



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

**Annual audit 2018**

**Audit date: 05/12/2018**

**Certificate code: NC-LS-009451**

**Issued date: 27/09/2016**

**Organisation Contact**

Dick Anning  
Carl Ronnow (M) Sdn Bhd  
Locked Bag 20, Kota Kinabalu, Sabah, 88990, Malaysia

**Audit managed by**

NEPCon – SE Asia Regional Office  
59, Jln Memanda 13, Ampang, Selangor, 68000, Malaysia

Contact person: Yee Fen  
Email: [yfn@nepcon.org](mailto:yfn@nepcon.org)

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 <sup>th</sup> January 2017
Consultation period:	N/A
Approval body:	NEPCon
Contact person:	Christian Sloth, Forest Legality Programme Manager
Contact email:	cs@nepcon.org

---

## Contents

A. INTRODUCTION .....	4
B. SCOPE .....	4
C. AUDIT FINDINGS .....	8
D. CLOSED NON-CONFORMANCES .....	11

## A. Introduction

The purpose of this report is to document conformance with the requirements of the LegalSource standard by **Carl Ronnow (M) Sdn Bhd** and **Carl Ronnow Limited** 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:	Confidential

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 / <a href="http://carlronnow.com/">http://carlronnow.com/</a>
Jurisdiction of primary legal entity:	Malaysia
Primary Activity	Broker/trader with physical storage
Description of Organisation:	Organisation is a sawn timber exporter located in Malaysia. Organisation is LegalSource certified with regards to its Due Diligence System (DDS) covering MTCS(PEFC)-certified sourced wood-products from Peninsula Malaysia and LegalSource certified product from Gabon.

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; supply regions and markets.</p> <p><b>1. Products</b></p> <p>i. Malaysian Timber Certification System (MTCS, as endorsed by PEFC): Sawn timber (HS code: 4407) and timber decking (HS code: 4409).</p> <p>ii. LegalSource Certified (Gabon): Sawn timber, mouldings and doors and door frames</p> <p><b>2. Certification systems</b></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> <ol style="list-style-type: none"> <li>i. Malaysian Timber Certification System (MTCS) as endorsed by PEFC. Claims: PEFC 100%</li> <li>ii. LegalSource Certification System (LS) by NEPCon. Claims: LegalSource-certified</li> </ol> <p>As further certification systems are evaluated, these would be included within the scope of its DDS.</p> <p><b>3. Regions of harvest</b></p> <p>Organisation has limited the scope of its DDS to include the following countries/regions of harvest:</p> <ol style="list-style-type: none"> <li>i. Peninsular Malaysia (PEFC 100%)</li> <li>ii. Gabon (LegalSource)</li> </ol> <p><b>4. Markets</b></p> <p>Organisation has limited the scope of its DDS to include only products destined to the following markets:</p> <ol style="list-style-type: none"> <li>i. EU countries (Peninsular Malaysia PEFC 100%)</li> <li>ii. Global (LegalSource certified product from Gabon)</li> </ol> <p>NOTE: There are no restrictions on the species. All species included in the DDS are from natural forests and not from timber plantations.</p>
<p>Changes to certificate scope since last audit:</p>	<p>Two changes to the scope of the certificate have been introduced since the 2017 annual audit (both addressed individually through scope-expansion audits). These are:</p> <ul style="list-style-type: none"> <li>• Organisation expanded its product scope to include 100% PEFC-certified <b>timber decking</b> originating from MTCS-certified forest. The timber decking would be converted from sawn timber internally by the same supplier.</li> <li>• Organisation expanded the scope of its certificate to include <b>LegalSource (LS) certified wood products from Gabon</b>, as well as to include a third site (legal entity) of Carl Ronnow Group, operating out of Malaysia (see Site 3).</li> </ul>
<b>Certificate Sites or Group members</b>	
<b>Site 1:</b>	
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"/>
<b>Site 2</b>	
Site name:	Minho (outsourcing facility)
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 type="checkbox"/>
<b>Site 3:</b>	
Site name:	Carl Ronnow Ltd (trading legal entity)
Site Address/ Tel/Web/Email:	Suite No. 02, Office Suites @ Kensington Gardens, No. U1317, Jalan Jumidar Buyong, 8700 Federal Territory of Labuan, Malaysia
Site Activity:	Broker/trader without physical handling
Product Scope:	Sawn timber, mouldings and doors and door frames
Site visited during audit:	<input type="checkbox"/>

Evaluation Process	
Audit team:	<p><b>David Hadley</b></p> <p>David supports the management of NEPCon's Responsible Sourcing department, covering our due diligence services for forest-impact commodities. This includes the day-to-day management of NEPCon's LegalSource services, as well as FSC Controlled Wood certification.</p>
Description of Audit Process:	<p>The auditor visited the Organisation's sales and administration office in Kota Kinabalu on 5<sup>th</sup> December 2018. The audit was attended by staff from the Environmental department - the Environmental Manager, Dick Anning, and the Environmental Assistant, Augusta Ng. 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. Interviews with staff members from other departments (e.g. CHIN Pei Sze, Financial Controller) took place throughout the day.</p> <p>09:00 <b>Opening meeting</b> - introductions, the audit agenda, scope and objectives</p> <p>09:30 <b>Presentation by Carl Ronnow</b> of:</p> <ul style="list-style-type: none"> <li>• Basic structure, scope and overall design of the DDS.</li> <li>• Review of changes and updates since the last annual audit.</li> <li>• Outstanding NCRs</li> </ul> <p>10:30 Review of <b>Quality Management System</b>, in relation to the DDS: Policy, Responsibilities and Competences, Procedures, Scope and other matters.</p> <p>12:30 Internal Performance Monitoring of the DDS and LegalSource claims</p> <p>13:00 (Short break for lunch)</p> <p>13:30 Review of supply chain information and supplier management procedures. Supply chain information may be requested for all relevant sources and supply chains.</p>

	<p>14:30 Risk Assessment procedures and evaluation/discussion of conclusions. NEPCon will evaluate risk assessment procedures and conclusions reached.</p> <p>16:00 Risk Mitigation measures selected and implemented, including (desk evaluation) any own-verification audit programme for suppliers.</p> <p>17:00 <b>Closing Meeting</b> - summary of audit outcome and next steps</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: Organisation has now been implementing its LS-certified DDS for a number of years. Systems are well imbedded and the level of conformance with the requirements of the LegalSource (LS) standard were high.	

### 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:

<b>Non-Conformance #:</b>	01/18	
<b>Non-Conformance Grading:</b>	MAJOR <input type="checkbox"/>	Minor <input checked="" type="checkbox"/>
<b>Standard &amp; Requirement:</b>	LegalSource Standard (LS-02) V2-0: 7.3: The Organisation shall assess and specify the level of risk of illegal forest products being produced or entering the supply chain, including the following issues: 7.3.2: Risk of legal violations in relation to trade and transport of the products;	
<b>Description of Non-conformance:</b>		
In the case of sourcing LS-certified wood products from Gabon, Organisation relies on the certification having mitigated all forest and trade/transport risks within Gabon. However, with regards to new entities within the supply chain based in Labuan Federal Territory, (and 7.3.2) Organisation shall need to apply a risk assessment (and mitigate any identified risks).		
<b>Corrective action request:</b>	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.	
<b>Timeline for Conformance:</b>	By the next annual audit, but not later than 12 months after the report finalisation date.	
<b>Evidence Provided by Organisation:</b>		
<b>Findings for Evaluation of Evidence:</b>		
<b>NCR Status:</b>	OPEN	



<b>Comments (optional):</b>	<p>NOTE 1: It is understood that this shall apply to the following legal entities:</p> <ul style="list-style-type: none"> <li>• Techwood (SEA) Limited, Lot No. UO125, 1-11, Equity Business Centre, Jalan Bahasa, 87000, FT Labuan, Malaysia.</li> <li>• Carl Ronnow Ltd (Suite No. 02, Office Suites @ Kensington Gardens, No. U1317, Jalan Jumidar Buyong, 8700 Federal Territory of Labuan, Malaysia (as per the NOTE in the above requirement, Organisation is required to ensure that risk assessment is conducted for all the Organisation's own entities).</li> </ul> <p>NOTE 2: NEPCon makes the following comments about which relevant laws are potentially applicable to Labuan:</p> <ul style="list-style-type: none"> <li>• Relevant laws in relation to the following criteria are potentially applicable to Labuan (if they exist): <ul style="list-style-type: none"> <li>○ <i>Legal registration shall be in place.</i></li> <li>○ <i>Value added taxes and other sales taxes.</i></li> <li>○ <i>Classification of species, quantities, qualities.</i></li> </ul> </li> <li>• In the following cases, different situations apply: <ul style="list-style-type: none"> <li>○ <i>Trade &amp; transport:</i> Applicable trade laws are relevant, however wood product is not transported via Labuan, so will not apply.</li> <li>○ <i>Offshore trading and transfer pricing:</i> Applicable off-shore trading laws are relevant, however transfer pricing is unlikely to be applicable (no within-group trade is taking place).</li> <li>○ <i>Customs regulations:</i> Not applicable as no export from Labuan is taking place.</li> </ul> </li> </ul>
-----------------------------	--

## 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:

<b>Observation #:</b>	<b>01/18</b>
<b>Standard &amp; Requirement:</b>	LegalSource Standard (LS-02) V2-1
<b>Description of Observation:</b>	<p>Organisation should be aware of the new version of the LegalSource Standard V2-1, which was published in January 2019 to replace version 2-0. Further guidance will be provided by NEPCon with regards to the differences between V2-0 and V2-1.</p> <p>Organisation should consider any implications or revisions which might be required to its due diligence procedures, prior to next annual audit.</p>

<b>Observation #:</b>	<b>02/18</b>
<b>Standard &amp; Requirement:</b>	LegalSource Standard (LS-02) V2-0:

	<p>7.3: The Organisation shall assess and specify the level of risk of illegal forest products being produced or entering the supply chain, including the following issues:</p> <p>7.3.2: Risk of legal violations in relation to trade and transport of the products;</p>
<p><b>Description of Observation:</b></p>	
<p>The Goods and Services Tax Act (GST) has replaced the Sales Tax Act 2018 (<a href="http://www.federalgazette.agc.gov.my/outputaktap/20180828_AKTA_806_BI.pdf">www.federalgazette.agc.gov.my/outputaktap/20180828_AKTA_806_BI.pdf</a>), which came into force in September 2018. This is a tax raised at the processing level only (on finished manufactured goods). Many timber products are exempted both for export and for domestic (see <a href="https://mysst.customs.gov.my/SSTAct">https://mysst.customs.gov.my/SSTAct</a>) and it is possible that it may not be applicable at all to the activities of Organisation. Also, it appears that Labuan Federal Territory is exempted also (Page 10 of the Sales Tax Act, Definition of Designated areas includes Labuan Federal Territory, and Section 48 describes the exemption of Designation areas for Sales tax).</p> <p>Organisation should ensure to: review the applicability of the new Act to all relevant legal entities and supply chains; review the level of risk associated with non-compliance against this Act and implement Risk Mitigation measures as necessary. Organisation’s documented procedures and records should be updated accordingly (including the removal of references to the GST).</p>	

<p><b>Observation #:</b></p>	<p><b>03/18</b></p>
<p><b>Standard &amp; Requirement:</b></p>	<p>LegalSource Standard (LS-02) V2-0:</p> <p>1.1 The Organisation shall have a policy stating its commitment to producing and/or sourcing responsibly, by avoiding the use of forest products that have been harvested, traded or processed in violation of applicable national legislation and ratified international treaties.</p> <p>3.1 The Organisation shall have written procedures covering all applicable elements of this Standard.</p>
<p><b>Description of Observation:</b></p>	
<p>Organisation has developed a separate timber sourcing policy and set of procedures for each legal entity (Carl Ronnow (M) Sdn Bhd and Carl Ronnow Limited) within the scope of the DDS. The reason for this approach is not clear.</p> <p>Organisation may wish (for the purposes of efficiency, clarity and time saving) to consider maintaining only one policy and procedures document which covers the responsibilities and activities of both legal entities.</p>	

## 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.

<b>Non-Conformance #:</b>	01/17	
<b>Non-Conformance Grading:</b>	MAJOR <input type="checkbox"/>	Minor <input checked="" type="checkbox"/>
<b>Standard &amp; Requirement:</b>	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.	
<b>Description of Non-conformance:</b>		
NCR is raised because Section 1.6 of the DD-02 does not reflect Minho SOP and its 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.		
<b>Corrective action request:</b>	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.	
<b>Timeline for Conformance:</b>	12 months from report finalisation date	
<b>Evidence Provided by Organisation:</b>	Exhibit 01: DD-02 Carl Ronnow (M) Due Diligence Procedure V2. 18.12.17 and Exhibit 10: MINHO SOP (revised)	
<b>Findings for Evaluation of Evidence:</b>	Organisation has updated procedures in DD-02, as well as in the MINHO SOP (1.6 of DD-02) in order to reflect the actual situation at Minho.	
<b>NCR Status:</b>	<b>CLOSED</b>	
<b>Comments (optional):</b>		