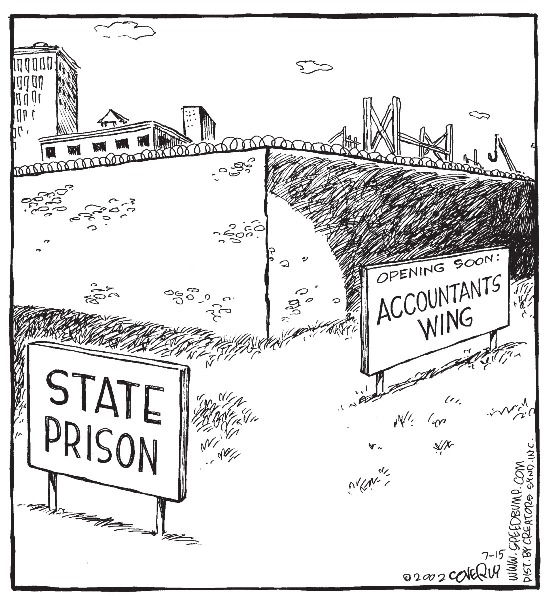
According to Mr. Schwill, it's a common misperception to think of auditors as bloodhounds deliberately searching for and sniffing out all irregularities with their annual review.

David Smith is the Canadian Institute of Chartered Accountants' CEO. On June 27th, 2002, he told Report on Business that any moves to establish independent (audit) overseeing in an industry will go a long way to restoring confidence. He said, "all parties realize there has to be greater transparency in the system." On September 6, 2002, the Institute released a 68-page draft of new professional standards designed to restore auditors' arms-length independence and credibility.

Consultant to marketing boards and co-ops, George Alkalay of Northfield Ventures Ltd., feels there may also be a place for external audit committees to help a board of directors. "An audit committee gives the board of directors

continued on page 4

SPEED BUMP by Dave Coverly



Seminar Registration

Financial Management Seminar for Boards of Directors

When: Friday, November 8, 2002

Where:
Ontario Government Building
Conference Centre
One Stone Road West
Guelph, Ontario

Cost:
$40 per person including lunch
Please make cheque payable to:
Hospitality Services, University of Guelph

Eligibility:
Directors and Secretary/General Managers of Marketing Boards and Representative Associations

About the Seminar:

This one-day seminar is designed to assist directors in the management of the financial responsibilities and liabilities of a board of directors. Course content will include:

- *Aggressive accounting vs fraud*
- *Developing independent understanding*
- *Developing measures-of-success*
- *Reliance on auditors*
- *Use of audit committees*
- *Financial statement clarity & interpretation*
- *Assessing internal processes*
- *Early warning signs*

About the Seminar Leader:

Mr. Robin Schwill is uniquely suited to lead this seminar. He knows the subject matter thoroughly and is adept at helping others understand it. Mr. Schwill is both a highly regarded lecturer at York University's Schulich School of Business and a commercial lawyer specializing in insolvency and restructuring with Osler, Hoskin & Harcourt LLP. At the Schulich School of Business he teaches MBA students how to analyze and interpret what financial statements are really saying. He has also lectured on finance and law for the Credit Institute of Canada. In his commercial law practice, Mr. Schwill has been involved in public insolvency matters with a long list of companies such as Canadian Airlines and Eatons.

OFPMC Seminar Registration Form

Board/Association:

Address:

City: Province: Postal Code:

Phone: Fax:

Contact Person Co-ordinating Registration:

E-Mail:

Names of Registrants

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2.	5.
3.	6.

- Please make cheques payable to **"Hospitality Services, University of Guelph."** While OFPMC is pleased to sponsor the course content for the benefit of Ontario's marketing boards and associations, your registration fee helps us offset the food and hospitality costs for the event.
- Please forward your registration and cheque(s) **no later than October 25, 2002, to:**

Doreen Hardie, Ontario Farm *Products Marketing Commission, One Stone Road West, 5th Floor, Guelph, Ontario N1G 4Y2*
Phone: (519) 826-3437 Fax: (519) 826-3400

Board Exposure in the Wake of Enron & WorldCom *continued from page 2*

ongoing access to 4 or 5 people from outside their organization, who can scrutinize their financial statements and ask questions whenever the statements don't readily provide the answers. For marketing boards, an outside audit committee can also look at issues that go beyond a traditional, financial audit, such as alerting directors to any significant deterioration in the organization's financial position in between audits, looking at value for producers' check-off dollars, and monitoring compliance with legislative and regulatory requirements. An audit committee can do more than a traditional auditor would."

Directors and members alike stand to benefit from an easy-to-read financial road map. That is probably the most important message that conscientious Boards of Directors can take away from recent financial governance events because a good financial statement is like a road map showing where they've been with your money and where they are headed.

On this aspect of accounting, Mr. Alkalay adds, "it's not enough for the board to account for every dollar it spends. It should also be able to account for why that money is spent in that fashion and how the expenditure fits in with the overall mandate and strategic priorities of the board."

Robin Schwill agrees. "Boards shouldn't stop at the point of clearly describing and portraying what was done with the money. Directors should also strive to communicate the value derived from the places where money was spent. How one measures the success of each activity relative to the money spent on the activity is the key to demonstrating value added. Once such measures are in place, delivered value can be easily communicated and monitored. Such a process may be "outside the box of conventional accounting," but Mr. Schwill stresses, "this doesn't necessarily mean more work for the bookkeepers. What it does mean is that directors place a priority on how well they communicate their financial activity and decisions to the members who elected them. That is the ultimate 'transparency' that the Board of Directors is empowered to deliver to their members or investors."

Upcoming Annual Meetings and Conventions 2002

Date	Organization	Location	Telephone
Oct. 5	Ontario Milk Transport Association - Annual Meeting	Mississauga	(519) 766-1133
Oct. 20-22	Canadian Restaurant and Foodservice Association – Hostex 2002	Toronto	(416) 923-8416
Oct. 22	Ontario Tomato Seedling Growers' Marketing Board. - Annual Meeting	Leamington	(519) 326-4481
Oct. 25-26	Ontario Sheep Marketing Agency - Annual Meeting	Guelph	(519) 836-0043
Oct. 27-29	Canadian Federation of Independent Grocers - Grocery Innovations Canada	Toronto	(416) 492-2311
	Ontario Greenhouse Vegetable Growers		(519) 326-2604
Oct. 29	District One	Leamington	
Oct. 30	District Two	Ancaster	
Nov. 8	Ontario Farm Products Marketing Commission – Financial Management Seminar for Boards of Directors	Guelph	(519) 826-3404
Nov. 19	Canadian Council of Grocery Distributers – Ontario Conference	Toronto	(416) 922-6228
Nov. 23	Ontario Asparagus Growers' Marketing Board – Annual Meeting	Ingersoll	(519) 246-1640

This information is provided strictly for our readers' convenience. Please note that organizations may restrict attendance to some or all of their agenda items. Please contact each organization for more information on programs, agenda items open to non-members, and location. While the Commission endeavours to ensure this information is correct, readers are responsible for confirming its accuracy with individual organizations before making any plans to attend.

Ontario Farm Products Marketing Commission
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