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LegalSource™
Certification Assessment
Report for:
Carl Ronnow (M) Sdn. Bhd.
in
Kota Kinabalu, Sabah, Malaysia

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1. 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 NEPCon auditors who have evaluated organisation systems and performance against the applicable requirements. Section below provides the audit conclusions and any necessary follow-up actions by the organisation.

Dispute resolution: If NEPCon clients encounter organisations or individuals having concerns or comments about NEPCon and our services, these parties are strongly encouraged to contact relevant NEPCon regional office. Formal complaints and concerns should be sent in writing.

2. EVALUATION FINDINGS

Key findings and recommendations

As described during the closing meeting of the assessment, Organisation has made an important step in seeking to 3rd-party certify a Due Diligence System (DDS) that addresses internal and customer-led demands for greater information and confidence in the origin and legality of products sold by Organisation.

This summary would characterise the assessment findings in the following way:

Organisation has developed a solid DDS, and is well along the road to meeting all the requirements of the LegalSource (LS) standard.

Given the scope of the DDS (as of the assessment), risks associated with illegal harvesting of products have effectively been addressed, as a result of their MTCS-certified status. A number of supply chain risks have been raised by Organisation. However, even here, Organisation has implemented a set of measures to verify key documents provided by its suppliers. Additional Risk Mitigation measures have also been implemented to address the supply chain risks.

Given the above, only a small number of Non-Conformance Reports (NCRs) have been raised which represent gaps or areas where procedures may need to be strengthened. Most are in line with the closing meeting. Perhaps a few are graded differently, while a few may be entirely new (since the closing meeting), having arisen during report development or at the report review stage.

An additional test of a DDS comes as new countries/regions and certification systems are added to its scope. NEPCon understands that Organisation is keen to expand the scope of its DDS over time, and so NEPCon auditors need to be sure that the DDS and procedures are sufficiently developed and embedded within the operations of Organisation to ensure that staff will have clarity of understanding and direction with regards to their implementation.

For this reason, a number of additional NCRs have been raised which represent gaps or areas where procedures may need to be strengthened. It is important that documented procedures and records are "living" documents which reflect the reality of Organisations procedures, and vice versa, that procedures are accurately documented.

As described at the time, the Auditors considered that the NCRs are all relatively straightforward and none pose a particular problem or challenge to Organisation, such that they could not be addressed within a reasonable space of time and effort.

Audit Recommendation

Based on Organisation's conformance with LegalSource requirements, the auditor makes the following recommendation:	
<input checked="" type="checkbox"/>	Certification approved: Upon acceptance of NCR(s) issued below
<input type="checkbox"/>	Certification not approved: -
Additional comments:	

Non-conformity Reports (NCRs)

Note: NCRs describe evidences of Organisation non-conformances identified during audits. NCRs include defined timelines for the Organisation to demonstrate conformance. MAJOR NCRs issued during assessments/reassessments shall be closed prior to issuance of certificate. MAJOR NCRs issued during surveillance audits shall be closed within timeline or result in suspension.

Issued for: Organisation			
NCR: 01/16	NC Classification:	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.		
Report Section:	Appendix A: Due Diligence checklist; 1.1		
Description of Non-conformance and Related Evidence:			
<p>Organisation provided the auditors with two policy commitments to legal sourcing, both endorsed at executive level (See Exhibit 0). 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 non-conformance.		
Timeline for Conformance:	By the next annual surveillance audit		
Evidence Provided by Organisation:	PENDING		
Findings for Evaluation of Evidence:	PENDING		
NCR Status:	OPEN		
Comments (optional):			

Issued for: Organisation			
NCR: 02/16	NC Classification:	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.		
Report Section:	Appendix A: Due Diligence checklist; 3.1		
Description of Non-conformance and Related Evidence:			
<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>During the assessment, a number of areas were identified where 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:	By the next annual surveillance audit		
Evidence Provided by Organisation:	PENDING		
Findings for Evaluation of Evidence:	PENDING		
NCR Status:	OPEN		
Comments (optional):			

Issued for: Organisation			
NCR: 03/16	NC Classification:	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.
Report Section:	Appendix A: Due Diligence checklist; 4.1, 4.3 and 4.5
Description of Non-conformance and Related Evidence:	
<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). - Organisation's Due Diligence Manual (Exhibit 1a, section 4.5) 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). 	
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:	By the next annual surveillance audit
Evidence Provided by Organisation:	PENDING
Findings for Evaluation of Evidence:	PENDING
NCR Status:	OPEN
Comments (optional):	

Issued for: Organisation			
NCR: 04/16	NC Classification:	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		
Report Section:	Appendix A: Due diligence checklist; 6.1.2		
Description of Non-conformance and Related Evidence:			

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 (Exhibit 6) and the relevant Removal Passes (Example in Exhibit 7).

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 (Exhibit 8).

In the case of Keruing, Organisation records only to the genus level, i.e. *Dipterocarpus spp.*

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:	By the next annual surveillance audit
Evidence Provided by Organisation:	PENDING
Findings for Evaluation of Evidence:	PENDING
NCR Status:	OPEN
Comments (optional):	

Issued for: Organisation			
NCR: 05/16	NC Classification:	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		
Report Section:	Appendix A: Due diligence checklist; 6.2		
Description of Non-conformance and Related Evidence:			
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): 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.			

Additional needs for strengthening of current procedures were observed:

Verification procedures and recording of checks/information

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:

- 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 (points 7&8, Exhibit 5).
- Clarifying procedures with regards to on-site evaluations (step iv above) conducted during visits to suppliers (point 12, Exhibit 5).

Documented procedures and records

Documented DDS procedures requires to be better customised to the particular systems of Organisation.

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:	By the next annual surveillance audit
Evidence Provided by Organisation:	PENDING
Findings for Evaluation of Evidence:	PENDING
NCR Status:	OPEN
Comments (optional):	

Issued for: Organisation			
NCR: 06/16	NC Classification:	MAJOR <input type="checkbox"/>	Minor <input checked="" type="checkbox"/>
Standard & Requirement:	NEPCon LegalSource Standard, version 1.0; 6 Supply chain and material information 6.4 The organisation shall ensure compliance with applicable elements of this standard throughout their supply chains by, at minimum taking the following steps: See 6.4.1 to 6.4.4		
Report Section:	Appendix A: Due diligence checklist; 6.4		
Description of Non-conformance and Related Evidence:			

<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 (Exhibit 1a, section 10.2.1). Two letters (Exhibits 12 and 13) 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:	<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:	By the next annual surveillance audit
Evidence Provided by Organisation:	PENDING
Findings for Evaluation of Evidence:	PENDING
NCR Status:	OPEN
Comments (optional):	

Issued for: Organisation			
NCR: 07/16	NC Classification:	MAJOR <input type="checkbox"/>	Minor <input checked="" type="checkbox"/>
Standard & Requirement:	<p>NEPCon LegalSource Standard, version 1.0;</p> <p>7 Risk Assessment</p> <p>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:</p> <p>7.1.1 the risk of legal violations related to forest management activities;</p> <p>7.1.2 the risk of legal violations within the supply chains in relation to trade and transport...,</p> <p>7.1.3 risk that the material is mixed with other material of illegal or unknown origin...</p>		
Report Section:	Appendix A: Due diligence checklist; 7.1		
Description of Non-conformance and Related Evidence:			
<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:	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:	By the next annual surveillance audit
Evidence Provided by Organisation:	PENDING
Findings for Evaluation of Evidence:	PENDING
NCR Status:	OPEN
Comments (optional):	

Issued for: Organisation			
NCR: 08/16	NC Classification:	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.		
Report Section:	Appendix A: Due diligence checklist; 7.6		
Description of Non-conformance and Related Evidence:			
<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:	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:	By the next annual surveillance audit		
Evidence Provided by Organisation:	PENDING		
Findings for Evaluation of Evidence:	PENDING		
NCR Status:	OPEN		
Comments (optional):			

Issued for: Organisation			
NCR: 09/16	NC Classification:	MAJOR <input type="checkbox"/>	Minor <input checked="" type="checkbox"/>

Standard & Requirement:	<p>NEPCon LegalSource Standard, version 1.0;</p> <p>8 Risk Mitigation</p> <p>8.1 The organisation shall develop and implement efficient and justified measures for mitigating risks where specified for any of 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>
Report Section:	Appendix A: Due diligence checklist; 8.1
Description of Non-conformance and Related Evidence:	
<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>	
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</p>

	as the root cause to eliminate and prevent recurrence of the non-conformance.
Timeline for Conformance:	By the next annual surveillance audit
Evidence Provided by Organisation:	PENDING
Findings for Evaluation of Evidence:	PENDING
NCR Status:	OPEN
Comments (optional):	

Issued for: Organisation			
NCR: 10/16	NC Classification:	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.		
Report Section:	Appendix A: Due diligence checklist; 8.4		
Description of Non-conformance and Related Evidence:			
<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:	By the next annual surveillance audit		
Evidence Provided by Organisation:	PENDING		
Findings for Evaluation of Evidence:	PENDING		
NCR Status:	OPEN		
Comments (optional):			

Observations

Note: Observations are issued for the early stages of a problem which does not of itself constitute a non-conformance, but which the auditor considers may lead to a future non-conformance if not addressed by the organization; observations may lead to direct non-conformances if not addressed.

OBS: 01/16	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.
	Report Section	Appendix A: Due Diligence checklist; 1.1
Description of findings leading to observation:	Organisation provided the auditors with two policy commitments to legal sourcing.	
Observation:	<p>Organisation may wish to consider combining the policy documents, to improve the efficiency and effectiveness of the message communicated within the policy.</p> <p>Also, there is room for improving the content of the policy in some areas. For example, it does not specifically define the scope of the “applicable legislation” by indicating the five broad categories of legislation relating to illegal harvesting, trade and transport. Nor does it mention that the applicable legislation applies to the country of harvest as well as the entire supply chain. The auditors consider these as potential improvements to the policy, that Organisation may wish to consider, going forward.</p>	

OBS: 02/16	Standard & Requirement:	NEPCon LegalSource Standard, version 1.0; 1 Commitment to legal sourcing 1.2 The organisation shall ensure the policy is implemented and followed.
	Report Section	Appendix A: Due Diligence checklist; 1.2
Description of findings leading to observation:	Organisation has developed a Responsible Sourcing Policy and Due Diligence System (DDS) Manual, which sets out its procedures for due diligence implementation.	
Observation:	<p>Organisation may wish to consider strengthening its policy by implementing procedures for dealing with possible situations that may arise, such as:</p> <ul style="list-style-type: none"> • a procedure relating to 'non-conforming materials' that describes the steps that shall be taken if it becomes evident that a shipment of purchased material has been harvested or transported illegally. • a complaints procedure to describe the steps and actions Organisation shall follow if it receives - or is subject to - a substantiated complaint from a third party relating to the legality of the raw materials purchased or sold by the Organisation. 	

OBS: 03/16	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 findings leading to observation:	Report Section	Appendix A: Due diligence checklist; 6.2
Observation:	<p>In the case of Meranti, Organisation cross checks the species of MTCs-certified sawn timber identified by the supplier on the Product Information sheet by cross-checking this with information on the Removal Passes. See also Exhibit 10.</p> <p>No procedures exist for Keruing, as the individual species are not described on Removal Passes at all. The situation with regards to Merbau is unknown.</p> <p>The following observations are made regarding the ability of the Removal Passes to confirm species:</p> <ul style="list-style-type: none"> - The quality and level of reliability of species information provided on Removal Passes is variable, although the size and extent of variability is unknown. By way of example, Exhibit 17 provides an example of some of the challenges with regards to Removal passes. - For Keruing, the individual species are not described on Removal Passes at all. The situation with regards to Merbau is unknown. - The intact PEFC CoC-certified supply chain does provide Organisation with improved confidence in the information it has at its disposition. <p>Given the above, Organisation may wish to consider new or strengthened procedures to verify species by alternative means other than relying solely on the Removal Passes. These could also address the verification of species, where the Removal Passes do not provide that information (e.g. Keruing).</p>	

OBS: 04/16	Standard & Requirement:	NEPCon LegalSource Standard, version 1.0; 5 Scope of the due diligence system and the LegalSource certification 5.2 If the organisation is handling wood and wood-based material which is not included in the scope of the LegalSource certification, it shall ensure that material within the scope is not mixed with other material, and shall
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		comply with the chain of custody requirements in Annex 3.
	Report Section	Appendix A: Due Diligence checklist; 5.2
Description of findings leading to observation:	<p>Organisation is relying on CoC and traceability procedures related to its PEFC CoC certification systems. Procedures specific to the handling and segregation of LegalSource (and non-LegalSource) materials appear to be addressed – at least – for the EU market. As a result, the Auditors accept that the level of risk is sufficiently low to determine compliance for this criterion.</p>	
Observation:	<p>Any expansion of scope will require that Organisation consider procedures and work-instructions relating to Chain of Custody and traceability, including (but not limited) to requirements such as: identifying and tracking PEFC-certified sawn timber which <i>will be included</i> within the scope of the LS-certified DDS as opposed to PEFC-certified sawn timber which <i>will not be included</i>. This may require revised procedures for: reception, storage of bundles; breaking/mixing of bundles for drying and/or storage; kilning; and handling/storage/mixing of dried sawn material. It may also require the identification of <i>LS-certified</i> sawn timber both <i>physically</i> and <i>within information systems</i>; procedures when LegalSource-certified product may need to be down-graded or quarantined; ensuring product-related LS sales claims may only be made for eligible products included within the scope of the DDS.</p> <p>The next (annual or scope expansion) audit to Organisation will include a visit to the outsourced warehousing and kiln-drying facility in Minho Shah Alam, Selangor (near Port Klang, Malaysia). This is also the case for any expansion of scope to include other markets for sawn timber.</p>	

OBS: 05/16	Standard & Requirement:	NEPCon LegalSource Standard, version 1.0; 6 Supply chain and material information 6.3 The organisation shall ensure that suppliers notify the organisation if they plan to change supply chains.
	Report Section	Appendix A: Due diligence checklist; 6.3
Description of findings leading to observation:	<p>Organisation states in its DDS Procedures (Exhibit 1a) that supply chain and risk assessment results shall be revised whenever changes are made to supply chains. However, Organisation has not communicated to its suppliers the need to notify them, if the supplier plans to change supply chains. The requirement is not covered in Organisation’s DDS procedures either.</p> <p>However, this requirement appears to be addressed given the current scope of the DDS, Organisation is aware, via each invoice, the source of the raw material, and the chance of sawn timber being imported by the sawmill is not really applicable.</p>	
Observation:	<p>Any expansion of scope will require that Organisation consider this requirement as it may still be valid as for new countries/regions which are included within the scope of its DDS.</p>	

Actions taken by Organisation Prior to Report Submission

In response to the presented findings from the closing meeting, Organisation submitted a revised Procedures document (Exhibit) 2 on 28th July 2016.

Further documentation was submitted on 2nd August 2016 and 8th August 2016.

Actions taken by Organisation Prior to Report Finalization

3. COMPANY DETAILS

Contacts

Primary contact for Coordination with NEPCo

Primary Contact, Position:	Dick Anning, Environmental Manager
Address:	Locked Bag 20, Kota Kinabalu, Sabah 88990, Malaysia
Tel/Fax/Web/Email:	+60 88 483 888 / + 60 88 483 801 / www.carlronnow.com / rja@carlronnow.com.my
Jurisdiction of primary legal entity:	Malaysia

Billing Contact

Same as shown for "primary contact"

Scope

Scope item	Check all that apply to the certificate scope		Change in scope (N/A for assessments)
Certificate type:	<input checked="" type="checkbox"/> Single Organisation	<input type="checkbox"/> Group or multi-site	<input type="checkbox"/>
Activity:	Primary: Exporter (Broker/trader with physical possession)	Additional: -	<input type="checkbox"/>
Claim and logo use:	<input checked="" type="checkbox"/> Yes, the organisation will use LS claims and logo	<input type="checkbox"/> No claims or logo will be used.	<input type="checkbox"/>

Description of scope: The scope of the DDS is defined by: **products; suppliers; supply chains (sourcing countries/regions of harvest) and certification systems**, as follows:

1. Products

Organisation has limited the scope of its DDS, to sawn timber.

2. Certification Systems

Organisation includes only certified products within the scope of its DDS. For now, the only the following Certification System is included within the scope of its DDS:

- i. Malaysian Timber Certification System (MTCS) as endorsed by PEFC
Claims: PEFC 100%

As further Certification Systems are evaluated, these would be included within its DDS.

3. Supply countries/regions of harvest

Organisation has limited the scope of its DDS to include the following sourcing countries/regions of harvest:

- i. Peninsula Malaysia (Carl Ronnow Sdn Bhd)

4. Markets

Organisation has limited the scope of its DDS to include only products destined to the following markets:

- i. EU countries.

NOTE 1: No specific restriction is placed on species.

NOTE 2: The Scope of the DDS includes making LS promotional and sales claims.

Site details

Organisation Site(s)	Address Tel/Fax/Email	Type of operation	Product groups placed on the market (include brief description)	Visited during this audit (mark the length in hours and auditor if applicable)
Carl Ronnow (M) Sdn. Bhd.	Kg Melawa, 14.5 km, Jalan Sepangar Bay, Menggattal. Locked Bag No 20, 88990 Kota Kinabalu, Sabah, Malaysia	HQ offices. Sales office	Sawn timber as defined in the scope above	Yes 25/07/2016
	12-3-1, Jalan Setia Prima P Bandar Setia Alam, 40170 Shah Alam, Selangor Darul Ehsan	Warehouse (Minho) (receiving, storage, kiln-drying, and shipping)		No

4. EVALUATION PROCESS

Evaluation Team

Auditor(s)	Qualifications
David Hadley Garcia Lead Auditor	David is supporting NEPCon's efforts to provide business solutions for responsible sourcing and supply chain management on par with new legislation and market requirements. He contributes to NEPCon's capacity building and training services. David is a LegalSource Lead Auditor as well as an FSC/PEFC CoC Lead Auditor with a number of years of industry experience.
Ng Yee Fen Trainee Auditor & Regional expertise support	Yee Fen joined NEPCon Malaysia in 2015. She has a working background within the timber industry and has previous corporate experience in sales and marketing.

Description of Evaluation Process

An assessment of Carl Ronnow and its Due Diligence procedures was conducted on 25 July 2016 at the main office of Carl Ronnow in Kota Kinabalu, Sabah, Malaysia.

The objective of the Assessment was to conduct an on-site evaluation of the Due Diligence System (DDS) of Organisation. In order to meet this objective, NEPCon evaluated the conformance of Organisation's DDS against the relevant parts of the LegalSource standard, focussing on the following core areas:

- Quality management aspects of the Due Diligence System (DDS)
- Level of access to applicable information relating to supply chains included within the scope of the DDS
- Supplier management procedures
- Risk Assessment procedures and conclusions
- Risk Mitigation Actions implemented to mitigate any identified risks

Approximate Agenda

09:00 **Opening meeting:** introductions, the audit agenda, scope and objectives

09:30 **Presentation by Carl Ronnow** of the basic structure, scope and overall design of the DDS and progress made in its development and implementation.

10:00 Review of **Quality Management System** for the DDS: Policy, Responsibilities and Competences, Procedures, Scope and other matters.

11:00 Review of **supply chain information** and **supplier management procedures**. (Supply chain information may be requested for all relevant sources and supply chains throughout audit).

(Short break for lunch)

13:00 **Risk Assessment procedures**

Evaluation of procedures, discussion of conclusions.

1. **Certification System evaluations**
2. **Country/Region Risk assessments**

14:00 **Risk Mitigation measures** selected and implemented:

1. **Assuring supplier certificates are active and certified supplies are sold as such.**
2. **Additional Risk Mitigation measures to address gaps in Certification Systems**

15:15 **Internal chain of custody system** within company (if applicable)

16:00 **Internal Performance Monitoring**

16:30 Auditors take time to summarise findings

17:15 **Closing meeting:** Summary of audit findings presented by Auditors (including identified non-conformances and observations, if applicable) discussion and next steps.

17:30 Estimated end of Day.