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LegalSource™
Certification Assessment
Report for:

Sabah Forest Industries Sdn Bhd

in

Sabah, Malaysia

Report Finalized: 07.02.2015
Report Format: Public Summary
Audit Dates: January 26-28, 2015
Audit Team: Peter Feilberg
Dr. Rahimatsah Amat
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Type of Evaluation: Single

Certificate code:

Certificate issued:

Report based on Standard(s):

LegalSource Standard Version 1,
dated 8 January 2013

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1. INTRODUCTION

The purpose of this report is to document conformance with the requirements of the LegalSource standard by Sabah Forest Industries 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

Audit Recommendation

Based on Organisation's conformance with LegalSource requirements, the auditor makes the following recommendation:

<input type="checkbox"/>	Certification approved: No NCRs issued
<input checked="" type="checkbox"/>	Certification not approved: Conformance with MAJOR NCR(s) required
Additional comments: Update of the SOP to include LegalSource requirements.	

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.

No NCR(s)

Issued for: SFI			
NCR: 01/15	NC Classification:	MAJOR <input checked="" type="checkbox"/>	Minor <input type="checkbox"/>
Standard & Requirement:	NEPCon LegalSource Standard, version 1.0; criteria 1.1; 2.3; 2.4; 3.1; 4.1; 4.5; 7.1; 7.4; 7.5; 7.6; 8.1; 8.2; 9.1 to 9.5.		
Report Section:	Appendix IV		
Description of Non-conformance and Related Evidence:			
SFI has been certified according to a number of forest certification schemes including FSC Forest Management, FSC Controlled Wood and Rainforest Alliance VLC and VLO. SFI has a comprehensive quality management system in place insuring good compliance with many of the specific requirements in the LegalSource standard. However, SFI had not adjusted quality management system to the specific requirements of the LegalSource system and the system has no references to the legal source standard. Furthermore,			

staff has not been trained in the requirement of the LegalSource standard. Following points therefore needs to be addressed by SFI prior to LegalSource certification:

1. SFI's public policy shall be adjusted to the requirements of the LegalSource standard clause 1.1.
2. SFI shall designate individual responsibilities for all applicable elements of this standard (2.3).
3. All relevant staff shall demonstrate awareness of and competence in implementing the organisation's procedures relevant to fulfilling the standard (2.4).
4. The SFI SOPs shall be updated to cover applicable elements of the standard (3.1)
5. SFI shall ensure that relevant records are maintained for a minimum of 5 years (3.3)
6. The SFI internal monitoring system shall be updated to cover relevant requirements of the standard (4.1)
7. SFI shall establish procedures ensuring that if material has been identified as coming from illegal source it is not sold (4.5)
8. SFI shall evaluate the risk of legal violations related to forest management activities (7.1) and review the risk assessment at least annually (7.6).
9. SFI shall develop and implement efficient and justified measures for mitigating risks where identified (8.1) including document and justify the effectiveness of the risk mitigation measures (8.2).
10. SFI shall update the Chain of Custody procedures to reflect the requirements of the LS-02 NEPCon LegalSource Standard, Annex 3 (1.2; 1.3; 1.4; 1.5).

In case SFI will use the LegalSource claim, SFI shall establish procedures covering 9.1 to 9.5 of the standards.

In case SFI will expand the scope to cover wood sourced from outside land managed by SFI, SFI shall establish a due diligence system covering relevant part of the standard including supply chain and material information (6.1 to 6.4), risk assessment (7.1 to 7.6), risk mitigation (8.1 to 8.4).

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:	Prior to (re)certification
Evidence Provided by Organisation:	<p>The Organisation has established LS procedures and conducted training within the organisation. ITC has established their separate procedures to ensure the implementation of the LS standard within the ITC facilities.</p> <ol style="list-style-type: none"> 1. SFI's public policy has been adjusted to the requirements of the LegalSource standard clause 1.1. (Exhibit 2)

2. SFI has designated individual responsibilities for all applicable elements of this standard (2.3). (Exhibit 1a, p 5 (SFI). and Exhibit 1, ITC-LS-004.
3. Training has been conducted according to exhibit 3 (ITC) and 3a (SFI). Staff awareness of LS requirements will need to be verified at next annual audit.
4. SFI and ITC has updated the applicable procedures to cover LS. See exhibits attached.
5. SFI has procedures in place to ensure that relevant records are maintained for a minimum of 5 years (3.3). Exhibit 1 ITC-LS-003 and 1a, p. 6 (SFI).
6. SFI has established procedures for internal monitoring (Exhibit 1 ITC-LS-008 and Exhibit 4 (SFI). SFI has developed a checklist for conducting internal audits on LS (Exhibit 4.2). ITC has provided a plan for internal audits, showing that internal audits on LS are to be conducted in July 2015 for the ITC complex (exhibit 5).
7. All material being sold from SFI is either sold through the ITC or the pulp mill. The pulp mill under SFI is not included in the scope. ITC has established procedures ensuring that if material has been identified as coming from illegal source it is not sold (Exhibit 1 ITC-LS-003).
8. SFI has developed a risk assessment for own plantation (Exhibit 6). Furthermore the risk assessment process has been described in the DDS procedures (exhibit 1a). ITC has developed procedures for risk assessment (Exhibit 1, ITC-LS-007)
9. SFI and ITC have developed procedures for risk mitigation (Exhibit 1, ITC-LS-007 and Exhibit 1a)
10. SFI has Chain of Custody procedures to ensure the tracking of logs from own concession (Exhibit 7). DDS procedures has been developed and specify responsibility. See point 2 above.
ITC has extended their general CoC procedures to include LS. All material under the LS scope will be marked with grey paint and followed with a tracking ticket under production (Exhibit1, ITC-LS-007). SFI has procedures for addressing NCR provided by 3rd party auditors and internal audits. Company has developed training plans and schedules for Coc of LS material. See point 6 above.

The company does not wish to include claims in the scope of LS.

	SFI has established a LS training plan, and training has been conducted at both SFI and ITC. Training conducted and the staff awareness of LS requirements will need to be verified at next annual audit.
Findings for Evaluation of Evidence:	The organisation has developed procedures for applicable elements as required under the LegalSource Standard. Training conducted and staff knowledge of the LS requirements are to be verified during next annual audit. Considering the SFI good performance in ensuring compliance with legality requirements on the land included within the scope, it is the opinion of the auditor that the Major NCR can be closed based on updated procedures and other evidence submitted by SFI.
NCR Status:	CLOSED
Comments (optional):	

Issued for: SFI			
NCR: 02/15	NC Classification:	MAJOR <input type="checkbox"/>	Minor <input checked="" type="checkbox"/>
Standard & Requirement:	<p>Sabah TLAS Checklist 2.1.11 The Organisation shall develop and implement systems to protect forest from illegal exploitation and/or encroachment such as:</p> <ol style="list-style-type: none"> 1. Systems for entry and access control to concession - (e.g. entry gate registry) 2. Forest security and patrolling measures for encroachment, illegal logging, and poaching - (monitoring schedule, personnel, training records) 3. Identification of illegal activities & reporting to authorities - (security records) 		
Report Section:	Appendix IV		
Description of Non-conformance and Related Evidence:			
<p>Recognising that the current level of security within the area managed is insufficient, SFI has made a plan in increase the protection of the area, which include training of staff as forest rangers (will give them authority to stop people entering the area) as well as contracting a security company to protect entrances. However, the plan is still pending implemented. On this background, the audit team raise a minor NCR.</p>			
Corrective action request:	<p>Organisation shall implement corrective actions to demonstrate conformance with the requirement(s) referenced above.</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.
Timeline for Conformance:	At next annual audit.
Evidence Provided by Organisation:	PENDING
Findings for Evaluation of Evidence:	PENDING
NCR Status:	OPEN
Comments (optional):	

Issued for: SFI			
NCR: 03/15	NC Classification:	MAJOR <input type="checkbox"/>	Minor <input checked="" type="checkbox"/>
Standard & Requirement:	Sabah TLAS Checklist 2.6.8 Organisation shall provide protective clothing and safety equipment requirement in accordance to the RIL Operation Guide Book.		
Report Section:	Appendix IV		
Description of Non-conformance and Related Evidence:			
<p>Protective clothing and safety equipment are provided by FME for all its staffs/workers with records (i.e. date, items) and were signed by the staff/worker. Those under contractors, the responsibility lies with the contractor to provide the equipment, based on the training provided under ToolBox training.</p> <p>However, on site visit to P5 (Block 34-37), it was observed that the workers (employed by contractor) were not using safety shoes as required under the standard. The responsibility to supervise the compliance to safety on workers lies with the supervisor (i.e. employed by contractor). The Forester-in-charge is responsible to monitor the supervisors.</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:	At next annual audit.		

Evidence Provided by Organisation:	PENDING
Findings for Evaluation of Evidence:	PENDING
NCR Status:	OPEN
Comments (optional):	

Issued for: SFI			
NCR: 04/15	NC Classification:	MAJOR <input type="checkbox"/>	Minor <input checked="" type="checkbox"/>
Standard & Requirement:	Sabah TLAS Checklist 2.6.9 Organisation shall insure that directional felling technique is complied with		
Report Section:	Appendix IV		
Description of Non-conformance and Related Evidence:			
Directional tree feelings were not conducted appropriately in accordance to RIL Operation Guide Book, Third edition (2009) as it was observed in compartments L23 & P5 that the cutting on the stumps and the directions of fallen logs were not done in the best manner intended under RIL.			
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:	At next annual 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.

No observations

OBS: 01/15	Standard & Requirement:	LegalSource Standard Sabah TLAS Checklist 1.8.1 The Organisation shall identify and demarcate on the ground the boundary of the licence area according to regulations.
	Report Section	Appendix
Description of findings leading to observation:	The requirement is not directly applicable to existing harvesting area. However, evidence extracted from section 3.2 of the Annual Work Plan 2014 (revised) that was approved by FDS on 17th October 2014 shows that the FMU boundary has not been totally demarcated in compliance to the Licence Agreement. This need to be considered for coming harvesting areas in the FMU.	
Observation:	SFI should complete the demarcation of boundaries as required.	

Actions taken by Organisation Prior to Report Finalization

N/A

3. COMPANY DETAILS

Contacts

Primary contact for Coordination with NEPCon

Primary Contact, Position:	Guy Thornton, General Manager
Address:	10 Jalan Jeti, WDT 31 Sipitang, Sabah 89859, Malaysia
Tel/Fax/Web/Email:	+60 8780-1451/ +60 8780-1576 guyt@sfsib.com.my

Jurisdiction of primary legal entity:	Sabah, Malaysia
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Billing Contact

Same as shown for "primary contact"

Contact, Position:	
Address:	
Tel/Fax/Email:	

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: Forest Manager	Additional: Primary manufacturer	<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 include forest land managed by SFI under two licenses from Sabah Forestry Department (Timber Licence Agreement JP (KSG) 108/96 (CO) and (Tree Plantation License Agreement JP (KSG) 107/96 (CO)), both were issued in 1996. Furthermore, the scope include two private land titles owned by SFI (CL 195317803 and CL 195317821). Finally, the scope include processing facilities owned by SFI in Sipitang including sawmill and veneer factory. Pulp mill and paper mill is excluded from scope.

The scope include wood sourced from forest land managed by SFI and FSC certified wood source from outside. It does not currently cover other wood sourced from outside such as wood from local farmers and offcuts purchased from other mills. This material is mainly used for energy production.

4. EVALUATION PROCESS

Evaluation Team

Auditor(s)	Qualifications
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Peter Feilberg	<p>Lead Auditor</p> <p>As Executive Director, Peter has 20 years of active involvement in developing the global forest certification world as we know it today. His experience as FM Lead auditor and thought-leadership has positioned him as a respected voice within the forest certification arena. He is a technical advisor in the FSC Controlled Wood Technical Working Group and he has been one on the leading forces behind developing the NEPCon LegalSource program recognised by the EU Commission.</p>
Dr. Rahimatsah Amat	<p>Legal Expert</p> <p>Rahim, with a doctorate in protected areas planning and resource management, has 27 years working experience in protected areas to forest management units in the region, including Indonesia, Vietnam, Laos, Thailand and Nepal. Starting as Field Officer and moving up the ladder to that of Chief Technical Officer (Borneo), with emphasis on governance and advocacy efforts in the last 10 years. He has completed the NEPCon's LegalSource Expert Course for lead auditor that was held in Kuala Lumpur and the FSC Expert Course held in Sabah 2015.</p>
Ditte Steffensen	<p>LegalSource and Chain of Custody expert</p> <p>Ditte is a CoC Lead auditor. MSc in Geography, she has passed NEPCon Lead auditor training in Chain of Custody and Forest Management, and has worked as CoC auditor since 2013. Furthermore, she has passed the NEPCon Legality Expert training and has attended a number of LegalSource audits.</p>

Description of Evaluation Process

Date(s)	Site(s)	Main Activities
25-01-2015	Kota Kinabalu	Preparing for the audit including review of previous years audit reports and other documents.
26-01-2015	Transit to SFI Audit	Discussing ToR with team members and key focus points
	SFI office	Opening meeting with key staff members from SFI. Discussing scope and audit plan.
	SFI offices and Pulp Mill	Document review and staff interview in SFI offices. Visit to log yard at the pulp mill. In the evening, the team visited representatives of the trade union (SFIEU).

27-01-2015	Field visit	Full day in the field. Visiting different sites, as well as office of contractor and office of Forest Department. Continued document review.
28-01-2015	SFI office, SFI Industries	Continued document review and staff interview. Visit to SFI industries checking Chain of Custody. Closing meeting. Return to Kota Kinabalu.

Appendix I: Audit non-conformance findings

Note: this section indicates the Organization's actions to comply with NCRs that have been issued during or since the last audit. Failure to comply with a minor NCR results in the NCR being upgraded to major; the specified follow-up action is required by the Organization or involuntary suspension will take place.

Status Categories	Explanation
CLOSED	Operation has successfully met the NCR
OPEN	Operation has either not met or has partially met the NCR

Check if N/A (there are no open NCRs to review)