

Corrective Action Verification Audit (CVA) Report

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| Organisation: | Danzer UK Ltd |
| Certificate Code: | Danzer UK Ltd - NC-LS-012324 |
| Report Date: | 30 th – 31 st May 2016 |

I. AUDIT PROCESS

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| Auditor, Qualifications: | Debora van Boven-Flier | |
| Audit Date(s): | 30 th – 31 st May 2016 | |
| CVA Type: | Desk review <input checked="" type="checkbox"/> | On-site <input type="checkbox"/> Location(s): |
| Audit Overview: | On 30 th May 2016, all the submitted materials were studied and on 31 st May 2016, two phone calls were held with Tom van Loon to go through the procedures and unclear formulations. | |
| Changes to Scope since last Audit: | - | |

II. NON-CONFORMITY REPORT (NCR) EVALUATION

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| Issued for: Danzer UK Ltd | | | |
| NCR: 12/14 | NC Classification: | MAJOR X | Minor |
| Standard & Requirement: | NEPCon LegalSource Standard, version 1.0; 8.3 (Risk Mitigation) The organisation shall implement risk mitigation actions before the related material is accepted as being LegalSource certified. | | |
| Report Section: | Appendix: A, 8.3 | | |
| Description of Non-conformance and Related Evidence: | | | |
| It appears that in the vast majority of cases (those where Danzer UK is requiring certification/legal-verification as a risk mitigation action), risk mitigation actions are implemented prior to the related material being accepted by the Organisation. This is in line with the Danzer UK DD manual () which states that for "non-negligible" assessment conclusions, "appropriate risk mitigation actions shall be planned and implemented before products are purchased and place on the EU market..." | | | |

However, in one case, risk mitigation has not taken place, demonstrating that procedures need to be strengthened: Doors purchased from a manufacturer in Spain. No clear records were observed by the Auditor to demonstrate that due diligence (risk assessment and any potential risk mitigation measures) had been carried out before purchase.

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| 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: | <p>3 months from report finalisation (19/05/16)</p> |
| Evidence Provided by Organisation: | <ul style="list-style-type: none"> • Door manufacturer's sub-supplier's species/origin declaration • Interview with Danzer UK staff. <p>CVA-audit 30th May 16:</p> <ul style="list-style-type: none"> • PEFC certificate (exhibit 1) • Invoice from door manufacturer to Danzer UK Ltd. (exhibit 2) |
| Findings for Evaluation of Evidence: | <p>The auditors reviewed a variety of supply chain risk assessment and risk mitigation records during the audit and found most to be adequate.</p> <p>However, the supply chain raised as an issue at the last audit (doors manufacturer in Spain) was also reviewed and risk mitigation actions found still to be inadequate:</p> <ul style="list-style-type: none"> • Since the last audit the Organisation has gathered further supply chain information in order to mitigate the risk relating to the fact that unknown species are used in the door. • The supplier & sub-suppliers have identified a potential pool of species which may be used in the MDF and Chipboard components of the doors supplied to. • The sub-supplier also indicates potential countries of origin for these species, which include Ukraine (CPI = 26), Romania (CPI = 43) and Croatia (CPI = 48). • Ukraine is classed as a high risk country in the Organisation's Procurement Rules and Croatia and Romania as medium risk (Sec 8.3.2.1). The Procurement Rules state that for all high risk countries the mitigation action will be to source certified materials instead. • The Managing Director was interviewed on this point and stated that the supplier had been asked to become PEFC certified and the supplier has confirmed that this will be pursued (expected to occur by December 2015). • The Managing Director explained that the interim risk mitigation measure was that the supplier has been asked to exclusively use PEFC certified MDF and Chipboard for Danzer products until certification is in place. • The auditors accepted this as an adequate <i>interim</i> mitigation action (in theory) pending PEFC certification being in place by 2016. However, when asked for evidence that the supplier has in fact been exclusively using PEFC certified MDF and Chipboard the Organisation could provide no evidence and the Managing Director stated that Danzer UK have not been verifying the implementation of this mitigation action by the supplier (e.g. Danzer UK has not been requesting sub-supplier invoices to show the certified status of MDF and Chipboard inputs). • As such supplier declaration has been relied upon when sourcing broken chain of custody certified PEFC products which potentially originate from high risk countries. |

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| | <ul style="list-style-type: none"> Despite this inadequate risk mitigation action, door purchases from manufacturer in Spain have continued since the last audit. <p>CVA – audit 30th May 2016</p> <ul style="list-style-type: none"> The PEFC certificate of the supplier is now in place. The submitted invoice (see exhibit 2) also carries the PEFC certificate number and claim PEFC 70% certified. This was the only invoice that was received after the certificate has been invoiced. Detail: the Spanish version of the certificate as well as the website www.pefc.org showed a validity date until 2020-04-12 while the English certificate is valid until 2021-04-11. After checking with PEFC Spain, it became clear the Spanish certificate was incorrect as well as the PEFC database. The PEFC database has been adjusted. The database is being used by Organisation for Due Diligence purposes. |
| NCR Status: | CLOSED |
| Comments (optional): | This NCR is upgraded to major status as the Organisation has not implemented sufficient corrective actions to ensure conformance with its own DDS procedures, nor to address the root cause of the issue. Non-negligible risk persists in the supplier's supply chain whilst purchases are on-going. |

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| Issued for: Danzer UK Ltd | | | |
| NCR: 13/14 | NC Classification: | MAJOR X | Minor |
| Standard & Requirement: | NEPCon LegalSource Standard, version 1.0; 8.1 (Risk Mitigation) | | |
| Report Section: | Appendix: A, 8.1.1 | | |
| Description of Non-conformance and Related Evidence: | | | |
| <p>Danzer Group has reviewed various certification/legality-verification schemes according to the Commission Implementing Regulation (EU) No 607/2012. For this purpose, Danzer Group relies for the most part on external studies in the public domain, regarding the coverage and compliance of certification/legality-verification schemes. The results can be found in DGProc_32-05_Evaluation of certification-legality verification schemes. In the case of SGS (TLTV) a more in-depth internal evaluation has been conducted, as this was not included in Proforest/CPET reports (DGProc_32-05b_Evaluation of certification schemes_ANNEX 3_SGS-TLTV).</p> <p>However, the auditors make the following observations:</p> <ul style="list-style-type: none"> The available external studies (and therefore the Danzer Group records) do not include evaluation of Annex 5, points 1.5 and 1.6, which are not included within EU legislation. It is not clear that the external studies (nor Danzer Group itself, except in the case of SGS TLTV) include an evaluation of conformance with applicable legislation as per Annex I of the LegalSource standard. Danzer Group has not evaluated the MTCS (PEFC) certification system against the above requirements. Danzer Group procedures for evaluating certification/verification schemes against Annex 5 have not been documented. This is quite important given that the effectiveness of their dominant mitigation action (source certified/legal-verified) hinges on the rigour of the certification systems. | | | |
| Corrective action request: | Organisation shall implement corrective actions to demonstrate conformance with the requirement(s) referenced above. | | |

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| | 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: | 3 months from report finalisation (19/05/16) |
| Evidence Provided by Organisation: | <ul style="list-style-type: none"> • Evaluation of certification Schemes (DGProc_32-05) • Interview with Ken Walsh (Managing Director) and Tom van Loon (Environmental Manager, Danzer Group) <p>CVA-audit 30th May 16</p> <ul style="list-style-type: none"> • Evaluation of certification schemes, namely MTCS (exhibit 3) • Written procedures for how to conduct scheme evaluations (exhibit 4a and 4b) |
| Findings for Evaluation of Evidence: | <p>The auditor reviewed the Certification Scheme Evaluation and interviewed staff responsible for up-keep of this document.</p> <p>The following elements of the non-conformance were seen to have been adequately addressed:</p> <ul style="list-style-type: none"> • The Environmental Manager stated that since the last audit all schemes have been evaluated against points 1.5 and 1.6 of the LegalSource Standard Annex 5. The only scheme found to be non-compliant with regards to point 1.5 was the TLTV scheme, (which has now been phased out) and the Organisation mitigated this action by keeping in contact with the certification body to check validity of the certificate. With regards to point 6, assurance systems are not in place for all schemes and as such the Organisation has evaluated the publicly available information on certification schemes; e.g. despite LegalSource scheme not having an assurance system, it was reviewed by the EU Commission as part of the NEPCon's recognition as an MO. This is seen to be sufficient (however explicit recording of this risk mitigation process is required – see below). • The Organisation is relying on both external reviews of certification schemes (e.g. by UK CPET) as well as its own internal review. Staff interviewed stated that the CPET review has been relied upon for the approval of FSC and PEFC certification schemes and as seen from the CPET review this uses an elaborated legality framework (covering Harvesting Rights, Payment of Taxes and Fees, Harvesting regulations and activities, third parties' rights, etc.) in line with Annex I of the LegalSource standard. A separate assessment has been conducted for OLB against LegalSource standard Annex 1 because publicly available reports evaluating the scheme were not available. This was reviewed and found to be acceptable. <p>The following elements of the non-conformance were seen to have been inadequately addressed:</p> <ul style="list-style-type: none"> • Evaluation of the MTCS scheme has still not been conducted. The Organisation is relying on the CPET review of the PEFC system revised in 2015. This evaluation applies to the PEFC Sustainable Forest Management (PEFC ST 1003:2010) which is used for endorsement of national forest management schemes under the PEFC scheme. The Environmental Manager was interviewed and stated that he was aware of the need to conduct an analysis specifically for the MTCS standard but has not done to date. • The Environmental Manager stated that he has not included written procedures for how the evaluation of certification schemes occurs. The auditor discussed that this is an integral part of the Procurement Rules, due to Danzer UK's reliance on certification as the dominant risk mitigation action. In particular the Organisation shall document clearly; |

- When publicly available reviews of certification schemes are relied upon.
- How publicly available reviews are assessed to ensure they have reviewed all necessary legality requirements (as set out in Annex 1 and 5 of the LegalSource Standard).
- When an internal review of certification schemes will be required.
- Which criteria will certification schemes be assessed against (Annex 1 and 5 of the LegalSource Standard).

In addition to written procedures for how schemes will be evaluated, the Organisation shall also improve its written risk assessment analysis and conclusions and risk mitigation actions regarding certification schemes.

- For example, the Organisation has assessed whether certification schemes conform to 1.5 and 1.6 of the LegalSource Annex 5. However, the Organisation has only documented where certification schemes do not conform (i.e. TLTV). The Organisation should also document where risk mitigation actions have been undertaken and certification schemes were found to be in conformance.
- When interviewed the Environmental Manager stated that the MTCS scheme has not been evaluated due to the endorsement of the PEFC system by CPET, along with the fact that Danzer UK is exclusively sourcing from Peninsular Malaysia and due to the CPI score being >50. This is all relevant risk assessment information which should be **documented** to justify the Organisation's approach to acceptance of the MTCS certification as acceptable.

30May16:

The auditor reviewed the Certification Scheme Evaluation (exhibits 3 and 4) and interviewed staff responsible for up-keep of this document.

- Evaluation of the MTCS scheme has now taken place and in general it meets with the findings of the evaluation of NEPCon's evaluation for MTCS. However, they differ on one aspect: According to Organisation's evaluation, MTCS requires all prescribed fees, royalties, taxes and other charges shall be paid. However, in NEPCon's own evaluation it was found that the indicators and verifiers do not mention the company tax obligations such as those outlined in the Companies Act in 1965. Also the Goods & Services Tax came into effect on 1st April 2015 and isn't mentioned in MTCS. This is something for Organisation to be aware of, but since the blanket criterion is 'C.1.2 All applicable and legally prescribed fees, royalties, taxes and other charges shall be paid', it is considered to be sufficiently covered by the MTCS scheme.
- In the 'procedure for evaluation' exhibit 4a and 4b it is described how the certification scheme evaluations are conducted, in particular:
 1. When publicly available reviews of certification schemes are relied upon.
 - *'As much as possible, independent, publically available reviews of certification schemes will be used, such as the once mentioned in below references.'*
 2. How publicly available reviews are assessed to ensure they have reviewed all necessary legality requirements (as set out in Annex 1 and 5 of the LegalSource Standard).
 - The procedure for evaluating certification schemes is well explained in exhibit 4a: the requirements of LS Annex 1 and 5 have been listed in column 1 and a justification for the evaluation result is described behind it.

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| | <p>3. When an internal review of certification schemes will be required: is mentioned in Organisation's procurement procedures. See exhibit 4b: <i>'The evaluation of the certification schemes will be updated every 5 years and immediately when a significant change takes place in the EUTR / USA Lacey Act or in the evaluated certification scheme with respect to the EUTR / Lacey Act requirements. Therefore, every year a short check will be done on significant changes.'</i></p> <p>4. Which criteria will certification schemes be assessed against (Annex 1 and 5 of the LegalSource Standard).</p> <ul style="list-style-type: none"> - <i>'The publicly available reviews will be assessed to ensure they have reviewed all necessary legality requirements (as set out in Annex 1 and 5 of the LegalSource Standard). If not all the requirements of annex 1 and 5 of the LegalSource standard have been assessed, an additional internal review will be done of those requirements that were not covered.'</i> <ul style="list-style-type: none"> • It is now also addressed when and where certification schemes conform and based on what and which additional measures have to be taken to meet the LS standard. |
| NCR Status: | CLOSED |
| Comments (optional): | |

III. CONCLUSIONS

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| NCRs Closed: | <input checked="" type="checkbox"/> No follow-up required related to closed NCRs |
| | <input type="checkbox"/> Original NCRs closed and new NCR(s) issued, see section IV below |
| NCRs Open: | <input type="checkbox"/> Certification not approved; conformance with NCRs required |
| | <input type="checkbox"/> Major NCRs not closed; suspension of certification required |
| | <input type="checkbox"/> Minor NCRs are upgraded to Major; see section IV below |
| | <input type="checkbox"/> New NCR(s) issued, see section IV below |
| Comments/Follow-up Actions: | |

IV. OPEN NCRs

Newly issued or upgraded NCRs: **None**