



# LegalSource™ Audit Report for Carl Ronnow Sdn Bhd

Annual audit 2019

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## Contents

CONTENTS .....	3
A. INTRODUCTION .....	4
B. SCOPE .....	4
C. AUDIT FINDINGS .....	7
D. CLOSED NON-CONFORMANCES .....	9

## A. Introduction

The purpose of this report is to document conformance with the requirements of the LegalSource standard by **Carl Ronnow (Malaysia) 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:	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 Peninsular 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) V2-1 <input checked="" type="checkbox"/> NEPCon Generic Chain of Custody Standard (NC-STD-01) <input type="checkbox"/> NEPCon Generic Group & Multi-Site Standard (NC-STD-02)
Product scope:	<b>Product types:</b>

	<p>1. Malaysian Timber Certification Scheme (MTCS, as endorsed by PEFC): Sawn Timber, Moulding Products and Plywood 03000 Sawnwood and sleepers 05020 Plywood (The Organisation's management representative confirmed that, during the audit period, the only product in the above category that was sold into Europe was sawn timber. Species: various, harvested from native forests in Peninsular Malaysia.)</p> <p>2. LegalSource certified: Doors and door-frames 4409 Mouldings 4407 Sawn timber 4409 Timber decking (The Organisation's management representative advised the Audit Team that, while timber decking has been added to scope, none has been sold to date. Species: various, harvested from native forests in Gabon.)</p> <p><b>Certification schemes:</b> Currently, Organisation includes only certified products within the scope of its DDS, as follows:</p> <ul style="list-style-type: none"> <li>▪ Malaysian Timber Certification System (MTCS) as endorsed by PEFC. Claim: PEFC 100%</li> <li>▪ NEPCon LegalSource Certification System (LS). Claim: LegalSource-certified</li> </ul> <p><b>Origins</b> (regions or countries of harvest):</p> <ul style="list-style-type: none"> <li>▪ Peninsular Malaysia (Malaysia; PEFC 100%)</li> <li>▪ Gabon (LegalSource)</li> </ul>
Changes to certificate scope since last audit:	<p>During the meeting on 22 April 2020, it was agreed that the audit period should be considered as the period 6 December 2018 to 29 February 2020.</p> <p>On 26 February 2020, the LegalSource certification of the Organisation's supplier in Gabon, Rainforest Management (RFM) was suspended. Carl Ronnow's Management Representative informed the Audit Team of this on 18 March 2020.</p>
<p><b>Certificate Sites or Group members</b> <input type="checkbox"/> In place of below table, details are found in Exhibit [N/A]</p>	
<p><b>Site 1:</b></p>	
Site name:	<p><b>Carl Ronnow (Malaysia) Sdn Bhd</b></p>
Site Address/ Tel/Web/Email:	<p>As above</p>
Site Activity:	<p>Broker/trader with physical storage</p>
Product Scope:	<p>Sawn timber as defined above</p>

Site visited during audit:	<input type="checkbox"/>
<b>Site 2</b>	
Site name:	Minho (outsourcing facility)
Site Address/ Tel/Web/Email:	Lot 6476, Lorong Sg. Puluh Off 6th Miles, Jalan Kapar 42100 Klang Malaysia
Site Activity:	Broker/trader with physical storage
Product Scope	Sawn timber as defined above
Site visited during audit:	<input type="checkbox"/>
<b>Site 3</b>	
Site name:	Carl Ronnow Limited (legal trading entity)
Site Address/ Tel/Web/Email:	Suite No. 02, Office Suites @ Kensington Gardens No. U1317, Jln Jumidar Buyong 87000 Federal Territory of Labuan, Malaysia
Site Activity:	Broker/trader without physical handling
Product Scope	Sawn timber, mouldings, doors and door frames
Site visited during audit:	<input type="checkbox"/>

Evaluation Process	
Audit team:	<p><b>Malory Weston, Audit Team Leader</b></p> <p>Malory has been working with NEPCon since 2015, and is actively involved in NEPCon's FSC Expert training courses – providing training in Forest Management, Controlled Wood and Chain of Custody in Asia and Europe. She is a Senior FSC Chain of Custody Auditor, and Forest Management Auditor, as well as a PEFC Chain of Custody and LegalSource Auditor; and has carried out audits in various countries including Thailand, India, Vietnam, Papua New Guinea, Philippines, New Zealand, Australia, Indonesia, Solomon Islands, Czech Republic, Lithuania and Malaysia. Malory also works for NEPCon as a technical editor.</p> <p><b>Medita Hermawan, Observer</b></p> <p>Medita is working as Forest Management Coordinator in NEPCon – Asia Pacific Regional Office. As NEPCon's FM Coordinator, he manages the planning and execution of FSC FM audits and assessment audits in the region. He is qualified as FSC FM lead auditor.</p>
Description of Audit Process:	Carl Ronnow's 2019 LegalSource audit was a remote evaluation, conducted by Skype and email.

## C. Audit

	<p>A remote Opening Meeting was held on 28 October 2019, in which participated:</p> <ul style="list-style-type: none"><li>• Carl Ronnow staff Mr Dick Anning and Ms Augusta Ng</li><li>• NEPCon staff Mr Darren Brown and Mr Medita Hermawan.</li></ul> <p>Due to NEPCon staff changes and delays associated with COVID-19 and holidays including Chinese New Year, the next evaluation-related meeting did not occur until 22 April 2020. This was by Skype and was attended by Dick Anning, Augusta Ng and Malory Weston (replacing Darren Brown, who left NEPCon in February 2020). The audit continued at the end of June when the lockdown in Malaysia lifted and Carl Ronnow staff were able to send documents needed as evidence to finalize the report.</p>
Actions taken by Organisation prior to report finalisation:	N/A
Notes for the next audit:	The certificate is valid until September 2021. Due to the delay of 2019 audit as explained above, this audit period is extended namely from 6 December 2018 until the end of February 2020. The next audit will need to be conducted at the latest in the first quarter of 2021.

## Findings

<b>Audit Conclusion:</b>	
Organisation approved: No non-conformances issued	<input checked="" type="checkbox"/>
Organisation not approved: Choose an item.	<input type="checkbox"/>
Additional comments: N/A	

## 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:

**No NCRs were raised during the 2019 audit.**

## 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>01/19</b>
<b>Standard &amp; Requirement:</b>	LegalSource Standard (LS-02) V2-1: Appendix E, 3.1 The Organisation shall have written procedures covering all applicable elements of this Standard.
<b>Description of Observation:</b> The Audit Team noted, during the audit that, with regard to several key documents:	
<ul style="list-style-type: none"> <li>• some text has been updated (see section 6, <i>Changes from Previous Version of This Document</i> for details of changes) but version numbers and dates have not kept pace with the internal changes (this applies, e.g. to both Due Diligence Procedures documents [Exhibits 1 and 2], and DD-04 CR Limited Gabon Supplier Management Form 15.09.18-31.10.18);</li> <li>• no page numbers are included (e.g. for the Due Diligence Procedures), which makes it more challenging working with them and adds to the time take to review such documents.</li> </ul>	
The Organisation should ensure that LegalSource documentation is kept consistently up-to-date, with version numbers and dates of revisions being clear to the reader (and formatting such as page numbers would be beneficial).	

<b>Observation #:</b>	<b>02/19</b>
<b>Standard &amp; Requirement:</b>	LegalSource Standard (LS-02) V2-1: Appendix F, 1.1.1 The Organisation shall have in place valid and appropriate business licenses and registrations.
<b>Description of Observation:</b> In the document CRM List, the Organisation refers to Rainforest Alliance as its Certification Body.	
The Organisation's documentation should reflect NEPCon as the Certification Body.	



## 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>	<b>01/18</b>	
<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>	Organisation provided its Internal Audit Report for Carl Ronnow Limited dated 2 October 2019 (see Exhibit 5); in which the finding was for compliance for this NCR, as follows: "1. Legal registration shall be in place. Techwood (SEA) Limited: For proof of Legal Registration refer to document "Certificate of Incorporation TechWood SEA Limited LL07595" Carl Ronnow Limited: For proof of Legal Registration refer to document "Certificate of Incorporation Carl Ronnow Limited-LL13025"  2. Value added taxes and other sales taxes. There are no value added taxes and no other sales taxes in Labuan. All Labuan companies are subjected to company tax based on the net profits of the company.  3. Classification of species, quantities, qualities	

	All sales and shipping documents will reflect the required information relevant to the Classification of species, quantities and qualities”
<b>Findings for Evaluation of Evidence:</b>	<p>The Audit Team reviewed the evidence provided by the Organisation (as above) and concluded that it covered the relevant legal entities, namely Techwood (SEA) Limited, and Carl Ronnow Ltd in Federal Territory of Labuan, Malaysia.</p> <p>Regarding</p> <ul style="list-style-type: none"> <li>• legal registration for these entities: the Organisation confirmed that it was in place and provided appropriate documentation as evidence;</li> <li>• value added taxes and other sales taxes: the Audit Team confirmed that these were not applicable in the Federal Territory of Labuan;</li> <li>• classification of species, quantities, qualities: the Organisation confirmed that all Carl Ronnow sales and shipping documentation reflected the required information relevant to the classification of species, quantities and qualities; with this verified through the Audit Team’s review of documents provided by the Organisation prior to finalisation of the audit report.</li> </ul>
<b>NCR Status:</b>	<b>CLOSED</b>
<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>

<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> <p>Organisation confirmed that Carl Ronnow (Malaysia) Sdn Bhd is now using LegalSource Standard V2-1 (refer Internal Audit Report for Carl Ronnow (Malaysia) Sdn Bhd (DD-14; assessment, 2 October 2019; Exhibit 4).</p>	

<b>Observation #:</b>	<b>02/18</b>
<b>Standard &amp; Requirement:</b>	<p>LegalSource Standard (LS-02) V2-0:</p> <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>
<b>Description of Observation:</b>	
<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>Carl Ronnow staff confirmed that – after checking the Sales Tax Act – there are no new amendments relating to status of Labuan as documented in Observation 02/18:</p> <p><a href="https://mysst.customs.gov.my/SSTAct">https://mysst.customs.gov.my/SSTAct</a></p> <p>Section 2 (1) defines Designated Areas to include Labuan</p> <p>Section 48 specifically excludes Designated Areas from SST</p> <p>As such, Carl Ronnow Limited does not need to register for SST and there is no value added tax or other sales taxes in Malaysia. (Refer Internal Audit Report for Carl Ronnow Limited (DD-14; assessment, 2 October 2019; Exhibit 5.)</p>	

<b>Observation #:</b>	<b>03/18</b>
<b>Standard &amp; Requirement:</b>	<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>

	3.1 The Organisation shall have written procedures covering all applicable elements of this Standard.
<b>Description of Observation:</b>	
<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>	
<p>Organisation confirmed that Carl Ronnow now has a combined Responsible Sourcing Policy for Carl Ronnow (M) Sdn Bhd and Carl Ronnow Limited (See: DD-03 Carl Ronnow Responsible Policy CRM &amp; CRLTD), However, separate procedures have been maintained for Carl Ronnow (Malaysia) Sdn Bhd and Carl Ronnow Limited (refer Internal Audit Report for Carl Ronnow (Malaysia) Sdn Bhd (DD-14; assessment, 2 October 2019; Exhibit 4).</p>	