



LegalSource™ Audit Report for Carl Ronnow (M) Sdn Bhd

Annual audit 2017

Report date: 06/11/2017

Certificate code: NC-LS-009451

Issued date: 27/09/2016

Organisation Contact

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LegalSource Audit Report Template:	
Document Code:	LS-03
Type of document:	LegalSource Audit Report Template
Scope:	International
Status of document:	Approved
Version:	V 2.0
Date:	25 th January 2017
Consultation period:	N/A
Approval body:	NEPCon
Contact person:	Christian Sloth, Forest Legality Programme Manager
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A. Introduction

The purpose of this report is to document conformance with the requirements of the LegalSource standard by **Carl Ronnow (M) Sdn Bhd** hereafter referred to as "Organisation". The report presents findings of LegalSource auditors, who have evaluated the Organisation's systems and performance against the applicable requirements. The sections below provide the audit conclusions and follow-up actions required by the Organisation.

Dispute resolution: If stakeholders have concerns or comments about the LegalSource standard or the auditing body, they are encouraged to contact their closest NEPCon regional office. Formal concerns and complaints should be sent in writing.

B. Scope

The LegalSource audit, report and certificate covers the following scope:

Report Type	
Report type:	Public Summary

Organisation Details	
Primary contact:	Dick Anning, Environmental Manager
Address:	Locked Bag 20, Kota Kinabalu, Sabah, 88990, Malaysia
Tel/Web/Email:	+60 88 483 888 / + 60 88 483 801 / http://carlronnow.com/
Jurisdiction of primary legal entity:	Malaysia
Primary Activity	Broker/trader with physical storage
Description of Organisation:	Carl Ronnow (CR) is a sawn timber exporter located in Malaysia. CR is LegalSource certified with regards to its Due Diligence System (DDS) covering MTCS(PEFC)-certified sourced product.

Certificate Scope	
Certificate Type	<input checked="" type="checkbox"/> Single site certificate <input type="checkbox"/> Group/ Multi-site certificate
Standards Evaluated:	<input checked="" type="checkbox"/> LegalSource Standard (LS-02) v2 <input checked="" type="checkbox"/> NEPCon Generic Chain of Custody Standard (NC-STD-01)
Product scope:	<p>The scope of the DDS is defined by: products; suppliers (region of harvest), and markets.</p> <p>1. Products</p> <p>Organisation has limited the scope of its DDS, to sawn timber (HS code: 4407)</p> <p>2. Certification systems</p> <p>Organisation includes only certified products within the scope of its DDS. For now, the following certification system is included within the scope of its DDS:</p>

	<p>i. Malaysian Timber Certification System (MTCS) as endorsed by PEFC Claims: PEFC 100%</p> <p>As further certification systems are evaluated, these would be included within the scope of its DDS.</p> <p>3. Regions of harvest</p> <p>Organisation has limited the scope of its DDS to include the following countries/regions of harvest:</p> <p>i. Peninsular Malaysia</p> <p>4. Markets</p> <p>Organisation has limited the scope of its DDS to include only products destined to the following markets:</p> <p>i. EU countries ii. UK</p> <p>There are no restrictions on the species, all species included in the DDS are from natural forests and not from timber plantations.</p>
Changes to certificate scope since last audit:	There are no changes to the DDS scope.
Certificate Sites or Group members	
Site 1:	
Site name:	Carl Ronnow (M) Sdn Bhd
Site Address/ Tel/Web/Email:	Same as above
Site Activity:	Broker/trader with physical storage
Product Scope:	Sawn timber as defined in the scope above
Site visited during audit:	<input checked="" type="checkbox"/>
Site 2	
Site name:	Minho
Site Address/ Tel/Web/Email:	12-3-1, Jalan Setia Prima P Bandar Setia Alam, 40170 Shah Alam, Selangor Darul Ehsan
Site Activity:	Broker/trader with physical storage
Product Scope	Sawn timber as defined in the scope above
Site visited during audit:	<input checked="" type="checkbox"/>

Audit team:	<p>Yee Fen Ng</p> <p>Yee Fen joined NEPCon Malaysia in 2015 and has a working background within the timber industry. She successfully completed the FSC Lead Auditor training course as well as the NEPCon LegalSource Expert Course. She has participated as an auditor in training for LegalSource and FSC Audits in Malaysia, Vietnam and Indonesia.</p> <p>Oliver Cupit</p> <p>Oliver is a Forest Legality Specialist working with the LegalSource Assurance team. Oliver manages the LegalSource programme, auditing and EUTR due diligence services across the UK and Ireland. He is also an FSC Chain of Custody lead auditor and FSC trademark agent.</p>
Description of Audit Process:	<p>The auditors visited the Organisation's sales and administration office in Kota Kinabalu on 31st October. The audit was attended by staff from the Environmental department - the Environmental Manager and the Environmental Assistants. The Environmental Manager provided an introduction of the Organisation's due diligence. The audit continued with review of the Organisation's due diligence procedures and risk assessment of its supply chains.</p> <p>The audit continued on 2 Nov at the Organisation's outsourcing facility, Minho, located in Shah Alam. The auditor was welcomed by the Environmental Manager, the Environmental Assistant, the supervisor of Carl Ronnow at Minho, the supervisor at Minho, the receiving clerk and the bundling clerk.</p>
Actions taken by Organisation prior to report finalisation:	None
Notes for the next audit:	None

C. Audit Findings

Audit Conclusion:	
Organisation approved: Minor non-conformance(s) issued	<input checked="" type="checkbox"/>
Organisation not approved:	<input type="checkbox"/>
Additional comments:	

Non-Conformances

Non-conformance reports (NCRs) describe the non-conformances identified during audits. NCRs include defined timelines for the Organisation to demonstrate conformance. MAJOR non-conformances issued during assessments/reassessments shall be closed prior to issuance of the certificate. MAJOR non-conformances issued during annual audits shall be closed within the timeline specified in the NCR, or result in certificate suspension. Where applicable, all non-conformances against standard requirements are shown below:

Non-Conformance #:	01/17	
Non-Conformance Grading:	MAJOR <input type="checkbox"/>	Minor <input checked="" type="checkbox"/>
Standard & Requirement:	NEPCon Generic Chain of Custody Standard (NC-STD-01), Requirement 1.2 1.2 The Organisation shall develop and maintain documented procedures to ensure compliance with all applicable CoC requirements.	
Description of Non-conformance:	NCR is raised because Section 1.6 of the DD-02 does not reflect the Minho SOP and Organisation's actual procedures. Organisation states in its DD-02 (Section 1.6) that Organisation utilizes physical segregation method for all materials under its DDS scope and the materials are kept in a separate shed from other timbers. The auditor verified during site audit at Minho – all timbers are received, processed and stored under the same facility (warehouse), Minho keeps all products from mixing by bundling the product, and label it with clear lot number, environmental status and company name throughout all processes, including receiving, processing (kiln-drying), storage and shipping.	
Corrective action request:	Organisation shall implement corrective actions to demonstrate conformance with the requirement(s) referenced above. Note: Effective corrective actions focus on addressing the specific occurrence described in evidence above, as well as the root cause to eliminate and prevent recurrence of the nonconformance.	
Timeline for Conformance:	12 months from report finalisation date	
Evidence Provided by Organisation:	PENDING	
Findings for Evaluation of Evidence:	PENDING	

NCR Status:	OPEN
Comments (optional):	

Observations

Observations (Obs) are issued for the early stages of a problem which does not in and of itself constitute a non-conformance, but which the auditor considers may lead to a future non-conformance if not addressed by the Organisation or where general improvements may be made. Where applicable, all observations are shown below:

Observation #:	01/17
Standard & Requirement:	LegalSource Standard (LS-02) v2, Requirement 3.1 3.1 The Organisation shall have written procedures covering all applicable elements of this Standard.
Description of Observation:	
As the following procedures form part of Organisation's Due Diligence procedure, Organisation should strengthen its DD-02 by including: <ul style="list-style-type: none"> - Procedure to verify the GST numbers of suppliers. This procedure is currently found in the Risk Mitigation for MTCS product. - Procedure regarding payment of export cess. Export cess is paid to MTIB during application of export license 	

Observation #:	02/17
Standard & Requirement:	LegalSource Standard (LS-02) v2, Requirement 7.5.2 7.5.2 Any gaps or risks identified in the evaluation of the certification system shall be mitigated (refer to section 8).
Description of Observation:	
According to the NEPCon Risk Assessment, although most permanent reserved forests in Peninsular Malaysia are certified under the MTCS, under which forest management plans are audited. Auditing covers the recognition of aboriginal land where relevant. However, a significant problem is that many customary lands and aboriginal reserves are not gazetted and thus are not recognized by law; for this reason, they are not taken into account in the issuance of licenses of subsequent management plans. There is an increase in Orang Asli land claims being brought to the court and often in favour of the Orang Asli (JAKOA). NEPCon concluded the risk as specified risk as identified laws are not upheld consistently by all entities and/or are often ignored, and /or are not enforced by relevant authorities. Since the risk of native customary rights is 'specified' in Malaysia, the Organisation should consider more detailed assessment of this risk even from MTCS certified FMUs, and (where applicable) appropriate implement risk mitigation actions.	

Observation #:	03/17
Standard & Requirement:	LegalSource Standard (LS-02) v2, Requirement 7.6.2 7.6.2 Ensure the information related to the certification claim is valid and accurate
Description of Observation:	
Organisation states in its DDS that the expiry date (suspension date) of a supplier's PEFC certificate is 31 March 2016. However, the actual expiry date of the supplier's PEFC certificate is on 1 Jan 2016, that means all logs accompanied by Removal Passes issued dated 1 Jan 2016 and onwards	

will not be recognized as PEFC certified material under MTCS. During the audit, the Environmental Manager mentioned that Organisation hadn't sourced any logs originating from the supplier as the supplier has very little production forest and if Organisation received logs originating from the supplier from 1 Jan to 31 March 2016, the Environmental Assistant will be able to notice it because Organization carries out its Due Diligence for every invoice received from PEFC-certified supplier. Organisation should ensure that the expiry date of the supplier's PEFC certificate is corrected on its records.

D. Closed Non-Conformances

Closed Non-Conformances

This section indicates where the Organisation has adequately addressed non-conformances issued during or since the last audit.

Any non-conformances which cannot be closed remain open and appear in Section C (above). Failure to comply with a minor non-conformance results in the NCR being upgraded to major; the specified follow-up action is required by the Organisation or involuntary suspension will take place.

Non-Conformance #:	01/16 (closed)	
Non-Conformance Grading:	MAJOR <input type="checkbox"/>	Minor <input checked="" type="checkbox"/>
Standard & Requirement:	NEPCon LegalSource Standard, version 1.0; 1 Commitment to legal sourcing 1.1 The organisation shall have a written publicly available policy, endorsed at executive level stating an organisation commitment to producing and/or sourcing responsibly by avoiding the production and/or trade of forest products that have been harvested, traded or processed in violation of applicable national legislation or ratified international treaties.	
Description of Non-conformance:		
<p>Organisation provided the auditors with two policy commitments to legal sourcing, both endorsed at executive level. The first was signed by the Managing Director of Organisation on 22/01/2014. The second, also signed but without a date, represents a commitment by Organisation to "<i>sourcing only material that is produced, processed and traded according to applicable legislation</i>". It is not clear that either policy has been made publicly available, including via publication on Organisation's website.</p> <p>During the assessment, Organisation confirmed that it will make the policy available online at www.carlronnow.com.</p>		
Corrective action request:	Organisation shall implement corrective actions to demonstrate conformance with the requirement(s) referenced above. Note: Effective corrective actions focus on addressing the specific occurrence described in evidence above, as well as the root cause to eliminate and prevent recurrence of the nonconformance.	
Timeline for Conformance:	12 months from report finalisation date (19 September 2016)	
Evidence Provided by Organisation:	DD-03 Carl Ronnow Responsible Sourcing Policy_25.08.17	
Findings for Evaluation of Evidence:	Organisation has a responsible sourcing policy available on its website at www.carlronnow.com . The policy, represents the Organization's commitment to " <i>sourcing only wood material that has been produced, processed, and traded in compliance with applicable legislation</i> " was signed by the Managing Director, Anders Moller on 25 Aug 2017 (Exhibit 2).	
NCR Status:	CLOSED	
Comments (optional):		

Non-Conformance #:	02/16
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Non-Conformance Grading:	MAJOR <input type="checkbox"/>	Minor <input checked="" type="checkbox"/>
Standard & Requirement:	NEPCon LegalSource Standard, version 1.0; 3 Documentation 3.1 The organisation shall have written procedures covering all applicable elements of this standard.	
Description of Non-conformance:		
<p>Organisation has a policy and a number DD procedures documents which, collectively, form the basis of its DDS. During the assessment, a number of areas were identified where <i>documented</i> due diligence procedures require to be included, revised or strengthened. These areas will be addressed in the applicable part of this report.</p> <p>However, a general non-conformance is raised for this criterion based specifically on the need to improve its <i>documented</i> procedures. This is because the Due Diligence procedures manual still requires customisation to the particular circumstances and systems of Organisation. Improvements which can be made, include:</p> <ul style="list-style-type: none"> - areas which require to be revised to match actual procedures of Organisation. - areas which require to be removed as not applicable to Organisation's DDS. - areas which require to be clarified and/or strengthened. 		
Corrective action request:	<p>Organisation shall implement corrective actions to demonstrate conformance with the requirement(s) referenced above.</p> <p>Note: Effective corrective actions focus on addressing the specific occurrence described in evidence above, as well as the root cause to eliminate and prevent recurrence of the non-conformance.</p>	
Timeline for Conformance:	12 months from report finalisation date (19 September 2016)	
Evidence Provided by Organisation:	DD-02 Carl Ronnow Due Diligence Procedure 10.10.17 e) CR MTCS DDS explanation & Flow chart for LS - Oct 17 r) (Example) LS Invoice- Risk Identification & Mitigation	
Findings for Evaluation of Evidence:	<p>Organisation's DD-02 has undergone a high degree of customization to reflect the Organisation's actual procedures (Exhibit 1). Procedures have been clarified and/or strengthened where necessary:</p> <ul style="list-style-type: none"> - e) CR MTCS DDS explanation & Flow chart for LS - Oct 17 has been revised to reflect that it is a procedure to be used by Organisation rather than an explanatory document for Buyers (Exhibit 7). - r) (EXAMPLE) LS Invoice - Risk Identification & Mitigation. Information of all suppliers under the scope of DDS, including Organisation's risk identification and risk mitigation measure is recorded in this document (Exhibit 11). 	
NCR Status:	CLOSED	
Comments (optional):		

Non-Conformance #:	03/16	
Non-Conformance Grading:	MAJOR <input type="checkbox"/>	Minor <input checked="" type="checkbox"/>

Standard & Requirement:	NEPCon LegalSource Standard, version 1.0; 4 Monitoring performance of the established due diligence system 4.1 The organisation shall regularly monitor its performance, including its auditing system, to evaluation its compliance with this standard. 4.3 Organisation shall ensure that all non-conformances are addressed and corrected in a timely manner. 4.5 Organisation shall not place forest products on the market when internal or external audits indicate they do not fulfil the legal requirements specified in this standard.
Description of Non-conformance:	
<p>Skeleton performance-monitoring procedures exist for Organisation's DDS, although these need to be developed further and customised to auditing Organisation's DDS in relation to legal sourcing.</p> <ul style="list-style-type: none"> - As no internal performance-monitoring procedures have been developed and implemented, non-conformances are not being identified and addressed. Procedures do not describe follow-up processes or indicate time periods for which non-conformances must be addressed (4.3). <p>Organisation's Due Diligence Manual commits Organisation to not place forest products on the market if they do not fulfil the legal requirements specified in the LegalSource standard. However, procedures are not clear in defining the thresholds, situations or circumstances when Organisation will proceed to withdraw products from sale (4.5).</p>	
Corrective action request:	<p>Organisation shall implement corrective actions to demonstrate conformance with the requirement(s) referenced above.</p> <p>Note: Effective corrective actions focus on addressing the specific occurrence described in evidence above, as well as the root cause to eliminate and prevent recurrence of the non-conformance.</p>
Timeline for Conformance:	12 months from report finalisation date (19 September 2016)
Evidence Provided by Organisation:	<p>DD-14 CR Internal Audit Report 2017</p> <p>DD-02 Carl Ronnow Due Diligence Procedure 10.10.17</p> <p>Document r) LS Invoice – Risk Identification & Mitigation</p> <p>DD-03 Carl Ronnow Responsible sourcing policy_25.08.17</p>
Findings for Evaluation of Evidence:	<p>Organisation has developed and implemented an internal performance monitoring procedure which is included in its DD-02. The internal performance monitoring is documented in its DD-14 CR Internal Audit Report 2017 (Exhibit 5). Organisation carries out continual monitoring of its suppliers under the scope of its DDS on an invoice by invoice basis and records the risks and mitigation measures of each supply chains in r)LS Invoice – Risk Identification & Mitigation (Exhibit 11).</p> <p>Organisation commits to not place forest products on the market before the risk assessment has been confirmed as negligible or, in the case the risk cannot be declared as negligible, effective risk mitigation actions have been carried out (Exhibit 1).</p>
NCR Status:	CLOSED
Comments (optional):	

Non-Conformance #:	04/16	
Non-Conformance Grading:	MAJOR <input type="checkbox"/>	Minor <input checked="" type="checkbox"/>
Standard & Requirement:	NEPCon LegalSource Standard, version 1.0; 6 Supply chain and material information 6.1. The organisation shall have and maintain the following up-to-date information about products included within the scope of the LegalSource evaluation: 6.1.2 the common and scientific name of tree species	
Description of Non-conformance:		
<p>Organisation's procedures require its direct suppliers' to provide information in relation to the species within the sawn timber. This is communicated by the supplier via the Product information sheet and the relevant Removal Passes.</p> <p>In the case of Meranti, it is possible to trace the scientific names of individual species via the Removal Passes provided by the sawmill. Organisation has now begun to record individual species names in its Data Template for recording checked documentation for each purchase order.</p> <p>In the case of Keruing, Organisation records only to the genus level, i.e. <i>Dipterocarpus spp.</i></p>		
Corrective action request:	Organisation shall implement corrective actions to demonstrate conformance with the requirement(s) referenced above. Note: Effective corrective actions focus on addressing the specific occurrence described in evidence above, as well as the root cause to eliminate and prevent recurrence of the non-conformance.	
Timeline for Conformance:	12 months from report finalisation date (19 September 2016)	
Evidence Provided by Organisation:	r) LS Invoice - Risk Identification & Mitigation h) MTCC JPSM CR Discussion 03062016 v) minutes meeting MTCC, FDPM, Carl Ronnow 02.03.2017 x) Mr Yong to Director FDPM 19.10.17pdf. Document: y) Lampiran 17.17 List of code for Keruing (Dipterocarpus)	
Findings for Evaluation of Evidence:	Organisation records all species in r) LS Invoice – Risk Identification & Mitigation (Exhibit 11). For Keruing, since only Genus level is listed on the forest removal pass, Organisation records a list of commercial Keruing species found in Peninsular Malaysia (Exhibit 19). The list is from Mr Othman of Forestry Department of Peninsular Malaysia (FDPM) to Organisation. Organisation has requested FDPM and MTCC to be more specific on the species name of Keruing. According to Organisation, the Forestry Department has announced during an MTCC forum on 19 September 2017 that all Forestry Officers will undergo "dendrology" training to enable them to better identify separate species in genus's such as Dipterocarpus (Keruing) that currently has a universal royalty rate for all species.	
NCR Status:	CLOSED	

Comments (optional):	
Non-Conformance #:	05/16
Non-Conformance Grading:	MAJOR <input type="checkbox"/> Minor <input checked="" type="checkbox"/>
Standard & Requirement:	NEPCon LegalSource Standard, version 1.0; 6 Supply chain and material information 6.2 The organisation shall have access to information about its forest product supply chains to a level that allows it to: 6.2.1 confirm and document that the material/products originate from forest sources with low risk of legal violations or that potential risks have already been mitigated; or 6.2.2 effectively identify, assess and mitigate risks for receiving material of illegal origin
Description of Non-conformance:	<p>In cases where issues are detected in the validation of Removal Passes, Organisation's procedures include provision to conduct the following steps (in approximate order):</p> <ol style="list-style-type: none"> i. interview the sawmill to obtain explanations; ii. request production records to allow for a closer examination of conversion and milling; iii. conduct an on-site visit to the sawmill to check records in person (this may be conducted by Organisation staff or a third-party). iv. review suppliers' records during visits to main Suppliers (conducted once or twice a year) by CR environmental department staff. <p>Additional needs for strengthening of current procedures were observed:</p> <p><u>Verification procedures and recording of checks/information</u></p> <p>During the assessment, it was also discussed how procedures for verifying/recording information could be strengthened via additional measures, or clarification of existing measures, including:</p> <ul style="list-style-type: none"> - Contrasting dates on the Removal Pass with other relevant dates available. - Clarifying procedures for when the Removal Pass does not bear any cancellation mark validated by a forest authority. - Clarifying procedures (step ii above) for what additional documentation is requested (such as production records) and where concerns necessitate the measure, including specifying conversion factor thresholds which would require further investigation/additional information. - Recording the additional information provided (e.g. production records, information obtained via supplier interviews, etc...) and findings and conclusions reached when further investigation is required (steps i, ii and iii above). - Clarifying procedures with regards to on-site visits (step iii above) to suppliers. - Clarifying procedures with regards to on-site evaluations (step iv above) conducted during visits to suppliers <p><u>Documented procedures and records</u></p> <p>Documented DDS procedures requires to be better customised to the particular systems of Organisation.</p>
Corrective action request:	<p>Organisation shall implement corrective actions to demonstrate conformance with the requirement(s) referenced above.</p> <p>Note: Effective corrective actions focus on addressing the specific occurrence described in evidence above, as well as the root cause to eliminate and prevent recurrence of the non-conformance.</p>
Timeline for Conformance:	12 months from report finalisation date (19 September 2016)

Evidence Provided by Organisation:	DD-02 Carl Ronnow Due Diligence Procedure 10.10.17 Document r) LS Invoice - Risk Identification & Mitigation, Document e) CR MTCS DDS explanation & Flow chart for LS - Oct 17
Findings for Evaluation of Evidence:	<p>Organisation has included in its DD-02 Section 2.3.1 and 3.1 – procedures to strengthen or clarify existing measures (Exhibit 1). The procedures cover how Organisation evaluates documents and information provided by its supplier, including:</p> <ul style="list-style-type: none"> - Clarify with suppliers if the dates on the Removal Pass contrasts with supplier invoice - Clarify with supplier when the Removal pass does not bear any cancellation mark validated by a forest authority - Clarify the threshold of conversion factor which would require further investigation. Organisation states that the maximum conversion factor is between 50-65%, however the conversion factor varies depending on size and grade of logs, and as such, Organisation will accept the material if supplier is able to justify the conversion factor. - Clarify procedures with regards to site visits to suppliers. <p>Additional information provided by supplier (e.g. production records, information obtained via supplier interviews) and findings and conclusions of further risk assessment is recorded in r) LS Invoice – Risk Identification & Mitigation (Exhibit 11).</p>
NCR Status:	CLOSED
Comments (optional):	

Non-Conformance #:	06/16	
Non-Conformance Grading:	MAJOR <input type="checkbox"/>	Minor <input checked="" type="checkbox"/>
Standard & Requirement:	<p>NEPCon LegalSource Standard, version 1.0;</p> <p>6 Supply chain and material information</p> <p>6.4 The organisation shall ensure compliance with applicable elements of this standard throughout their supply chains by, at minimum taking the following steps:</p> <p>See 6.4.1 to 6.4.4</p>	
Description of Non-conformance:		
<p>Organisation has procedures to send to its suppliers, in the first instance, a blank DD-05 Excel, which collects basic relevant information about the supplier. Two letters are also sent to the suppliers of 100% PEFC-certified product (procedures as per Exhibit 1a, section 10.2.2).</p> <p>However, procedures still require to be formalised and there is room for efficiencies (such as in the case of the two letters sent). A minor non-conformance is raised.</p>		
Corrective action request:	Organisation shall implement corrective actions to demonstrate conformance with the requirement(s) referenced above.	

	Note: Effective corrective actions focus on addressing the specific occurrence described in evidence above, as well as the root cause to eliminate and prevent recurrence of the non-conformance.
Timeline for Conformance:	12 months from report finalisation date (19 September 2016)
Evidence Provided by Organisation:	DD-06 Supplier Information Letter
Findings for Evaluation of Evidence:	Organisation has communicated all the requirement specified under this criterion using DD-06 Carl Ronnow Supplier Information Letter (Exhibit 4).
NCR Status:	CLOSED
Comments (optional):	

Non-Conformance #:	07/16	
Non-Conformance Grading:	MAJOR <input type="checkbox"/>	Minor <input checked="" type="checkbox"/>
Standard & Requirement:	NEPCon LegalSource Standard, version 1.0; 7 Risk Assessment 7.1 The organisation shall assess and specify the level of risk of illegal forest products entering the supply chain, including for the following areas: 7.1.1 the risk of legal violations related to forest management activities; 7.1.2 the risk of legal violations within the supply chains in relation to trade and transport... 7.1.3 risk that the material is mixed with other material of illegal or unknown origin...	
Description of Non-conformance:		
<p>Organisation's risk evaluation covers two areas: i. Evaluation of Certification Systems (for any gaps in comparison with the requirements of the LegalSource standard); ii. Risk evaluation of the country or region of harvest.</p> <p>Where gaps in the Certification System expose Organisation to risk, these will require to be addressed via additional Risk Mitigation measures.</p> <p>With regards to ii. Risk evaluation of the country or region of harvest, section 9.2 of Organisation's DDS procedures, addresses origin, species and supply chain (mixing risks only) risks. Looking to the future inclusion of new countries/regions and Certification Systems within the DDS, Organisation would benefit from <i>documented</i> procedures which reflect the need, where risks are identified in the country/region, to specify risks which are not covered by the corresponding Certification System, so they may be properly mitigated.</p>		
Corrective action request:	<p>Organisation shall implement corrective actions to demonstrate conformance with the requirement(s) referenced above.</p> <p>Note: Effective corrective actions focus on addressing the specific occurrence described in evidence above, as well as the root cause to eliminate and prevent recurrence of the non-conformance.</p>	
Timeline for Conformance:	12 months from report finalisation date (19 September 2016)	
Evidence Provided by Organisation:	DD-02 Carl Ronnow Due Diligence Procedure 10.10.17	

Findings for Evaluation of Evidence:	The requirement to address gaps in certification scheme is included in Section 3.1 of DD-02.
NCR Status:	CLOSED
Comments (optional):	

Non-Conformance #:	08/16	
Non-Conformance Grading:	MAJOR <input type="checkbox"/>	Minor <input checked="" type="checkbox"/>
Standard & Requirement:	NEPCon LegalSource Standard, version 1.0; 7 Risk Assessment 7.6 The risk assessment shall be revised at least annually and whenever changes occur to the supply chain that could alter the risk characteristics of that supply chain.	
Description of Non-conformance:		
<p>Organisation's procedures describe that supply chain and risk assessment results shall be revised whenever changes are made to supply chains, sources or new suppliers, products or species are included in the scope of the DDS.</p> <p>However, there is no provision in Organisation's procedures for the risk assessment process to be revised at least annually, even in the event of no changes as described above.</p>		
Corrective action request:	<p>Organisation shall implement corrective actions to demonstrate conformance with the requirement(s) referenced above.</p> <p>Note: Effective corrective actions focus on addressing the specific occurrence described in evidence above, as well as the root cause to eliminate and prevent recurrence of the non-conformance.</p>	
Timeline for Conformance:	12 months from report finalisation date (19 September 2016)	
Evidence Provided by Organisation:	DD-02 Carl Ronnow Due Diligence Procedure 10.10.17	
Findings for Evaluation of Evidence:	Requirement to review the risk assessment annually or whenever changes occur that alter the risk characteristic has been included in Section 3 of DD-02.	
NCR Status:	CLOSED	
Comments (optional):		

Non-Conformance #:	09/16	
Non-Conformance Grading:	MAJOR <input type="checkbox"/>	Minor <input checked="" type="checkbox"/>
Standard & Requirement:	NEPCon LegalSource Standard, version 1.0; 8 Risk Mitigation 8.1 The organisation shall develop and implement efficient and justified measures for mitigating risks where specified for any of	

	<p>the three areas listed in 7.1.1, 7.1.2 or 7.1.3 and shall take the following actions, where applicable:</p> <p>8.1.1 For risk of legal violations related to forest management activities in the country/ countries of origin, the organisation shall ensure compliance with the relevant requirements in Annex 1.</p> <p>8.1.2 For risk of legal violations within the supply chains in relation to transport and trade of the products, including declaration and classification of the material for customs, the organisation shall ensure compliance with relevant requirements of Annex 2.</p> <p>8.1.3 For risk of the material mixing with other material of illegal or unknown origin somewhere in the supply chain during transport, processing or storage, the organisation shall ensure compliance with requirements in Annex 3.</p>
<p>Description of Non-conformance:</p>	
<p>Additional Risk Mitigation Measures have been developed by Organisation in order to address the gaps in MTCS and classify the products as low risk. Risk conclusions (and mitigation actions) are included within Exhibit 15. Considering NEPCon’s current understanding of the levels of risk associated with Peninsula Malaysia, the following evaluation is made in relation to each of the Additional Measures implemented by Organisation (see Exhibit 15):</p> <ul style="list-style-type: none"> • 2.2 Value added taxes and other sales taxes <p>Organisation states that wood for export is excluded from Goods and Service Tax (GST) so it is exempt from this tax (see Exhibit 16). With regards to direct suppliers (sawmills), Organisation demonstrated how their GST registration number is verified online. However, this Additional Measure is not documented (within Exhibit 15 and related procedures/records) to ensure consistent execution.</p> <ul style="list-style-type: none"> • 5.2 Trade and transport <p><u>Business and Trading Permits</u></p> <p>Organisation references (Exhibit 15) that all MTCS CoC certificate holders are required to be registered with the Malaysian Timber Industry Board (MTIB) and that this registration requires the company to have all relevant business and trading permits, before they can be granted MTCS CoC-certified status.</p> <p>Organisation has not defined which business and trading licenses are relevant. Also, auditors have not been able to locate the requirement that all MTCS CoC certificate holders are required to be registered with the Malaysian Timber Industry Board (MTIB). This also requires to be clarified by Organisation.</p>	
<p>Corrective action request:</p>	<p>Organisation shall implement corrective actions to demonstrate conformance with the requirement(s) referenced above.</p> <p>Note: Effective corrective actions focus on addressing the specific occurrence described in evidence above, as well as the root cause to eliminate and prevent recurrence of the non-conformance.</p>
<p>Timeline for Conformance:</p>	<p>12 months from report finalisation date (19 September 2016)</p>
<p>Evidence Provided by Organisation:</p>	<p>i) CR- Risk Mitigation for MTCS product (2017)</p> <p>s) Malaysian Timber Industry Board - Registration Guideline and document required for the business registration.</p>
<p>Findings for Evaluation of Evidence:</p>	<p>Procedures to verify GST number of supplier is included in i) CR- Risk Mitigation for MTCS product (2017) (Exhibit 10).</p> <p>Organisation has provided a registration guideline from MTIB and the relevant document required for the registration (Exhibit 24, 25, 26, 27).</p>

NCR Status:	CLOSED
Comments (optional):	

Non-Conformance #:	10/16	
Non-Conformance Grading:	MAJOR <input type="checkbox"/>	Minor <input checked="" type="checkbox"/>
Standard & Requirement:	NEPCon LegalSource Standard, version 1.0; 8 Risk Mitigation 8.4 The organisation shall discontinue relationships with suppliers in cases of major or continuous violations of the requirements of this standard.	
Description of Non-conformance:		
<p>Organisation requires all suppliers to submit a Product Information Sheet together with Removal Passes, failing which, Organisation will not accept products from the supplier (See Exhibit 5, points 5 and 7).</p> <p>However, the requirement to discontinue relationships with suppliers - or suspend or discontinue purchasing from that supplier - in cases of major or continuous violations, requires to be embedded within the procedures and operations of the DDS of Organisation.</p>		
Corrective action request:	<p>Organisation shall implement corrective actions to demonstrate conformance with the requirement(s) referenced above.</p> <p>Note: Effective corrective actions focus on addressing the specific occurrence described in evidence above, as well as the root cause to eliminate and prevent recurrence of the non-conformance.</p>	
Timeline for Conformance:	12 months from report finalisation date (19 September 2016)	
Evidence Provided by Organisation:	DD-02 Carl Ronnow Due Diligence Procedure 10.10.17	
Findings for Evaluation of Evidence:	<p>Organisation includes this requirement under Section 4.4 of its DD-02. Organisation requires all suppliers to submit Product Information Sheet and Log Removal Passes, failing which, Organisation will not accept products from the supplier (Exhibit 1).</p>	
NCR Status:	CLOSED	
Comments (optional):		