

## Sabah TLAS Audit Report Principles 5 & 6

<b>Organisation</b>	
<b>Contact Person</b>	
<b>Office Address</b>	
<b>Mill Address</b>	
<b>Email</b>	

<b>Reference #</b>	
<b>Audit Date</b> <b>Date close out</b>	
<b>Telephone</b>	
<b>Fax</b>	
<b>Approved By</b>	

### Statements

<b>Audit Statement #</b>	
<b>Issuance Date</b>	<b>Expiration Date</b>

### Assessment Details

<b>Company Type</b>	
<b>Scope of Assessment</b>	
<b>Product Group</b>	
<b>Source of Material</b>	
<b>Species</b>	
<b>Lead Assessor</b>	
<b>Assessor(s)</b>	
<b>FDS Staff</b>	

### Terms of Assessment

The scope of the evaluation is to verify compliance of the xxx Sdn. Bhd. to the criteria within the Sabah Timber Legality Assurance System (TLAS) Principle 5 - Mill Operations and Principle 6 -Trade and Customs standards. Compliance is defined when the organization demonstrates that there is no non-compliance to any applicable criteria. Non-compliance to the Sabah Legality Standard occurs when the organization does not comply with 1 or more criteria. Non-compliance must be formally addressed prior to certification or within 2 months following a surveillance assessment.

### Limitations of Assessment

The information presented in this report is based on documentation and other information presented by the client and observations made during the field verification under the assessment. Auditor's reporting of information presented by the client are taken as accurate, unless evaluated differently through the observations made during the assessment. All information presented in the report is accurate and complete to the best of knowledge of GFS.

**Background Information:**

**Associated Organizations & Subcontractors:**

**Inscription of the Supply Chain:**

**Summary Results:**

(Major gap = 0, Minor gap = 0, Observation = 0)

<b>GAPs: Year xxxx</b>			
<b>GAP #</b>	<b>Type</b>	<b>Checklist</b>	<b>Description</b>

\*Major = Non-Compliance

<b>Status of Outstanding GAPs:</b>				
<b>GAP #</b>	<b>Type</b>	<b>Checklist</b>	<b>Status</b>	<b>Description</b>

<b>Observations: Year 2017</b>		
<b>OBS #</b>	<b>Checklist #</b>	<b>Description</b>
001		

<b>Highlights of Close-Out Visit (if applicable)</b>	<b>Date</b>

<b>Recommendations</b>

**End of Summary Report**

## Sabah COC Standard – Principles 5-6

Principle 5. Mill Operations	
<b>Criteria 5.1: Issuance / Renewal / Upgrading of Mill License and Conditions of Operations</b>	<input checked="" type="checkbox"/> Compliance <input type="checkbox"/> Non-Compliance
5.1.1 All wood processing facilities shall hold a valid license from the Sabah Forestry Department.	
<b>FINDINGS:</b>	<b>GAP #:</b>
5.1.2 Organisation shall comply with mill license conditions including submission of monthly Mill Production Returns and maintenance of Log Arrival Book (for mills processing logs).	
<b>FINDINGS:</b>	<b>GAP #</b>
<b>Criterion 5.2. Log Input and Output</b>	<input checked="" type="checkbox"/> Compliance <input type="checkbox"/> Non-Compliance
5.2.1 The organization shall ensure that all logs received at or transported out from the mill are accompanied with a valid Removal Pass and Timber Disposal Permit (as required) that physically corresponds to the material being transported based on log number, species, quality, volume and dimensions.	
<b>FINDINGS:</b>	<b>GAP #:</b>
5.2.2 Organization shall ensure that Forest Ranger / Forester inspects logs to confirm material is acceptable under the Sabah TLAS upon arrival and “stamps” Removal Pass as “Used Removal Pass” & “Sabah TLAS Compliant” upon verification of the consignment.	
<b>FINDINGS:</b>	<b>GAP #:</b>
5.2.3 Organisation shall ensure that logs arrival have been recorded in Log Arrival Book that includes reference to Sabah TLAS compliance (date of entry, species, volume and log numbers).	
<b>FINDINGS:</b>	<b>GAP #:</b>
5.2.4 Manufacturing companies that produce and sell Sabah TLAS products shall have a formal system to ensure raw materials are correctly issued into a defined production unit that is Sabah TLAS Compliant.	
<b>FINDINGS:</b>	<b>GAP #:</b>

5.2.5 All work in progress should be identified to the production unit and referenced compliant to the Sabah TLAS as applicable.	
<b>FINDINGS:</b>	<b>GAP #:</b>
5.2.6 Data on volume input into the mills, volume input into the processing machinery, and output of final products, shall be documented and forwarded to the relevant authorities through monthly reporting	
<b>FINDINGS:</b>	<b>GAP #:</b>
5.2.7 Finished goods that are Sabah TLAS compliant must be identified to the production unit and quantified relevant to the input of raw material.	
<b>FINDINGS:</b>	<b>GAP #:</b>

<b>Criterion 5.3. Worker Safety and Health</b>	<input checked="" type="checkbox"/> Compliance <input type="checkbox"/> Non-Compliance
5.3.1 Organisation shall pay insurance premium / contribution for all workers.	
<b>FINDINGS:</b>	<b>GAP #:</b>
5.3.2 Organisation shall provide adequate training on safety measures / personnel protective equipment.	
<b>FINDINGS:</b>	<b>GAP #:</b>
5.3.3 Organisation shall undertake remedial measures as directed by relevant authorities (DOSHS and FDS) following their inspection.	
<b>FINDINGS:</b>	<b>GAP #:</b>
5.3.4 Organisation shall submit appropriate report to SOCSO, DOSHS and Department of Labour in a timely manner as required.	
<b>FINDINGS:</b>	<b>GAP #:</b>
5.3.5 Organisation shall maintain monthly records of contribution to SOCSO.	
<b>FINDINGS:</b>	<b>GAP #:</b>
5.3.6 Organisation shall meet minimum performance requirements as stated in their letter from DOSHS.	
<b>FINDINGS:</b>	<b>GAP #:</b>

5.3.7 Organisation shall maintain records of worker's training on safety and health showing what training was conducted, who attended and any certificates were awarded.	
<b>FINDINGS:</b>	<b>GAP #:</b>
5.3.8 Organisation shall ensure adequate precaution for worker's safety in the event of fire or other accidents.	
<b>FINDINGS:</b>	<b>GAP #:</b>

**Principle 6. Trade and Customs**

**Criterion 6.1. Export Regulations**  Compliance  Non-Compliance

6.1.1 Organisation shall ensure that each consignment for export has been approved by DFO and RMC.

<b>FINDINGS:</b>	<b>GAP #:</b>
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6.1.2 Organisation shall register with the Registrar of Companies (ROC), FDS and possess a valid trading license.

<b>FINDINGS:</b>	<b>GAP #:</b>
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6.1.3 Organisation shall possess a valid Annual Export License from the FDS.

<b>FINDINGS:</b>	<b>GAP #:</b>
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6.1.4 Organisation shall ensure that the export of each consignment is accompanied by relevant documents that reference Sabah TLAS as applicable:

- Customs Export Declaration Form 2 (CD 2)
- Royalty payment receipt
- Invoice
- Removal pass

<b>FINDINGS:</b>	<b>GAP #:</b>
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6.1.5 Organisation shall ensure and document that the legally required physical checks have been carried out on consignments: physical checking by the issuing authorities prior to shipment as follows:

- Logs: All consignments
- Veneer and plywood: Random checks

<b>FINDINGS:</b>	<b>GAP #:</b>
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6.1.6 Organisation shall ensure and document that the royalty payment receipt, Invoice, Removal Pass and packing list (consignment) corresponds to the material/logs exported (species, log numbers, quality, volume and dimensions).

<b>FINDINGS:</b>	<b>GAP #:</b>
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<b>Criterion 6.2. Import Regulations</b>		<input type="checkbox"/> Compliance <input type="checkbox"/> Non-Compliance
6.2.1 Organisation shall register with the Registrar of Companies (ROC), FDS and possess a valid trading license and purchase contract.		
<b>FINDINGS:</b>		<b>GAP #:</b>
6.2.2 Organisations that produce and sell Sabah TLAS products shall conduct a Risk Assessment to ensure that each supplier and material to be imported can be approved through documenting low risk based on: country level risk; species risk & operational risks (Appendix 1).		
<b>FINDINGS:</b>		<b>GAP #:</b>
6.2.3 Purchase of raw material and products that are not evaluated as low risk must not be used in the production of sale of Sabah TLAS products.		
<b>FINDINGS:</b>		<b>GAP #:</b>
6.2.4 The consignment shall be approved by phytosanitary inspection by DoA.		
<b>FINDINGS:</b>		<b>GAP #:</b>
6.2.5 The organisation shall hold valid: - Physical Inspection report by FDS - Records of Import data (FDS) - Import license/permit		
<b>FINDINGS:</b>		<b>GAP #:</b>
6.2.6 Organisation shall ensure and document that the CD Form 1, Invoice, inspection report, and packing list (consignment) corresponds to the material / logs imported (species, log numbers, quality, volume and dimensions).		
<b>FINDINGS:</b>		<b>GAP #:</b>

<b>Criterion 6.3. Transportation of Imported Logs, Sawn Timber, and Veneer</b>		<input type="checkbox"/> Compliance <input type="checkbox"/> Non-Compliance
6.3.1 Organisation shall ensure and document that the DFO inspects the consignment and that all relevant inspection fees are paid in full (receipt).		
<b>FINDINGS:</b>		<b>GAP #:</b>
6.3.2 Organisation shall ensure and document that the imported material receives the inspection hammer mark and is accompanied with valid removal pass.		
<b>FINDINGS:</b>		<b>GAP #:</b>

6.3.3 Organization shall ensure and document that the material transported are consistent with the records of imported timber and Removal Pass (species, dimensions, quality, volume), as well as monthly import records by FDS.	
<b>FINDINGS:</b>	<b>GAP #:</b>

<b>Criterion 6.4. Timber From Sarawak</b>	<input type="checkbox"/> Compliance <input type="checkbox"/> Non-Compliance
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6.4.1 Organisation shall ensure that timbers brought in from Sarawak are evaluated as Low Risk prior to use in the export consignments to be shipped to the EU.

<b>FINDINGS:</b>	<b>GAP #:</b>
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6.4.2 Organisation shall submit Customs Declaration form (CD3) to FDS and requests for physical inspection upon arrival of timber.

<b>FINDINGS:</b>	<b>GAP #:</b>
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6.4.3 Organisation shall maintain records of buyers, sales, and distribution of timber from Sarawak and timber products manufactured using such timber.

<b>FINDINGS:</b>	<b>GAP #:</b>
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6.4.4 Organisation shall declare that products exported to EU that include material from Sarawak have been evaluated as Low Risk in accordance to the Sabah TLAS requirements.

<b>FINDINGS:</b>	<b>GAP #:</b>
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**APPENDICES**

**Gaps:**

GAP#	Checklist	Description
<b>Photo Evidence</b>		

GAP#	Checklist	Description
<b>Photo Evidence</b>		

**Gap Close-out:**

GAP#	Checklist	Description	Description of Close-out
<b>Photo Evidence</b>			
<b>Photo Before:</b>		<b>Photo Close-out</b>	



## Appendix 1: Risk Assessment

### 1.0 Background:

The objective of the supplier evaluation is to document that the supplier can trace raw material to a non-controversial source that is considered Low (negligible) Risk of being illegal to classify the material as Verified Legal (VL). The critical element is to document that there is a low risk for the supplier to have controversial or illegal material. FDS understands that the Timber Industry needs a simplistic system to evaluate the risk of timber being purchased, manufactured and traded within the supply chain. FDS has adopted the fundamental risk evaluation through General Risk Categories in accordance to Global Forestry Services method for Risk Assessment (Document #: WTP-015 Supplier Risk Assessment).

Principle 6 requires that all companies importing wood based raw material conduct a Risk Assessment of all suppliers to verify low risk of all material imported and obtained locally. This document provides a simple general guide for evaluation of Low & High Risk levels within each of the General Risk Categories.

### 2.0 General Risk Categories:

GFS Wood Tracking Program has defined that risk can be based on general risk categories in respect to:

- Country risk
- Species risk
- Operational system risk

#### 2.1 Country Risk:

Country Risk is based on the country of timber origin. Countries that have strong legal compliance in regards to the timber industry will have low / negligible risk of material being harvested and traded illegally. While countries that are considered to have poor rule of law and perceived to have higher corruption levels tend to be higher risk.

#### 2.2 Species Risk:

Species Risk is based on the potential for illegal activities occurring based on the timber species. Timber species that are planted and low value are usually not under threat of being harvested and traded illegally. High value species and species from tropical natural forests are considered to be higher risk of being illegally harvested and traded.

#### 2.3 Operational System Risk:

Operational Risk is based on the presence of 3<sup>rd</sup> party verification or government verification of compliance to regulations or international standards of certification. Independent verification of forest and supply chains indicate low risk even when area or species risk is not low risk.

### 3.0 Fundamental Risk Evaluation of General Categories:

#### 3.1 Country Risk:

Based on a Corruption Perception Index (<http://cpi.transparency.org>) by Transparency International. Country Risk is directly related level of Law Enforcement and transparent Governance that is related to corruption.

<b>Low Risk Country</b>	Countries with <b>CPI score of 60 and above</b> . Developed countries in North America, Western Europe, Australia, New Zealand and Japan have high levels of Law Enforcement and Governance. These countries tend to have detailed forest management and environmental requirements & for harvesting timber that originates within those countries.
<b>Medium Risk Country</b>	Countries with <b>CPI scores between 40-60</b> can be considered as medium.
<b>High Risk Country</b>	Countries with <b>CPI scores below 40</b> . Developing countries and tropical countries mostly located in South America, Africa, Russia, Asia and South Pacific mostly have poor records of good governance and law enforcement that directly affects the forest and timber industries.

**3.2 Species Risk:** Species risk is based on the potential for illegal activities occurring based on the timber species. Timber species that are planted and low value are usually not under threat of being harvested and traded illegally. High value species and species from tropical natural forests are considered to be higher risk of being illegally harvested and traded.

<b>Low Risk Species</b>	<b>Low Risk is linked to Low Value Species that are generally planted:</b> Plantation based species (such as rubberwood ( <i>Hevea brasillensis</i> ), <i>Eucalyptus</i> spp, pine ( <i>Pinus</i> spp), <i>Gmelina</i> spp, <i>Acacia</i> spp, <i>Albiza</i> spp, <i>Poplar</i> ( <i>Populus</i> spp)); Planted temperate species and low value tropical pioneer species; <b><i>Natural temperate forest species from low risk countries.</i></b>
<b>High Risk Species</b>	Tropical natural forest species such as dipterocarps; high valued species (such as: teak, sandal wood, mahogany, rosewoods, ironwoods, ramin, etc.) that are grown naturally or planted. ALL CITIES listed species without CITIES certificate.

**3.3 Operational System Risk:** Operational risk is based on the presence of 3<sup>rd</sup> party verification or government verification of compliance to regulations or international standards of certification. Independent verification of forest and supply chains indicate low risk even when country or species risk is not low risk.

<b>Low Risk Operations</b>	Forest or Plantation areas audited under third party systems such as international or national certification systems. Wood Processing and trading companies, which have formal chain of custody systems audited by 3 <sup>rd</sup> parties. Forest or plantation areas that are regulated by government agencies whereby documentation of compliance is available.
<b>High Risk Operations</b>	Forest or Plantation areas in high-risk areas / countries that are <b>not</b> audited by third parties or by government agencies, where no information or records are available regarding compliance to regulations. Wood processing and trading companies that do not have formal chain of custody systems to demonstrate traceability of wood products back to raw material and forest of origin.

FDS understands the need for a practical method to evaluate risk of timber / supplier without visiting each site as the costs and time would not be economically viable. An overall evaluation of risk can be based on the associated General Risk Categories detailed above using the following matrix:

**4.0 Overall Risk Evaluation – of General Risk Categories:**

The Risk Matrix is designed to correlate risk of the various General Risk Categories. The fundamental underlying element is credibility of the legality system within the country of timber origin or independent verification to assess compliance to regulations across the supply chain. Thus, Country Risk of the timber origin is low all other general risks become low. If the timber and supplier is documented to have a low operational system risk due to independent verification of the timber and supplier for legality and or full certification, then all other General Categories are considered low risk. Species risk is associated with timber value of which planted species tend to be low value. Low value species can be considered low risk from countries that are classified as low or medium risk. The Risk Matrix in section 4.1 graphically details the levels of risk associated with each of the General Categories.

**4.1 Risk Matrix**

Categories	Low Risk Country	Medium Risk Country	High Risk Country
Low Risk Species	Low Risk	Low Risk	High Risk
High Risk Species	Low Risk	High Risk	High Risk
Low Risk Operations	Low Risk	Low Risk	Low Risk

Suppliers or timber that falls into a **High Risk Red Box** will require additional information or independent verification to reduce the risk. Additional information can be obtained through using the Detailed Supplier Information Checklist to document the supplier and timber is not high risk. The objective is to ensure that overall risk through formally documented evidence is low.

Any timber not defined as Low Risk following the Risk Assessment, cannot be used within the Sabah TLAS and will require an independent verification to document low risk. List of current legal verification systems are listed in **Appendix 2**.

#### 4.2 Sample Approval Form:

Supplier - Data Sheet			
Supplier		Contact Person	
Address			
Tel / Fax / Email			
Products & Species		Species Risk	
Country of Origin		Country Risk	
Certification		Operational Risk	
Verified Legal		Risk Matrix Result	

#### Appendix 2. List of Certification & Legal Verification Systems: *March 2017*

Scheme	Website	Remarks
Forest Stewardship Council (FSC)	<a href="http://www.fsc.org">www.fsc.org</a>	Certification Scheme
Progressive Endorsement of Certification Schemes (PEFC)	<a href="http://www.pefc.org">www.pefc.org</a>	Country recognized certification schemes
Sistem Verifikasi Legalitas Kayu (LVK)	<a href="http://silk.dephut.go.id">silk.dephut.go.id</a>	
Global Forestry Services (GFS)	<a href="http://www.gfsinc.biz">www.gfsinc.biz</a>	Legal Verification Services Wood Tracking Program
Rainforest Alliance	<a href="http://www.rainforest-alliance.org">www.rainforest-alliance.org</a>	Timber Legality Verification
NepCon	<a href="http://www.nepcon.net">www.nepcon.net</a>	Legal Source
Scientific Certification Services (SCS)	<a href="http://www.scsglobalservices.com">www.scsglobalservices.com</a>	SCS Legal Harvest Verification
Society General Surveillance (SGS)	<a href="http://www.sgs.com">www.sgs.com</a>	TLVT
Bureau Veritas (BV)	<a href="http://www.bureauveritas.com">www.bureauveritas.com</a>	OLB