

Evaluated by:



LegalSource™
NCR Verification Audit
Report for:
Danzer UK Ltd.

in
Maldon, Essex, United Kingdom

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<i>Report based on Standard(s):</i>	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 Danzer UK Ltd, 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

Audit Recommendation

Based on Organisation's conformance with LegalSource requirements, the auditor makes the following recommendation:	
<input checked="" type="checkbox"/>	Certification approved: MAJOR NCR(s) closed
<input type="checkbox"/>	Certification not approved: -
Additional comments: Danzer UK may proceed to LegalSource certification.	

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: Danzer UK Ltd			
NCR: 01/14	NC Classification:	MAJOR <input checked="" type="checkbox"/>	Minor <input type="checkbox"/>
Standard & Requirement:	NEPCon LegalSource Standard, version 1.0; 1.1 (Commitment to legal sourcing)		
Report Section:	Appendix: A, 1.1		
Description of Non-conformance and Related Evidence:			
<p>A commitment by Danzer UK, endorsed at executive level, is described in the Danzer UK <i>Timber & Timber Related Products Chain of Custody Manual</i>. See Exhibit 1. This states the organisation's commitment to not trade illegally sourced material and to not be (directly or indirectly) involved in illegal logging or the trade in illegal wood or forest products. However,</p> <p>1. The policy does not specifically define illegality as material that has <i>been harvested, traded or processed in violation of applicable national legislation</i>.</p> <p>2. While mentioning the violation of the core ILO conventions as well as the that of traditional and human rights, it does not specifically utilise the umbrella term <i>ratified international treaties</i>.</p> <p>3. With regards to giving preference to sustainable material where feasible, this does not appear to be made available in a public way by Danzer UK.</p> <p>4. The policy is not available on www.danzer.co.uk, the website of Danzer UK - a reasonable expectation for of a company with the characteristics and size of Danzer UK. It is understood that a new website is in development.</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:	Prior to (re)certification		
Evidence Provided by Organisation:	<ul style="list-style-type: none">• Danzer Group 'Due Diligence System for Responsible Procurement' dated April 2014 (exhibit 1)• Danzer Group 'Danzer's Code of Conduct' dated Nov 2013 (exhibit 2) available at; (http://www.danzer.co.uk/images/Danzer_Code-of-Conduct_en.pdf).• Danzer Group, 'Responsible Forestry and Procurement' Policy' dated Dec 2012 (exhibit 3) available at; (http://www.danzer.com/fileadmin/files_group/docs/DProc_Responsible_Forestry_and_Procurement_v1_3_1_Dec_2012.pdf).• Danzer UK 'Timber & Timber Related Products Chain of Custody Manual' dated July 2014 (exhibit 4).• Interview with Ken Walsh, Managing Director.		
Findings for Evaluation of Evidence:	<p>The Managing Director explained to the auditors that Danzer UK has (since the assessment in March) adopted the Danzer Group due diligence procurement rules (exhibit 1). He also gave the auditors a tour of the new Danzer UK website, where the Organisation's</p>		

	<p>procurement policy and code of conduct are publicly available.</p> <p>The organisation's updated Chain of Custody manual (exhibit 4, pg. 6) now defines illegal material as "<i>timber that has been harvested, traded or processed in violation of applicable national legislation</i>". In addition the Procurement Rules (exhibit 1) state that the DDS aims to minimise the risk that 'procured material originates in "Controversial sources" (pg. 4). This definition of "Controversial Sources" includes "<i>wood originating from forest activities which are:</i></p> <p>(a) <i>not complying with local, national or international legislation, applying to forest related activities, in particular in the following areas:</i></p> <ul style="list-style-type: none"> - <i>forestry operations & harvesting, including biodiversity conservation and conversion of forest to other use;</i> - <i>management of areas with designated high environmental and cultural values,</i> - <i>protected & endangered species, including requirements of CITES,</i> - <i>health and labour issues relating to forest workers,</i> - <i>indigenous peoples' property, tenure and use rights,</i> - <i>third parties' property, tenure and use rights,</i> - <i>payment of taxes and royalties,</i> <p>(b) <i>not complying with legislation of the country of harvest relating to trade and customs, in so far as the forest sector is concerned..."</i>(pg. 5).</p> <p>2. The organisation's updated Chain of Custody manual (exhibit 4, pg. 6) now includes reference to "<i>ratified international treaties</i>". In addition, the definition of "Controversial sources" shown above includes reference to "<i>local, national and international legislation</i>" (pg. 5). Adherence to "<i>relevant international treaties</i>" is also stated in the publicly available 'Responsible Forestry and Procurement' Policy' (exhibit 3, pg. 1) on the Danzer UK website.</p> <p>3. 'Danzer's Code of Conduct' (exhibit 2, pg. 4) states that the Organisation commitment to '<i>procuring only from those regions where sustainable forest management is possible</i>'. The 'Responsible Forestry and Procurement' Policy' (exhibit 3) states that '<i>our goal is to procure from sustainably managed forests</i>'.</p> <p>4. Both the 'Danzer's Code of Conduct' (exhibit 2) and 'Responsible Forestry and Procurement' Policy' (exhibit 3) are available on the Danzer UK website, at; http://www.danzer.co.uk/images/Danzer_Code-of-Conduct_en.pdf and http://www.danzer.com/fileadmin/files_group/docs/DProc_Responsible_Forestry_and_Procurement_v1_31_Dec_2012.pdf respectively.</p>
NCR Status:	CLOSED
Comments (optional):	

Issued for: Danzer UK Ltd			
NCR: 02/14	NC Classification:	MAJOR <input checked="" type="checkbox"/>	Minor <input type="checkbox"/>
Standard & Requirement:	NEPCon LegalSource Standard, version 1.0; 1.3 (Commitment to legal sourcing)		
Report Section:	Appendix: A, 1.3		
Description of Non-conformance and Related Evidence:			
<p>With regards to its DDS, Danzer UK has adopted a definition of legality (applicable legislation) in line with the EUTR (see Exhibit 2, annex 1). However, beyond this simple definition, it is not clear which types of legislation have been incorporated into the definition of forest-level legality nor with regards to trade and transport of forest products in the supply chain.</p> <p>Thus, from the perspective of a LegalSource assessment, Danzer UK has not adopted - nor incorporated into its DDS - sufficiently detailed and comprehensive definitions of legality and applicable legislation according to Annex 1 and Annex 2 respectively.</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:	Prior to (re)certification		
Evidence Provided by Organisation:	<ul style="list-style-type: none"> • Danzer Group 'Due Diligence System for Responsible Procurement' dated April 2014 (exhibit 1) • Interview with Ken Walsh, Managing Director. 		
Findings for Evaluation of Evidence:	<p>The Managing Director explained to the auditors that Danzer UK has (since the assessment in March) adopted the Danzer Group due diligence procurement rules (exhibit 1). Section 7.3.3.2 (pg. 12) of the procurement rules sets out the Organisation's evaluation of legality for forest products. This section specifically cites evaluation of legality against Annex 1 (as well as Annexes 2 and 3) of the LegalSource Standard as part of the risk assessment process. Annex 1 of the LegalSource standard indicates legislation relevant to legal conformance at the forest level.</p>		
NCR Status:	CLOSED		
Comments (optional):			

Issued for: Danzer UK Ltd			
NCR: 03/14	NC Classification:	MAJOR <input checked="" type="checkbox"/>	Minor <input type="checkbox"/>
Standard & Requirement:	NEPCon LegalSource Standard, version 1.0; 2.3 (Responsibilities and competence)		
Report Section:	Appendix: A, 2.3		
Description of Non-conformance and Related Evidence:			
<p>Responsibilities have been broadly assigned for the execution of Danzer UK's DDS. This information is documented within two separate documents (see Exhibits 1 & 2). However, responsibilities are not clear with regards to the following aspects of the LegalSource standard:</p> <p>1. Performance monitoring of the DDS established by Danzer UK (see section 4 below)</p> <p>2. Claims by Danzer UK related to future LegalSource certification.</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:	Prior to (re)certification		
Evidence Provided by Organisation:	<ul style="list-style-type: none">• Danzer Group 'Due Diligence System for Responsible Procurement' dated April 2014 (exhibit 1)• DGProc_46_09c (exhibit 36)• DGProc_41-01 (exhibit 16)• DGProc-COC_41-04_COC (exhibit 17)• Interview with Ken Walsh, Managing Director.		
Findings for Evaluation of Evidence:	<p>The Managing Director explained to the auditors that Danzer UK has (since the assessment in March) adopted the Danzer Group due diligence procurement rules (exhibit 1). Within this document Appendix 2 (exhibit 1, page 26) sets out 'responsibilities' (as they apply to specific job titles) for the implementation of the DDS as well as references within the main body of the document. This includes responsibilities over performance monitoring. This is covered by point (f) in appendix 2, as well as Section 8 of the main body of the document, where it is recorded that 'the Procurement procedure is monitored continuously by audits by the Environmental Coordinator and other internal or external auditors.'</p> <p>Responsibilities over claims by Danzer UK regarding future LegalSource Claims are now included in document DGProc_46_09c (exhibit 36). In this document 'product sale and labeling' responsibilities are assigned to Sales staff – and sales staff in the UK are explicitly named. The document also provides procedures for the use of LegalSource claims and further specifies some responsibilities.</p> <p>Responsibilities are also broadly assigned in exhibits 16 and 17.</p>		

	The documents provided establish responsibilities for procedures in Danzer UK, however the replication of documents explaining similar responsibilities is seen as unnecessary and could be combined into a single document. See OBS 09/14.
NCR Status:	CLOSED
Comments (optional):	See OBS 09/14

Issued for: Danzer UK Ltd			
NCR: 04/14	NC Classification:	MAJOR <input checked="" type="checkbox"/>	Minor <input type="checkbox"/>
Standard & Requirement:	NEPCon LegalSource Standard, version 1.0; 3.1 and 5.1 (Documentation & Scope of the due diligence system and the LegalSource certification)		
Report Section:	Appendix: A, 3.1 and 5.1		
Description of Non-conformance and Related Evidence:			
<p><u>Documentation</u></p> <p>Danzer UK has documented part - though not all - of its own DDS procedures. What has been written down can be found in its Chain of Custody Manual nov13 (Exhibit 1) and Due Diligence Manual mar13 (Exhibit 2). The Organisation has not adapted its documented procedures to be in line with Group documented procedures.</p> <p>Danzer UK staff commented that the development of a full set of documented procedures is a pending issue. The Auditor agrees that this is required in order to provide clarity, both internally and externally, regarding the DDS and procedures adopted by Danzer UK. Staff also recognised that an internal discussion will be required to determine the extent to which Danzer Group procedures will be incorporated into Danzer UK procedures and/or the other way round.</p> <p><u>Documentation of DDS Scope</u></p> <p>Danzer UK staff described its DDS as covering the following scope:</p> <p>All wood products (lumber and added-value products) supplied by Danzer UK to its customers, independently of whether:</p> <ol style="list-style-type: none"> the wood originated (Country of Harvest) from within or outside the EU the wood products are sourced from companies based within, or outside, the EU the purchase is from another company within Danzer Group. <p>NOTE 1: This is understood to include situations where Danzer UK is acting as a trader or an agent (without taking legal possession).</p> <p>This definition of scope of the DDS requires to be documented.</p> <p>With regards to individual products, suppliers and species, Danzer UK maintains, and updates on a continual basis, records within its SAP system which provide the list of purchases being made by the organisation (see Exhibit 4). This information provides the detail of the scope of the DDS (in terms of products, suppliers and species) and is organised by:</p> <ol style="list-style-type: none"> Lumber purchases: Supplier; Mill; Country of Supplier; Specie (common name); Country of Origin of material; Certification status of supply; Result of risk assessment; Volume purchased to date. Added Value Product purchases: Supplier; Mill; Country of Supplier; Specie (common name); Country of Origin of material; Certification status of supply; Result of risk assessment; Volume purchased to date <p>Information is not maintained with sufficient detail with regards to supply chains where this information would be helpful to evaluate supply chain risks.</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:	Prior to (re)certification
Evidence Provided by Organisation:	<ul style="list-style-type: none"> • Danzer Group 'Due Diligence System for Responsible Procurement' dated April 2014 (exhibit 1) • Danzer Group 'Scope Danzer Procurement' document, dated 8th August 2014 (exhibit 5) • Danzer Group 'Supplier Library' electronic record (exhibit 6) • Interview with Ken Walsh, Managing Director.
Findings for Evaluation of Evidence:	<p><u>Documentation</u></p> <p>The Managing Director explained to the auditors that Danzer UK has (since the assessment in March) adopted the Danzer Group due diligence procurement rules (exhibit 1). These procedures have been adopted unchanged. This set of procedures, reviewed by the auditors, was determined to cover all applicable requirements of the LegalSource Standard.</p> <p>Note: During the audit, Danzer UK staff discussed the possible addition or adaptation of certain elements relevant to Danzer UK's operations. It was agreed that any differences between Danzer UK and Danzer Group procedures, will require to be documented.</p> <p><u>Documentation of DDS Scope</u></p> <p>The Organisation provided an updated version of the Danzer Group document entitled 'Scope Danzer Procurement' (exhibit 5). This document sets out the scope of the DDS for each Danzer Group company, including Danzer UK. The Scope of the Danzer UK DDS is stated as;</p> <p>"Scope definition: All wood products procured by Danzer UK. Product groups: Logs (CN 4403); Lumber (CN 4407); Veneer (CN 4408)"</p> <p>In addition Danzer UK has developed an electronic 'supplier library' for all supply chains within the Danzer UK DDS. An example of the supplier record for IHC AG is shown in exhibit 6. Although at the time of the audit this library was not populated with all supplier records, once completed, it will provide information on all supply chains, products, species covered by each supplier. As described by the Managing Director, the ability to add to this library will be restricted, in order that new products, species and supply chains cannot be added without consent at the Danzer Group level – hence guarding against unapproved supply chains being added which would enlarge the scope of the Danzer UK DDS (See also NCR 06/14).</p>
NCR Status:	CLOSED
Comments (optional):	

Issued for: Danzer UK Ltd			
NCR: 05/14	NC Classification:	MAJOR <input checked="" type="checkbox"/>	Minor <input type="checkbox"/>
Standard & Requirement:	NEPCon LegalSource Standard, version 1.0; 4.1; 4.2; 4.3; 4.5 (Performance monitoring of the established due diligence system)		
Report Section:	Appendix: A, 4.1; 4.2; 4.3; 4.5		
Description of Non-conformance and Related Evidence:			
<p>Danzer UK is monitoring its operations internally in a variety of ways, including: monthly key staff meetings; general ongoing vigilance by key staff; quarterly checks of certified shipment purchases as part of its internal auditing procedures for its CoC system (see section 8, Exhibit 1). Externally, Danzer UK is audited in relation to the TTF RPP and by BM Trada for FSC, PEFC and generic CoC.</p> <p>However, aside from its CoC procedures, there is no system of performance monitoring in place with regards to the established DDS of Danzer UK and to ensure compliance with the LegalSource standard, in which the following are required:</p> <p>i. All non-conformances and corrective actions identified by the organisation or by external auditors shall be documented.</p> <p>ii. Organisation shall ensure that all non-conformances are addressed and corrected in a timely manner</p> <p>iii. 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.</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:	Prior to (re)certification		
Evidence Provided by Organisation:	<ul style="list-style-type: none"> • Danzer Group 'Due Diligence System for Responsible Procurement' dated April 2014 (exhibit 1) • Danzer Group 'Procedure for Evaluation of Compliance & Internal Audit' dated July 2012 (exhibit 7) • Danzer UK 'Internal Audit Report, DDS' dated Nov 2013 (exhibit 8) • Interview with Ken Walsh, Managing Director. • Telephone interview with Tom Van Loon, Danzer Group Environmental Manager. 		
Findings for Evaluation of Evidence:	<p>Section 8 of the Organisation's Procurement Rules (exhibit 1, pg. 15) sets out the procedures for internal monitoring. This procedure states that <i>"implementation of the procurement procedure is monitored continuously by audits by the Environmental Coordinator and other internal and external auditors."</i></p> <p>The Procurement Rules (exhibit 1, pg. 15) also state;</p> <p>i. <i>"based on the visit and audits, audit reports are prepared and non-conformities, corrective and preventive actions are issued..."</i></p>		

	<p>ii. <i>"Danzer ensures that all non-conformances are addressed and corrected in a timely manner."</i></p> <p>iii. <i>"In case of non-closure of a major non-compliance, the supply is suspended until resolution."</i></p> <p>These procedures are reiterated and elaborated in the Danzer Group 'Procedure for Evaluation of Compliance & Internal Audit' (exhibit 7). The organisation has begun implementing these procedures and conducted an internal audit of its DDS in November 2013. The report for this audit shown in exhibit 8. The Danzer Group Environmental Manager who conducted this report was interviewed via telephone during the audit and found to be knowledgeable regarding the Organisation's procedures for internal monitoring.</p>
NCR Status:	CLOSED
Comments (optional):	

Issued for: Danzer UK Ltd			
NCR: 06/14		NC Classification:	MAJOR <input type="checkbox"/> Minor <input checked="" type="checkbox"/>
Standard & Requirement:		NEPCon LegalSource Standard, version 1.0; 6.1.2 (Supply Chain and material information)	
Report Section:		Appendix: A, 6.1.2	
Description of Non-conformance and Related Evidence:			
<p>The situation for Danzer UK with regards to the maintenance and up-keep of information about products included within the scope of its DDS is as follows:</p> <p>6.1.2: Trade name is recored in SAP. Danzer UK maintains a list of trade name vs. scientific names (see Exhibit 5) although this list is restricted to certified products only and does not include all species.</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:		<ul style="list-style-type: none">• Danzer Group 'Due Diligence System for Responsible Procurement' dated April 2014 (exhibit 1)• Danzer UK Species List (Exhibit 9)• Extracts from 'FSC Species Terminology' addendum dated 2007 (exhibit 10)	
Findings for Evaluation of Evidence:		<p>Section 7.2, point (b) of the Organisation's Procurement rules (exhibit 1, pg. 8) includes procedures relating to this requirement; "<i>the common name of tree species (and if confusion possible, the scientific name)</i>". Whilst the EUTR states that scientific name is only required 'where applicable', the scientific name of all species is a requirement (6.1.2) of the LegalSource Standard. Therefore the Organisation's procedures do not fully conform to requirement 6.1.2.</p> <p>The Organisation has (since the assessment in March) created a full list of all species which are included within its DDS (exhibit 9) including non-certified species. This list was checked and found to include those species missing at the assessment. Almost all species on this list are accompanied by the corresponding scientific name (either to species or genus level). The information on scientific names provided by suppliers is checked against the FSC Species Terminology addendum (exhibit 10) to ensure the common and scientific names provided are recognised and correspond.</p>	

	<p>In addition the Organisation has developed an electronic 'supplier library' for all supply chains within the Danzer UK DDS. An example of a supplier record is shown in exhibit 6. Although at the time of the audit this library was not populated with all supplier records, once completed, it will provide information on all supply chains, products and species covered by each supplier. As described by the Managing Director, the ability to add to this library will be restricted, in order that new, species cannot be added without consent at the Danzer Group level – hence guarding against purchase of species not already on the approved species list (exhibit 9).</p> <p>It was noted by the auditors that Chipboard and MDF are listed on the species list (exhibit 9), however the component species for these products are not listed nor are their scientific names. Whilst it is not necessary to know the exact make-up (by species) of products made from multiple species, at the least, a pool of species shall be known.</p>
NCR Status:	OPEN
Comments (optional):	

Issued for: Danzer UK Ltd			
NCR: 07/14	NC Classification:	MAJOR <input checked="" type="checkbox"/>	Minor <input type="checkbox"/>
Standard & Requirement:	NEPCon LegalSource Standard, version 1.0; 6.1.4 (Supply Chain and material information)		
Report Section:	Appendix: A, 6.1.4		
Description of Non-conformance and Related Evidence:			
<p>The situation for Danzer UK with regards to the maintenance and up-keep of information about products included within the scope of its DDS is as follows:</p> <p>6.1.4: The Country (or sub-country/concession of harvest where appropriate) of harvest is registered in SAP and on purchase invoices. Suppliers are required to include this information on sales documentation. Danzer UK evaluates correctness of origin information based on their knowledge about (and relationship with) each supplier and species, as well as via a variety of additional documentation requested from the supplier such as certificates of origin, transport documentation etc.</p> <p>Also:</p> <p>i) In the case of certified material from one supplier, Danzer UK relies on a double certification to have confidence in the origin of the material.</p> <p>ii) In the case of products from one supplier, Danzer UK is aware of - and concerned about - potential issues of provenance of the raw material. In this case, Danzer has requested further information about the sub-suppliers to the manufacturer. It is not clear to what extent the documentation provided relates to the wood entering Danzer UK purchased products. Danzer UK also visits the Supplier on a regular basis and has taken samples with a view to possible analysis (this analysis has not been conducted to date). For now, Danzer UK is relying on the declaration of the supplier, the chain of custody to be working, the additional paperwork provided by the supplier as well as its long-standing relationship, and regular visits, to have confidence in the origin of the supply.</p> <p>iii) In the case of some non-certified wood products, Danzer UK staff has conducted field visits to their suppliers (in 2012) to learn more about the raw material, manufacturing processes and to know the origins and evaluate the supply chains of these companies. In the case of two products, Danzer UK feels confident it has determined the origin of the materials.</p> <p>iv) For products supplied by one supplier, Danzer UK (client) records show incorrect countries of harvest. Neither of these countries have certified forests.</p> <p>An evaluation of the cases described in points i, ii and iv above suggests that, in some cases, Danzer UK's DDS could be strengthened with regards to determining the origin of wood material. In this regard, Danzer needs to develop clearer procedures relating to how the Organisation determines - with sufficient confidence - the origin of wood-products included within the scope of its DDS. These procedures need to reflect the reality of sometimes-complex supply chains.</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:	Prior to (re)certification		
Evidence Provided by Organisation:	<ul style="list-style-type: none"> • Interview with Ken Walsh, Managing Director • Interview with Ian Spurling, Environmental Coordinator • Exhibit 1 - DProc_46-01_Danzer Procurement Rules-Due Diligence System • Exhibit 11: Supplier Audit reports, June 2014 		

	<ul style="list-style-type: none"> • Exhibit 12: DDS Country of Origin declaration - Revised invoice • Exhibit 13a: DanzerProc_46-02a_Origin of timber-Responsible Procurement- • Exhibit 13b: DanzerProc_46-02b_Declaration of Legality-Responsible Procurement • Exhibit 25: Publically available BV Certification reports • Exhibit 26: Supplier Wood Industries documents
Findings for Evaluation of Evidence:	<p>The Managing Director explained to the auditors that Danzer UK has (since the assessment in March) adopted the Danzer Group due diligence system. Procedures for obtaining information about country of origin are found within the Danzer Group due diligence procurement rules (section 7.2 and table3, exhibit 1).</p> <p>The country of harvest is systematically requested for all supplies (invoices or orders) and requires that this information is placed on invoices or accompanying documents. Previously, this information will have been gathered as part of the supply evaluation process, using documents DanzerProc_46-02a_Origin of timber-Responsible Procurement (exhibit 13a) and DanzerProc_46-02b_Declaration of Legality-Responsible Procurement (exhibit 13b). This information is compared with the certificate of origin issued by the authority of the country of harvest and other documentation (bills of lading, transport documentation, etc) which indicates origin and compliance with applicable legislation. Specific auditor findings with regards to the points raised in the non-conformance are as follows:</p> <p>Points i) and ii) Withdrawn from this NCR as they are considered relevant to NCRs 10/14 and 11/14 and not NCR 07/14.</p> <p>Point iii) With regards to non-certified products, Danzer UK staff conducted a field verification audit of one supplier during July 2014 and a supplier document review of a second supplier which belongs to the same group of companies. The purpose of this effort was to (among other things) clarify the country/region of harvest.</p> <p>Based on a review of logging and transport licences, phytosanitary certificates and other plantation ownership documents, field-verification findings (Exhibit 11) concluded that the raw material for these two factories derives from three regions.</p> <p>Given the information contained within external reports (exhibit 25) which validates these findings, and considering other factors, NEPCon accepts that Danzer UK has conducted sufficient due diligence to ensure that these areas can be considered as the origin of the raw material.</p> <p>In the case of another product, Danzer UK staff have sought additional information (exhibit 26) from their supplier, to</p>

	<p>supplement information gathered from previous years, including a field visit in 2012. While no additional information has been gathered with regards to the source of the raw material, Danzer UK staff consider that their combination of field visits and knowledge of their supplier/supply chains and raw material is such that they have confidence in the origin of the material. It should be noted that the supplier combines a number of factories. The supplier's supply chain consists of agents who supply the sawmill, seeking their supplies from private landowners and farmers. Some other sawmills also supply the supplier. As a result, the raw material entering the supplier's facilities consists mostly of low-value round logs/sawn timber and is unlikely to be transported great distances. In light of the above, NEPCon accepts Danzer UK's position of confidence in identifying the origin of the raw material.</p> <p>Point iv) Danzer UK has discussed this issue with its supplier. Combined with the verification of revised invoices, its explanation is feasible. The supplier used to supply Danzer UK with certified material, but switched to a different certification system after the Danzer FSC dis-association issue, in order to allow a claim to continue to be made. Specific regions are sited as sources of the material. See Exhibit 12.</p>
NCR Status:	CLOSED
Comments (optional):	

Issued for: Danzer UK Ltd			
NCR: 08/14	NC Classification:	MAJOR <input type="checkbox"/>	Minor <input checked="" type="checkbox"/>
Standard & Requirement:	NEPCon LegalSource Standard, version 1.0; 6.1.7 (Supply Chain and material information)		
Report Section:	Appendix: A, 6.1.7		
Description of Non-conformance and Related Evidence:			
<p>The situation for Danzer UK with regards to the maintenance and up-keep of information about products included within the scope of its DDS is as follows:</p> <p>6.1.7: Information on certification/verification status of the Supplier is shown in SAP. Danzer UK's procedures relating to purchasing of certified/legal-verified products (see sections 2 and 3 of Exhibit 1) include correct procedures for the prior-checking of certificates as well as sales documentation on incoming shipments. Interviews with staff as well as a random sample of documents reviewed by the Auditor, confirmed that these procedures are functioning well. Only one small element was missing: the systematic (but periodic only) checking of the scope of the Supplier's certificates. Scope with regards to Product Groups and Supplier locations (sites) covered by the certificate.</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):	24/07/14: For reasons of prioritization of time, this NCR was not evaluated during the audit.		

Issued for: Danzer UK Ltd			
NCR: 09/14	NC Classification:	MAJOR <input checked="" type="checkbox"/>	Minor <input type="checkbox"/>
Standard & Requirement:	NEPCon LegalSource Standard, version 1.0; 6.4 (Supply Chain and material information)		
Report Section:	Appendix: A, 6.4		
Description of Non-conformance and Related Evidence:			
<p>It appears that Danzer UK is informing its suppliers about their public sourcing policy, at least verbally. Most Suppliers, if not all, have signed the self-declaration letter which provides some indication also of Danzer UK's public sourcing policies. However, neither the self-declaration nor any other document is directly</p> <p>6.4.1. describing the policy, nor requesting suppliers to provide the information to their suppliers and through the supply chain.</p> <p>6.4.2. specifying that the certifier of Danzer UK has access to evidence of compliance with the standard and access to conduct audits where applicable.</p> <p>6.4.3. acquiring documented consent from suppliers to allow the organisation and/or external auditors to conduct audits for the purpose of verifying compliance with applicable elements of this standard.</p> <p>6.4.4. ensuring suppliers appoint a person responsible for compliance with applicable elements of this standard.</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:	Prior to (re)certification		
Evidence Provided by Organisation:	<ul style="list-style-type: none">• Interview with Ken Walsh, Managing Director• Exhibit 1 - DProc_46-01_Danzer Procurement Rules-Due Diligence System• Exhibit 13a: DanzerProc_46-02a_Origin of timber-Responsible Procurement• Exhibit 13b: DanzerProc_46-02b_Declaration of Legality-Responsible Procurement• Exhibit 14: Supplier Legality Declaration.		
Findings for Evaluation of Evidence:	<p>The Managing Director explained to the auditors that Danzer UK has (since the assessment in March) adopted the Danzer Group due diligence procurement rules (exhibit 1). As a result, suppliers are now being asked to complete document 46-02a (Evaluation of Timber sources) and 46-02b (Declaration of Legality and Responsible Procurement) (see exhibits 13a and 13b). Document 46-02b includes the following points:</p> <p>6.4.1: reference to Danzer Group policy and request to suppliers to pass information through the supply chain.</p> <p>6.4.2: specification that Danzer UK has access to evidence of compliance with the policy.</p> <p>6.4.3: acquisition of consent from suppliers to permit audits.</p>		

	<p>6.4.4: request to suppliers to appoint a person responsible for compliance and legality issues within their supply chain.</p> <p>Ken Walsh has described that document 46-02b (exhibit 13b) is to be sent to all suppliers going forwards. Currently, only select suppliers have been sent this supplier declaration. See as an example, exhibit 14.</p>
NCR Status:	CLOSED
Comments (optional):	

Issued for: Danzer UK Ltd			
NCR: 10/14	NC Classification:	MAJOR <input checked="" type="checkbox"/>	Minor <input type="checkbox"/>
Standard & Requirement:	NEPCon LegalSource Standard, version 1.0; 7.1; 7.3; 7.5; 7.6 (Risk Assessment)		
Report Section:	Appendix: A, 7.1; 7.3; 7.5; 7.6		
Description of Non-conformance and Related Evidence:			
<p>7.1.1: Danzer UK evaluates the risk of legal violation at the forest level for all countries where the organization is sourcing. Risk is classified broadly in the following way: <i>High</i> for products harvested outside the EU and North America; <i>Low</i> for EU and North America, although Ken commented that some countries within the EU would be considered as high risk countries, in the absence of certification.</p> <p>An exception to this approach exists in the case of purchases of some specific products. In each of these cases, Danzer UK conducted a supply chain field visit/audit in 2012 which concluded negligible risk at the forest level and in the supply chain, even though both countries of harvest were determined in the initial broad-level risk assessment to be high risk.</p> <p>The objectives of the supplier audits were: i) filling gaps in its understanding of forest origin and supply chain information; ii) verifying the presence/absence of risks in the supply chain, given that both countries of origin were determined in the initial risk assessment to be high risk.</p> <p>In both cases, the conclusion of these audits considered that the risk of illegality at the forest-level and in the supply chain was negligible.</p> <p>The willingness of Danzer UK to conduct field visits/audits as part of risk assessment process is to be commended, given the positive effect that this will have in building confidence in the supply chain and supplier in question. However, the following considerations are made:</p> <p>i. The level of auditing and verification of the presence/absence of risk was insufficient to cover all the relevant requirements as per LegalSource standard Annex 1</p> <p>ii. Conducted in 2012 (pre-EUTR), the information gathered and risk-assessment conclusions made require revision as more than one year has passed since the audits took place.</p> <p>7.1.2: The Danzer UK DDS is mostly focussed on determining country of harvest and ensuring legal conformance at the forest level. The Organisation has not developed procedures to systematically assess the risk of (and mitigate) legal violations in the supply chain. Instead, Danzer UK relies on certification/legal verification schemes as its principal mitigation measure for high-risk countries of harvest. However, outside of FSC/PEFC, many legality verification schemes may not adequately address legality relating to trade and transport in the supply chain.</p> <p>7.1.3: Danzer UK generally maintains relatively short supply chains for material sourced from high risk areas, although this is not always the case. The organisation has not actively developed and implemented procedures to systematically assess risk of mixing in the supply chain, preferring instead to rely on the chain of custody of the certification/legal-verification scheme under which the product is sold.</p> <p>This may be valid in most cases, however one case highlights a potential weakness in relying just on chain of custody, due to the inherent weakness of some certification/legality-verification schemes:</p> <p>i. In the case of material from one supplier, Danzer UK relies on double certification to have confidence in the origin of the material. Danzer has not included an assessment of risk that material is mixed into these systems.</p>			

ii. In the case of one certified product from a supplier, Danzer UK is aware of - and concerned about - potential issues of provenance of the product. In this case, Danzer has requested further information about the sub-suppliers to the manufacturer. It is not clear to what extent the documentation provided relates to the material entering Danzer UK purchased products. Danzer UK also visits the Supplier on a regular basis and has taken samples with a view to possible analysis (this analysis has not been conducted to date). For now, Danzer UK is relying on the declaration of the supplier, the chain of custody to be working, the additional paperwork provided by the supplier as well as its long-standing relationship, and regular visits, to have confidence that there is low risk of mixing/contamination in the supply chain.

7.3: Danzer UK's *documented* procedure with regards to risk assessments (see Exhibit 2) does not consider that Danzer UK shall *not source* wood from countries or areas with prevalence of armed conflicts.

7.5: Danzer UK procedures do not adequately *document* the risk assessment process nor the justifications for how the risk determination was reached

7.6: There is no procedure requiring the revision of risk assessment results at least annually.

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:	<ul style="list-style-type: none"> • Interview with Ken Walsh, Managing Director • Interview with Ian Spurling, Environmental Coordinator • Interview with Tom Van Loon, Environmental Manager for Danzer Group • Exhibit 1 - DProc_46-01_Danzer Procurement Rules-Due Diligence System • Exhibit 11: Supplier Audit reports, June 2014 • Exhibit 15: DGProc_32-020 Legal and other requirements • Exhibit 18: DanzerProc_46_04_Species and Spatial Risk Rating Procurement • Exhibit 19: DGProc_46_05a _Due Diligence - Risk and Measures • Exhibit 29: Supplier risk assessment (Exh 08 from assessment) • Exhibit 30 • Exhibit 31: Notes from supplier audits by James Angel
Findings for Evaluation of Evidence:	<p>The Managing Director explained to the auditors that Danzer UK has (since the assessment in March) adopted the Danzer Group due diligence procurement rules (exhibit 1).</p> <p>Specific auditor findings with regards to the points raised in the non-conformance are as follows:</p> <p>7.1.1:</p>

Danzer UK staff (Ken Walsh, James Angels) conducted a field verification audit of a supplier during July 2014 and a supplier document review of a supplier which belongs to the same group of companies. The audit team were accompanied by a native speaker.

The purpose of this effort was to – among other things – assess the presence/absence of legality risks within the supply chains and verify the presence of documentation indicating legal compliance both at the forest level and in the supply chain. In contrast to the 2012 audits which sought to visit the entire supply chain, the 2014 audits were concerned principally with a document evaluation.

A review was made of logging and transport licences, phytosanitary certificates and other plantation ownership documents along selected supply chains for the 3 areas of origin of the two suppliers (sample size is not clear). Danzer UK audit findings (Exhibit 11) made a series of observations/conclusions.

This audit has provided useful information and Danzer staff has dedicated time and resources to assessing possible risks associated with their trade in the products. NEPCon accepts - for the time being at least - Danzer UK's argument that this level of analysis conducted by the organisation has been adequate to provide it with sufficient confidence to determine a low risk conclusion for the product...or at least to conclude that no specific issues indicating high risk were identified during the process.

Danzer UK has followed procedures, at least in that 2nd party (by Danzer UK themselves) supplier audits have been conducted of non-certified suppliers in high risk countries. However, given that the audit was conducted just prior to the adoption by Danzer UK of Danzer Group due diligence procedures, there is still some uncertainty with regards to: the audit procedures followed (no use of formal templates, no non-conformances raised); the key documentation indicating legal compliance; conformance of the audits with Annex 1 and 3 of the LegalSource standard, as well as the level of compliance of each supplier (sampling intensity).

With the adoption of Danzer Group procedures, a series of documents/records now require to be updated, or utilised, with regards to some products in order to comply with Danzer Group procedures (Tom Van Loon stated this fact himself during the audit also) from which it is currently absent, such as:

- Legal Documents & Definition of Legality (as per DGProc_32_01, Exhibit 27)
- Future audits shall be performed meeting Danzer Groups checklists, as per DGProc_32-03/4, exhibit 28)
- Legal & other Requirements for ESMS Procurement (DGProc_32-020, exhibit 15)

- DGProc_46_04 Species and Spatial Risk Rating Procurement, exhibit 18
- DGProc_46_05a Due Diligence - Risk and Measures, exhibit 19
- Supplier risk assessments (p20 of exhibit 1 and exhibit 20. 1st tab of DGProc_46_05a, exhibit 19)

It is fully expected that these products will be fully incorporated into the Danzer DDS (including via the above procedures, records and tools), starting immediately. See OBS 05/14.

In the case of another raw material, Danzer UK staff have sought additional information (exhibit 26) from their supplier, to supplement information gathered from previous years, including a field visit in 2012. A number of principal observations by staff were discussed during the audit.

This audit has provided useful information for understanding supply relationships within the particular industry in the country of origin and Danzer staff have dedicated time and resources to assessing possible risks with these products. NEPCon will accept that - for the time being at least - Danzer UK's argument that this level of analysis conducted by Danzer UK has been adequate to provide it with sufficient confidence to determine a low risk conclusion for the products supplied by their supplier...or at least that no specific issues indicating a higher level of risk were identified.

Danzer UK has *somewhat* followed Group procedures at least in that a 2nd-party (Danzer UK) supplier desk-audit has been conducted of non-certified suppliers in a high risk country. However, given that the audit was conducted just prior to the adoption by Danzer UK of Danzer Group due diligence procedures, there is still some uncertainty with regards to: the procedures followed (no use of formal templates, no non-conformances raised); the key documentation indicating legal compliance; conformance of the audits with Annex 1 and 3 of the LegalSource standard, as well as the level of compliance of each supplier (sampling intensity).

With the adoption of Danzer Group procedures, a series of documents/records now require to be updated, or utilised, with regards to these products in order to comply with Danzer Group procedures (Tom Van Loon stated this fact himself during the audit also) from which this product is currently absent, such as:

- Legal Documents & Definition of Legality (as per DGProc_32_01, exhibit 27)
- Future audits shall be performed meeting Danzer Groups checklists, as per DGProc_32-03/4, exhibit 28)
- Legal & other Requirements for ESMS Procurement (DGProc_32-020, exhibit 15)

- DGProc_46_04 Species and Spatial Risk Rating Procurement, exhibit 18
- DGProc_46_05a Due Diligence - Risk and Measures, exhibit 19
- Supplier risk assessments (p20 of exhibit 1 and exhibit 20. 1st tab of DGProc_46_05a, exhibit 19)

Going forward, it is fully expected that these products will be fully incorporated into the full DDS (including the above procedures, records and tools), starting immediately. See OBS 05/14.

7.1.2:

Danzer UK has (since the assessment in March) adopted the Danzer Group due diligence procurement rules (exhibit 1). Group procedures rely on CoC systems within certification/legality verification schemes as the principal mitigation measure for supply chain risks coming from high-risk countries of harvest.

In cases of medium/high risk supply chains, Danzer Group procedures state that each individual supplier will be evaluated for risk also. See DGProc_46-05a as an example (exhibit 19). This risk assessment includes a supply-chain risk assessment (section e, first tab).

At a higher level, Danzer Group has evaluated supply chain risks for African countries (DGProc_32-020_ Legal & other requirements per country (*Trade and Transport - ALL COUNTRIES* tab, exhibit 15). However, a similar analysis is lacking for specific Danzer UK supply countries. See OBS 06/14.

7.1.3:

Danzer UK generally maintains relatively short supply chains for material sourced from high risk areas. The organisation (and group procedures) rely on the chain of custody of the certification/legality-verification scheme under which the product is purchased to ensure low risk of mixing with illegal or unknown material. Specific auditor findings with regards to the points raised in the non-conformance are as follows:

i. In line with the above, for one supply chain, Danzer UK relies on the supply's certification to have confidence that the risk of mixing is low. While this certification system only appears to address legal requirements for the material, with uncertain requirements for chain of custody, given the provenance of the material, NEPCon will accept - for the time being - the Danzer Group consideration that the risk of mixing is low in this instance, as the material is sold through a certified supply chain. However, see NCR 13/14.

ii. Although Danzer UK is conducting regular visits to its suppliers (visits to supplier twice in 2013), the

organisation has conducted additional due diligence to evaluate mixing risk within its suppliers:

An extraordinary visit was made in June 2014 to evaluate the risk of mixing with illegal/unknown sources in the case of its two certified suppliers. In order to assess the traceability of material from European sources and to evaluate the risk of mixing within the two companies, a number of methods were employed.

Audit findings (Exhibit 11/31) made the following conclusions: No evidence nor concerns have been raised that the risk of mixing of certified material with non-certified/unknown material is anything other than low.

At this stage, Danzer UK considers that it has conducted sufficient *additional* due diligence beyond relying on the material's certification status, to conclude low risk of mixing. Emphasising the value and importance of a close working relationship with suppliers to good due diligence, Danzer UK staff comment that they feel little more could be done on this issue.

NEPCon considers that, given the steps taken by Danzer UK, and for the purposes of moving forward, it is reasonable to allow this NCR to be closed. However, Danzer UK should continue to monitor this risk situation, considering periodic species/fibre testing (or other analyses) in combination with the some determined (or other) due diligence measures. See OBS 07/14.

7.3:

Danzer Group Procedures (section 7.1, exhibit 1) describe a set of specific requirements which form a preliminary assessment of risk and includes "killing factors" for the procurement of wood. Procedures describe that no wood shall be procured in a number of situations, including:

- From areas where conflict or war takes place (conflict timber) ; When suppliers have a suspicious background and associated with armed conflicts or illegal logging
- For timber that is originating from areas where local communities and worker rights or human rights are violated (example actions in court, open confrontations, physical force) or where government and concession managers are in open conflict;
- When suppliers have a suspicious background and associated with armed conflicts or illegal logging.

7.5:

Danzer UK has adopted Danzer Group DDS procedures. Group procedures adequately *document* the risk assessment process and how risk conclusions should be reached. It is the belief of the Auditors that there is room

	<p>to streamline and simplify these procedures in some areas. See OBS 03/14.</p> <p>7.6: Danzer UK has adopted Danzer Group DDS procedures. Group procedures adequately describe the need for risk assessments to be reviewed and updated if necessary on an annual basis, as a minimum. This includes risk assessments relating to species, regions, countries & districts (sections 7.3.1 and 7.3.2, exhibit 1).</p> <p>Final Conclusion: Danzer UK has addressed all the elements raised in NCR 10/14, such that this non-conformity report can now be closed.</p>
NCR Status:	CLOSED
Comments (optional):	See OBS 05/14 and 06/14.

Issued for: Danzer UK Ltd			
NCR: 11/14		NC Classification:	MAJOR <input checked="" type="checkbox"/> Minor <input type="checkbox"/>
Standard & Requirement:		NEPCon LegalSource Standard, version 1.0; 8.1 (Risk Mitigation)	
Report Section:		Appendix: A, 8.1	
Description of Non-conformance and Related Evidence:			
<p>8.1.1: Danzer UK requires 3rd party certification/legality-verification to mitigate risks, where the risk assessment concluded a "high risk" rating. The organisation works with a number of 3rd party certification/legality-verification schemes as measures to ensure low risk for legal violations. Additional FLEGT-related initiatives are considered, although are not being accepted in isolation.</p> <p>Danzer UK has not evaluated all of these certification/legality-verification schemes according to Annex 5 of the LegalSource standard.</p> <p>8.1.2: Danzer UK's DDS focusses on mitigating the risk of legal violations at the forest level, while the risk of legal violations in the supply chain is not systematically evaluated nor mitigated. Furthermore, certification/legal-verification schemes may be insufficient in some cases to provide sufficient confidence that supply chain risks have been in mitigated.</p> <p>8.1.3: Danzer UK generally maintains relatively short supply chains for material sourced from high risk areas, although this may not always be the case. Regardless, the organisation has not actively developed procedures to systematically assess risk of mixing in the supply chain, preferring instead to rely on the chain of custody of the certification/legal-verification scheme under which the product is sold. This may be valid in most cases, however some cases highlight potential weaknesses in relying just on chain of custody, due to the inherent weaknesses of some certification/legality-verification schemes.</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:		Prior to (re)certification	
Evidence Provided by Organisation:		<ul style="list-style-type: none">• Interview with Ken Walsh, Managing Director• Interview with Ian Spurling, Environmental Coordinator• Interview with Tom Van Loon, Environmental Manager for Danzer Group	
Findings for Evaluation of Evidence:		<p>The Managing Director explained to the auditors that Danzer UK has (since the assessment in March) adopted the Danzer Group due diligence procurement rules (exhibit 1):</p> <ul style="list-style-type: none">• Broadly, risk mitigation procedures include provision for own-verification audits, but Group procedures mostly rely on 3rd party certification/legality verification schemes as part of their risk mitigation procedures.• As most certification schemes have weaknesses that should be considered to ensure that they cover all applicable requirements and that the requirement are observed by the supply chains,	

Danzer Group has evaluated these systems. See DGProc_32-05_Evaluation of certification-legality verification schemes (exhibit 20) and DGProc_32-05b_Evaluation of certification schemes_ANNEX 3_SGS-TLTV (exhibit 21).

- As a result, Danzer Group procedures accept a number of 3rd party certification/legality verification schemes as measures to ensure low risk for legal violation. See related minor NCR 03/14 of Interholco assessment report.
- For non-certified material from high risk countries, Danzer Group procedures require that all supply chains that have been evaluated to contain high risk are audited against Danzer Group's own verification programme (see also exhibit 28).
- Danzer Group procedures also state (see 7.4.3. exhibit 1) that *"In cases where suppliers or products have been identified to include a non-negligible risk that cannot be mitigated by any of the above mention risk mitigation options (or other possible options that may be used) the specific supplier or product shall be replaced by one that can be confirmed to have a negligible risk or one where all risks can be mitigated"*.

Specific auditor findings with regards to the points raised in the non-conformance are as follows:

8.1.1:

Group records reviewed include the review of 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 (exhibit 20). 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, exhibit 21).

However, the auditors make the following observations:

- the 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
- Danzer Group has not evaluated one certification system against the above requirements.
- It is not clear that the external studies (nor Danzer Group itself, except in the case of one) include an evaluation of conformance with applicable legislation as per Annex I of the LegalSource standard.
- Danzer Group procedures for evaluating certification/verification schemes against Annex 5

	<p>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 system. See NCR 13/14.</p> <p>8.1.2: Group procedures include the review of various certification/legality-verification schemes according to the Commission Implementing Regulation (EU) No 607/2012 (see exhibit 20). For this purpose, Danzer Group procedures rely for the most part on external studies in the public domain, regarding the coverage and compliance of certification/legality-verification schemes. These studies review the inclusion by the schemes of EUTR applicable legislation, including trade and customs in so far as the forest sector is concerned.</p> <p>It is not clear how one system, that does not include trade and transport laws, is addressed by Group procedures.</p> <p>8.1.3: The issues highlighted here is withdrawn from this NCR as it is considered relevant to NCR 10/14 and therefore addressed within that NCR.</p> <p>Final Conclusion: Danzer UK has addressed all the elements raised in NCR 11/14, such that this non-conformity report can now be closed.</p>
NCR Status:	CLOSED
Comments (optional):	

Issued for: Danzer UK Ltd			
NCR: 12/14	NC Classification:	MAJOR <input type="checkbox"/>	Minor <input checked="" type="checkbox"/>
Standard & Requirement:	NEPCon LegalSource Standard, version 1.0; 8.3 (Risk Mitigation)		
Report Section:	Appendix: A, 8.3		
Description of Non-conformance and Related Evidence:			
<p>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 (see Exhibit 2) 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..."</p> <p>However, in one case, risk mitigation has not taken place, demonstrating that procedures need to be strengthened. 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.</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):	24/07/14: For reasons of prioritization of time, this NCR was not evaluated during the audit.		

Issued for: Danzer UK Ltd			
NCR: 13/14	NC Classification:	MAJOR <input type="checkbox"/>	Minor <input checked="" type="checkbox"/>
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 (exhibit 20). In the case of one certification/legality-verification scheme, a more in-depth internal evaluation has been conducted.</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 include an evaluation of conformance with applicable legislation as per Annex I of the LegalSource standard. • Danzer Group has not evaluated one certification/legality-verification scheme 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:	<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:	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: 01/14	Standard & Requirement:	NEPCon LegalSource Standard, version 1.0; 2.4 (Responsibilities and competence)
	Report Section	Appendix: A, 2.4
Description of findings leading to observation:	Those interviewed at Danzer UK demonstrated good awareness of, and competence in, implementing the organisation's procedures. However, further training may be necessary as Danzer UK seeks to close - with new or revised procedures and systems - the open non-conformances raised within this report.	
Observation:	Danzer UK should ensure training of key staff ensues, following the inclusion of new or revised procedures and systems to address the open non-conformances raised within this report.	

OBS: 02/14 WITHDRAWN	Standard & Requirement:	NEPCon LegalSource Standard, version 1.0; 9.1 (Claims)
	Report Section	Appendix: A, 9.1
Description of findings leading to observation:	<p>Danzer UK has stated that an internal conversation is required before determining how a future LegalSource certification would be used and communicated.</p> <p>However, Danzer UK staff mentioned that "LegalSource-certified" claims on sales documentation are unlikely, but that Danzer UK may make general promotional claims about its LegalSource certified status. Thus, as of the assessment date, no clear decisions had been taken, therefore, no procedures developed with regards to LegalSource claims either.</p> <p>OBS 02/14 WITHDRAWN: Danzer UK now has procedures and responsibilities assigned for sales activities (Exhibit 36)</p>	
Observation:	<p>Danzer UK should consider if it wishes to make LegalSource claims and then develop procedures accordingly, in line with the LegalSource standard.</p> <p>OBS 02/14 WITHDRAWN: Danzer UK now has procedures and responsibilities assigned for sales activities (Exhibit 36)</p>	

OBS: 03/14	Standard & Requirement:	NEPCon LegalSource Standard, version 1.0; 3.1 (Written Procedures)
	Report Section	Appendix: A, 3.1
Description of findings leading to observation:	The Managing Director explained to the auditors that Danzer UK has (since the assessment in March) adopted the Danzer Group due diligence procurement rules (exhibit 1). These procedures have been adopted unchanged except for the addition of certain elements relevant to Danzer UK's operations.	
Observation:	The differences between Danzer Group and Danzer UK DDS procedures, such as that stated above (CPI < 50), should be included within the Danzer UK version of the procurement rules (exhibit 1) in order that the <i>written</i> procedures reflect the operational procedures followed by Danzer UK.	

OBS: 04/14	Standard & Requirement:	NEPCon LegalSource Standard, version 1.0; 6.1.2 (Supply Chain and material information)
	Report Section	Appendix: A, 6.1.2
Description of findings leading to observation:	The Organisation has developed an electronic 'supplier library' for all supply chains within the Danzer UK DDS. As described by the Managing Director, the ability to add to this library will be restricted, in order that new, species cannot be added without consent at the Danzer Group level – hence safeguarding against purchase of species not already on the approved species list (exhibit 9).	
Observation:	Currently, the full scientific name is not stated for products in the supplier library (exhibit 6). In order to ensure that the abovementioned safeguard functions correctly, the full scientific name should be included within the supplier library (exhibit 6) and correspond to that on the approved species list (exhibit 9).	

OBS: 05/14	Standard & Requirement:	NEPCon LegalSource Standard, version 1.0
	Report Section	Appendix: A, 7..1.1
Description of findings leading to observation:	<p>With the adoption of Danzer Group procedures, a series of documents/records now require to be updated, or utilised, with regards to products in order to comply with Danzer Group procedures (Tom Van Loon stated this fact himself during the audit also) from which they are currently absent, such as (but not limited to):</p> <ul style="list-style-type: none"> • Legal Documents & Definition of Legality (as per DGProc_32_01, Exhibit 27) • Future audits shall be performed meeting Danzer Groups checklists, as per DGProc_32-03/4, exhibit 28) 	

	<ul style="list-style-type: none"> • Legal & other Requirements for ESMS Procurement (DGProc_32-020, exhibit 15) • DGProc_46_04 Species and Spatial Risk Rating Procurement, exhibit 18 • DGProc_46_05a _Due Diligence - Risk and Measures, exhibit 19 • Supplier risk assessments (p20 of exhibit 1 and exhibit 20. 1st tab of DGProc_46_05a, exhibit 19)
Observation:	It is fully expected that these products will be fully incorporated into the Danzer DDS (including their incorporation into the above procedures, records and tools), starting immediately. To be verified at next annual audit.

OBS: 06/14	Standard & Requirement:	NEPCon LegalSource Standard, version 1.0
	Report Section	Appendix: A, 7..1.2
Description of findings leading to observation:	Danzer Group has evaluated supply chain risks for African countries (DGProc_32-020_ Legal & other requirements per country (<i>Trade and Transport - ALL COUNTRIES</i> tab, exhibit 15). However, a similar analysis is lacking for other specific Danzer UK supply countries.	
Observation:	It is fully expected that the new countries of provenance, will be fully incorporated into the Danzer DDS, starting immediately. To be verified at next annual audit.	

OBS: 07/14	Standard & Requirement:	NEPCon LegalSource Standard, version 1.0
	Report Section	Appendix: A, 7..1.2
Description of findings leading to observation:	At this stage, Danzer UK considers that it has conducted sufficient <i>additional</i> due diligence beyond relying on the material's certification status, to conclude low risk of mixing. Emphasising the value and importance of a close working relationship with suppliers to good due diligence (which includes visiting them regularly).	
Observation:	NEPCon considers that, given the steps taken by Danzer UK, and for the purposes of moving forward, it is reasonable to allow this NCR to be closed. However, Danzer UK should continue to monitor this risk situation, considering periodic species/fibre testing (or other analyses) in combination with additional (or other) due diligence measures, as described.	

OBS: 08/14	Standard & Requirement:	NEPCon LegalSource Standard, version 1.0; PROCEDURES
	Report Section	Appendix: A, 9.1
Description of findings leading to observation:	Danzer UK has adopted Danzer Group DDS procedures. These procedures adequately <i>document</i> the risk assessment	

	process and how risk conclusions should be reached. However, it is observed by the auditors that these procedures can sometimes be quite confusing with what appears to be repetition or lack of clarity in some areas with regards to how specific documents or records fit into the overall DDS.
Observation:	In order to optimise the understanding, use and adoption by Danzer UK of the Danzer Group procedures - and to optimise the auditability of these systems - these should be revised to ensure as maximum clarity and precision, avoiding inefficiencies and repetition where possible. Policies, procedures and records should be correctly referenced. Master lists should be maintained and updated, complete with the reference code to each policy, procedure and records, and describing the role and relationship of each document.

Actions taken by Organisation Prior to Report Finalization

Provision of extra documentation by Danzer UK via email

3. COMPANY DETAILS

Contacts

Primary contact for Coordination with NEPCon

Primary Contact, Position:	Ken Walsh
Address:	46 Market Hill, Maldon, Essex, CM9 4QA
Tel/Fax/Web/Email:	Tel: +44 1621 851002 / Fax: +44 1621 859122 Web: http://www.danzer.co.uk/ Email: ken.walsh@danzer.co.uk
Jurisdiction of primary legal entity:	United Kingdom

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 type="checkbox"/> Single Organisation	<input checked="" type="checkbox"/> Group or multi-site	<input checked="" type="checkbox"/>
Activity:	Primary: Broker/trader with physical	Additional: Broker/trader without physical p	<input checked="" type="checkbox"/>
<p>Description of scope 06/03/2014: Danzer UK staff described their DDS as covering the following product scope:</p> <p>All wood products (lumber and added-value products) supplied by Danzer UK to its customers, independently of whether:</p> <ul style="list-style-type: none"> a. the wood originated (Country of Harvest) from within or outside the EU b. the wood products are sourced from companies based within, or outside, the EU c. the purchase is from another company within Danzer Group. <p>In a few aspects, this ambitious scope extends beyond the limits of the requirements and obligations of the EUTR. Danzer UK communicated that it has chosen this approach based on the characteristics of the products and species sold by the organisation; the needs and expectations of the UK market as well as the high opportunity of sourcing <i>certified</i> or <i>legal-verified</i> among its product groups.</p> <p>24/07/2014: No change / additional information.</p>			

Danzer UK details

Organisation Site(s)	Address Tel/Fax/Email	Type of operation	Product groups placed on the market (include brief description)	Visited during this audit
Danzer UK Ltd.	46 Market Hill, Maldon, Essex, CM9 4QA Tel: +44 1621 851002 / Fax: +44 1621 859122 www.danzer.co.uk ken.walsh@danzer.co.uk	Trader	Sawn timber and added value products (E.g. flooring, doors, mouldings, worktops)	06/03/2014: DHG (1day approx) 24/07/2014: DHG / OC (1day)

4. EVALUATION PROCESS

Evaluation Team

Auditor(s)	Qualifications
David Hadley	David Hadley provides support to the NEPCon LegalSource team and also supports our capacity-building and training services. He has worked previously in various roles for the NEPCon Spain and UK offices. David is a LegalSource Lead Auditor as well as an FSC/PEFC Lead CoC auditor and has a number of years of industry experience.
Oliver Cupit	Oliver is a Certification Services Co-ordinator and FSC CoC Lead auditor for NEPCon in the UK and Ireland. Oliver holds an MSc in Sustainable Tropical Forestry. He has been trained as a Lead Auditor for FSC Forest Management, FSC Chain of Custody, SAN Chain of Custody and LegalSource™ and is a qualified FSC trademark agent.

Description of Evaluation Process

Danzer Group has been working with NEPCon to move towards LegalSource certification since 2013. A pre-assessment of Danzer Group and its Due Diligence procedures was conducted on the 15/16th August at the main office of Danzer in Baar, Switzerland. Over the course of first-quarter 2014, assessments are to be conducted at various Danzer companies across Europe.

Since the pre-assessment, Danzer has been working to raise the level of its DDS to close conformance gaps and meet LegalSource requirements. As of the date of the assessment of Danzer UK Ltd, Danzer Group had closed – or submitted evidence relating to – many of the non-conformances raised during the pre-assessment.

The on-site assessment of Danzer UK was carried on the 6th March (office in Maldon) and 7th March (outsourced warehouse facility) and covered the following approximate agenda:

06/03/2014:

1. Opening meeting, presentation of participants, audit program and scope
2. Introduction by Danzer UK to the organization of Danzer UK / Danzer Group and the current Due Diligence System (DDS) in practice at Danzer UK.
3. Evaluation of quality management aspects of the DDS, including the documented procedures, including responsibilities, commitments made by the organization, procedures for internal monitoring and definition of product scope.
4. Evaluation of the general procedures for access to information, risk assessments and risk mitigation procedures adopted by Danzer UK.
5. Evaluation of operational implementation of the Danzer UK DDS, including:
 - a. Interview with staff involved in the operational implementation of the DDS.
 - b. Evaluation of a sample of supply chains and the implementation of Due Diligence on the selected samples (access to information, risk assessment and risk mitigation)
 - c. Evaluation of supplier audits and records

07/03/2014:

1. Q/A regarding the audit of the day before, to fill information gaps in

2. Introduction of participants, purpose of visit etc. Presentation by Warehouse/Danzer UK of procedures for the reception of shipments of timber, storage of bundles and delivery of orders to clients.
3. Presentation and discussion of LegalSource assessment preliminary auditor conclusions. Discussions of next steps and follow-up points

24/07/2014:

1. Opening meeting - introductions, the audit agenda, scope and purpose
2. Review of non-conformances (NCR), going sequentially through the list of NCRs, evaluating each one according to the evidence supplied by the organisation and interviews with key staff.
3. Where the addressing of an NCR has resulted in the introduction of new procedures or systems, NEPCon will conduct a full assessment of those procedures (as per any initial assessment). This will involve evaluating the extent to which Danzer UK has incorporated and embedded these into its operations (documented procedures, staff training, staff awareness) and ensuring these procedures are actually being implemented (records of risk-assessments and results, risk mitigation records, etc..).
4. Review of risk assessment analyses and risk mitigation measures
5. Closing meeting – summarising audit findings (including identified gaps and observations, if applicable) and next steps.

24/07/2014 – 29/08/2014:

1. Provision of extra documentation by Danzer UK via email;
 - a. Screenshot of supplier library
 - b. Chain of custody manual
 - c. Generic verification statement
 - d. List of added-value and lumber purchases
 - e. Supplier invoices
 - f. Supplier audit reports
 - g. EUTR Compliance Review
 - h. DDS Scope document
 - i. DDS Responsibilities documents