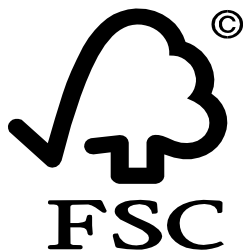


Certified by:



SmartWood Headquarters
65 Millet St. Suite 201
Richmond, VT 05477 USA
Tel: 802-434-5491
Fax: 802-434-3116
www.smartwood.org
Contact person: Jon Jickling
jjickling@ra.org

Certification Audit
Managed by:
Asia Pacific Regional Office
Jl. Ciung Wanara no. 1x, Lingkungan
Kertasari, Kelurahan Panjer,
Denpasar Selatan 80225
Bali, Indonesia
Tel: +62 361 224 356
Fax: +62 361 235 875
Contact person: Christian Sloth
Email: csloth@ra.org



ACCREDITED
FSC-ACC-004

© 1996 Forest Stewardship Council A.C.

FM-06 Oct 2005



SmartWood

Practical conservation through certified forestry

Forest Management **2007 Annual audit** Report for:

Rewards Group Limited
Sandalwood plantations
in
Western Australia

Certificate code: SW-FM/CoC-1778

Audit Dates: 26 – 28 March 2007

Report Finalized: 16 July 2007

Auditors: Jodie Mason

Operation Contact: David Groom

Address: 50 Colin Street, West
Perth, WA 6005
Australia

TABLE OF CONTENTS

1. AUDIT PROCESS	3
1.1. AUDITORS AND QUALIFICATIONS:	3
1.2. AUDIT SCHEDULE	3
1.3. SAMPLING METHODOLOGY:	3
1.4. STAKEHOLDER CONSULTATION PROCESS	4
1.5. CHANGES TO STANDARDS (IF APPLICABLE)	4
2. AUDIT FINDINGS AND RESULTS	4
2.1. CHANGES IN THE FOREST MANAGEMENT OF THE FMO	4
2.2. STAKEHOLDER ISSUES	5
2.3. COMPLIANCE WITH APPLICABLE CORRECTIVE ACTIONS	5
2.4. CURRENT CORRECTIVE ACTIONS AND NEW CORRECTIVE ACTIONS ISSUED AS A RESULT OF THIS AUDIT	17
2.5. AUDIT OBSERVATIONS	21
2.6. AUDIT DECISION	21
APPENDIX I: List of visited sites (confidential)	22
APPENDIX II: List of stakeholders consulted (confidential)	23
APPENDIX III: Criterion-level evaluation of compliance (confidential)	24
APPENDIX IV: Chain of Custody Compliance (confidential)	30
APPENDIX V: SmartWood Database Update Form	32

1. AUDIT PROCESS

1.1. Auditors and qualifications:

Jodie Mason, Ba Forest Science, MBA

Jodie is a Senior Consultant with URS Forestry, based in Perth, Australia. She has 13 years professional experience, primarily in forest management and environmental management systems development and auditing. She has worked in native forest management and hardwood plantation industries in Tasmania, Victoria and Western Australia. She is a RABQSA certified environmental auditor and has undertaken forest management, chain of custody and controlled wood assessments and audits against FSC standards.

1.2. Audit schedule

Date	Location /main sites	Main activities
26 March	Perth office	Opening meeting, review of CARs, document review, interviews with staff.
27 March	Field visit	Inspections of plantations, including management of waterways, remnant vegetation and stakeholder consultation. Interviews with field staff.
28 March	Perth office	Review of documentation, closing meeting.
29-30 March	Draft report	Writing report
Total number of person days used for the audit: 3 plus reporting = number of auditors participating 1 times total number of days spent for the audit 3.		

1.3. Sampling methodology:

Principles 7 and 8 of the Standard were selected by the auditor as the focus of the audit, in addition to a review of the CARs arising from the Assessment. Two of the three properties on which plantation establishment is currently occurring were selected for audit. The audit focused on early rotation sites as operations on these sites have the highest potential for environmental and social impacts.

Tree farm audited	Rationale for selection
Maitland	Management of native vegetation, waterways and early rotation operations
Aldinga	Management of waterways and early rotation operations

1.4. Stakeholder consultation process

The initial approach to stakeholder consultation was via email or fax to a selection of those stakeholders included in the Rewards stakeholder contact list provided prior to the audit. The auditor notified the stakeholders of the audit and attached a short survey and a copy of the forest certification standard.

Following notification, four stakeholders replied via the survey form.

The auditors contacted several stakeholders by phone after the audit to follow up issues raised during the audit, or discuss survey comments.

The table below indicates the types of stakeholder informed and those who provided input through the audit process.

Stakeholder type (NGO, government, local inhabitant etc.)	Number of stakeholders informed	Number of stakeholders consulted or providing input
ENGO	2	
Local government	5	1
State government	4	
Contractors	1	1
Lessors	0	
Industry and industry groups	1	1
Suppliers	1	1
Community	5	3

1.5. Changes to Standards (if applicable)

Since the certification assessment, a new standard has been released for use: *Rainforest Alliance / SmartWood Interim Standards for Assessing Forest Management in Australia (November 2006)*, which replaces the previous standard, *SmartWood Certification Interim FSC Standard For Assessing Forest Management in Australia (Second Draft, September 2002)*.

2. AUDIT FINDINGS AND RESULTS

2.1. Changes in the forest management of the FMO

Since the last annual audit, Rewards has commenced establishment of plantations on three new properties, being Grassmore, Maitland and Aldinga. These properties are in the south-eastern area of the Western Australian wheat belt, east of Pingelly and Narrogin. The new properties are about 400km from the previously established plantations, which has resulted in an increase in the number of stakeholders, including several shires in which the FMO has not previously operated.

David Groom has replaced Craig Anderson as the key person responsible for managing compliance with FSC requirements. David Stubbs has been employed in a newly-created position as a Sandalwood Project Manager and helps to manage the establishment and maintenance of the plantations. David is a

graduate forester and he works closely with the other Project Manager, Peter Grime, who has been employed in this position with Rewards for several years.

2.2. Stakeholder issues

A range of stakeholders was consulted during the audit, the majority of whom reside in the south-eastern wheat belt region. The issues raised during the consultations are summarized below.

- The majority of stakeholders consulted reported positive relationships with the FMO, including comments such as the FMO representatives being very good to deal with, and very well organized.
- One neighbour of Grassmore expressed concern to the auditor about the risk of the weed paddymelon. The neighbour has controlled paddymelon on his property by picking up and disposing of fruit and is concerned that the weed will spread onto his property from Rewards' land.
- One neighbour, who is also a Pingelly Shire Councilor, expressed that the FMO was "arrogant", had commenced operations before gaining planning approval from the council, and failed to consult with the local fire management officer about fire management plans. She felt the FMO should invest more time in fostering relationships with neighbours, considering that neighbours would be important in fire suppression activities in future years.
- The CEO of the Shire of Pingelly considered that the lack of planning approval was a "learning process for the Shire" in that the scheme was not clear on the requirement for approval. He stated that the Shire required approval for some aspects of Rewards' operations that are not required by other shires. He reported that when Rewards went through the planning approvals process for the second time, there were no issues with dealing with them.

Rewards were aware of all issues raised by stakeholders, with the exception of concerns about the spread of paddy melon.

2.3. Compliance with applicable corrective actions

The section below describes the activities of the certificate holder to address each applicable corrective action issued during previous evaluations. For each CAR a finding is presented along with a description of its current status using the following categories. Failure to meet CARs will result in noncompliances being upgraded from minor to major noncompliances with compliance required within 3 months or face suspension or termination of the SmartWood certificate. The following classification is used to indicate the status of the CAR:

CAR Status Categories	Explanation
Closed	Certified operation has successfully met the CAR and addressed the underlying noncompliance.

Open	Certified operation has <u>not met</u> the CAR; underlying noncompliance is still present. CAR becomes a Major CAR with a 3 month deadline for compliance
-------------	---

CAR #: 2/05	Reference Standard #: 1.3
Non-compliance: Major <input type="checkbox"/> Minor <input checked="" type="checkbox"/>	There is limited awareness of the relevant international agreements and relevant personnel were unsure how some of these (principally the International Labour Organisation conventions) could impact operations.
Corrective Action Request: The FMO will have completed a review of all relevant international agreements for relevance to company operations, how well they are addressed in binding domestic legislation, policies and strategies and ensure that compliance with all relevant requirements is included in company policies, procedure and management plans. The FMO's field staff are to be advised of these commitments.	
Timeline for Compliance: Within one year of the issuance of a Certificate	

Audit findings: The FMO has developed a register of relevant international agreements, with electronic links directly to websites where the respective legislation is found. The FMO advised that it intends to review changes to the selected legislation and assess the impact on the business annually. The FMO advised that it conducted a review of whether all requirements were included in FMO's policy and procedural documents and found no deficiencies.	
Status: CLOSED.	
Follow-up Action: N/A.	

CAR #: 3/05	Reference Standard #: 1.4
Non-compliance: Major <input type="checkbox"/> Minor <input checked="" type="checkbox"/>	Plantation areas are managed on behalf of investors and are governed by a Lease and Management Agreement between the FMO and the investor. It is possible that conflicts could arise where the management of land for long-term ecological objectives is incompatible with the FMO's obligations to investors.
Corrective Action Request: The FMO shall ensure that the Compliance Committee assesses commitment to FSC Principles and Criteria by the FMO, and develops procedures for resolving any potential conflicts between investors and FSC requirements.	
Timeline for Compliance: Within one year of the issuance of a Certificate	

Audit findings: The FMO has a Compliance Committee, which meets quarterly. David Groom is required to report to the Compliance Committee, via the submission of a memorandum, on any matters of current, potential or future conflict between the project guidelines and the FMO's commitment to the principles of FSC. The FMO has advised that no conflicts have arisen to date that have been required to be addressed by the Compliance Committee, and the auditor sighted a memorandum to the Compliance Committee to that effect.	
The FMO has identified the availability of sufficient land as being the main potential cause of conflict between the FSC and project requirements, as the FMO must find sufficient suitable land to meet its plantation project requirements. The FMO has recognized that particular FSC requirements, such as the prohibition of native vegetation clearing, could potentially restrict the FMO's ability to find sufficient land to satisfy project requirements.	

The FMO advised that there is a provision in the FMO's constitution and projects that allows it to change the physical location of timberlots, should a conflict dictate that a change is required. A new woodlot plan is required to be made for the FMO's records, and the process of changing locations requires that additional unallocated plantation is available for substitution. The FMO advised that additional, unallocated plantation land is available.

The FMO advised that the process in place is that the FMO aims to meet the requirements of both FSC and its plantation projects, and if this was not able to be achieved, the Compliance Committee would be required to submit a notice of breach of either of the requirements to the FMO's Board.

Status: CLOSED.

Follow-up Action: N/A

CAR #: 4/05	Reference Standard #: 1.6
Non-compliance: Major <input type="checkbox"/> Minor <input checked="" type="checkbox"/>	The FSC Principles and Criteria are little known amongst staff interviewed, and the FMO should ensure that FSC principles and criteria – and the corporate and operational commitments implied by FSC certification – are clearly communicated to all staff. This awareness needs to be extended to current and potential investors and to the Board and Compliance Committees.
Corrective Action Request: The FMO shall ensure that training, induction processes, operational guidelines, prospectus documents and annual reports clearly communicate its commitment to FSC Principles and Criteria, including economic, environmental and social objectives.	
Timeline for Compliance: Within one year of the issuance of a Certificate	

Audit findings: David Groom has briefed the Compliance Committee on the FSC Principles and Criteria, via a document tabled at a meeting. The *Rewards Group Sandalwood Project 2007* product disclosure statement includes reference to FSC certification, however it does not go into detail about what the Principles and Criteria are. It refers to FSC certification in terms of environmental management, however it does not acknowledge the goals of either social or economic sustainability.

The FMO has documented a *Forestry Training Procedure*, which states that a register of required training will be used to show what training is required to be completed by personnel holding various positions. This component of the training procedure has not been implemented. The induction process does not include mention of FSC commitments.

Operational procedures, including the *Cultural Heritage Protection Procedure*, the *Stakeholder Liaison Procedure* and the *Pesticide Policy* include the required measures in accordance with FSC Principles and Criteria.

It was found that the CAR has not been met sufficiently by Company and therefore it is up-graded to a Major CAR and given a new timeline of three months for completion.

Status: OPEN Major CAR 04/05

Follow-up Action: The FMO shall implement its training procedure to include induction and awareness training of the FSC Principles and Criteria, and shall clearly communicate its commitment to FSC Principles and Criteria, including economic, environmental and social objectives in prospectus documents, annual reports and other public documents.

This shall be finalized within three months of receipt of the final report.

CAR #: 5/05	Reference Standard #: 2.2
Non-compliance: Major <input type="checkbox"/> Minor <input checked="" type="checkbox"/>	The land acquired to date has been within the wheat belt with clear ownership records with a minimal risk of customary rights being an issue. However with the planned expansion of the plantations into other areas of WA the FMO needs to strengthen its purchasing policy because currently customary rights of access are not considered as part of the pre-purchase process.
Corrective Action Request: The FMO will establish procedures for property acquisition that require the documentation of any legal or customary rights of access as part of the pre-purchase due diligence process.	
Timeline for Compliance: Within one year of the issuance of a Certificate	

Audit findings: The FMO has revised its <i>Land Selection Protocol</i> to include a requirement that a thorough review should be conducted to ensure that there are no areas of indigenous or heritage significance that may be affected by establishing a sandalwood plantation.	
Status: CLOSED	
Follow-up Action: N/A.	

CAR #: 6/05	Reference Standard #: 2.3
Non-compliance: Major <input type="checkbox"/> Minor <input checked="" type="checkbox"/>	The current stakeholder list is incomplete, and there needs to be a protocol for adding names to the stakeholder list and for reporting conversations.
Corrective Action Request: The FMO will revise and expand its stakeholder list and establish a protocol for adding names to the stakeholder list and for documenting contact with stakeholders.	
Timeline for Compliance: Within six months of the issuance of a Certificate	

Audit findings: The FMO has updated its Stakeholder List to include stakeholders relevant to the new properties. The Project Managers generally document their communications with stakeholders in their diaries. This complies with the <i>Stakeholder Liaison Procedure</i> , which has been developed since the assessment. The procedure outlines the process for identifying stakeholders and the specific details that are to be recorded in the Stakeholder List.	
Status: CLOSED.	
Follow-up Action: N/A.	

CAR #: 7/05	Reference Standard #: 2.3
Non-compliance: Major <input type="checkbox"/> Minor <input checked="" type="checkbox"/>	Subsequent to the assessment, the FMO provided a copy of a revised management plan that includes a section on communication with local authorities. It suggests that a copy of the management plan should be provided to the local shire and that further communication will be required prior to undertaking “significant events on the property that may impact on neighbours and shire infrastructure”. This communication is important prior to events such as harvesting, however it should be extended further to require regular personal contact in the form of a presentation to the shire on the operations as a whole. Requirements for communication should also include other external stakeholders.
Corrective Action Request: The FMO shall have in place clear procedural guidelines on how the FMO pro-actively liaises with local communities and other ‘first order’ stakeholders.	
Timeline for Compliance: Within one year of the issuance of a Certificate	

Audit findings: The FMO's <i>Stakeholder Liaison Procedure</i> includes a requirement that the Project Managers take a proactive approach to dealing with stakeholders through distribution of management plans and discussions in person. It includes a requirement that Project Managers must identify areas of likely stakeholder concern and discuss and resolve any issues likely to arise from operations with affected stakeholders prior to operations commencing. It includes mention of a complaints procedure and resolution by an independent expert if required.
Status: CLOSED.
Follow-up Action: N/A.

CAR #: 8/05	Reference Standard #: 3.3
Non-compliance: Major <input type="checkbox"/> Minor <input checked="" type="checkbox"/>	The FMO has committed to a pro-active approach to indigenous cultural heritage identification and management, but this needs to be included in FMO policies, and manuals of procedure.
Corrective Action Request: The FMO shall establish, incorporate in its operations manual and communicate to all staff, effective protocols for the protection of cultural heritage uncovered during forestry operations. This should include a clear definition of the nature of cultural heritage. At the very least, it should require that work be stopped if cultural heritage is uncovered, the area is secured, relevant groups and authorities are consulted and work should only recommence with their approval. It should also include processes for assessment of cultural heritage at time of purchase and for the long-term management of the site and protection of its heritage values.	
Timeline for Compliance: Within one year of the issuance of a Certificate	

Audit findings: The FMO has developed a <i>Cultural Heritage Protection Procedure</i> , which includes requirements for the Project Managers to assess whether there are any known sites of cultural significance during the land selection process, and to recognise any undocumented sites noticed during the course of operations. If a feature is noted during operations, the procedure requires that activities that may disturb the site be halted, the site cordoned off, and relevant groups or authorities contacted for further advice on identification and management of the feature. The procedure gives some examples of what to look out for in recognizing a significant feature.
Status: CLOSED.
Follow-up Action: N/A. See CAR 4/07.

CAR #: 9/05	Reference Standard #: 4.1
Non-compliance: Major <input type="checkbox"/> Minor <input checked="" type="checkbox"/>	Training is carried out on an on-the-job basis with little or no documentation and thus the procedural system for the recording of the training sessions needs to be tightened up considerably with training objectives and goals set and documentation of training sessions completed.
Corrective Action Request: The FMO shall have policy procedures in place for all training programmes.	
Timeline for Compliance: Within one year of the issuance of a Certificate	

Audit findings: A <i>Forestry Training Procedure</i> has been documented, which includes a process for identifying training required for each position, through the use of a training register, and through personnel identifying training that they feel is required. However, the procedure does not include a requirement for the documentation of training completed, and the training register has not yet been developed and implemented. An Access database exists for the recording of training has been completed, however the sandalwood Project Managers are not included in the database.

Status: OPEN.
Follow-up Action: The FMO shall include, in the <i>Forestry Training Procedure</i> , a requirement that records of training completed be retained, and the FMO shall implement the procedure.
This shall be undertaken within three months of receipt of the final report.

CAR #: 10/05	Reference Standard #: 4.2
Non-compliance: Major <input type="checkbox"/> Minor <input checked="" type="checkbox"/>	All aspects of OH&S are covered in a very generic format and specific workers rights and safety issues in reference to the sandalwood programme are not sufficiently covered. This has not been an issue to date due to the current size of the sandalwood programme but with the expected development of this programme the OH&S and policy procedures for the staff working in the sandalwood programme should be dealt with more thoroughly.
Corrective Action Request: The FMO shall develop an OH&S manual that specifically addresses forestry issues, including procedures for emergency response.	
Timeline for Compliance: Within one year of the issuance of a Certificate	

Audit findings: The OH&S manual does not specifically address safety issues relevant to the sandalwood programme.
Status: OPEN.
Follow-up Action: The FMO shall develop an OH&S manual that specifically addresses forestry issues, including procedures for emergency response.
This shall be undertaken within three months of receipt of the final report.

CAR #: 11/05	Reference Standard #: 5.6
Non-compliance: Major <input type="checkbox"/> Minor <input checked="" type="checkbox"/>	The assessment team is satisfied that the projected harvest levels are based on the best available estimates of growth, however the establishment of sandalwood in plantations is a new industry and the available sources of information are very limited. The onus is consequently on the FMO to undertake its own research into growth and yield. Some work has been undertaken to date, such as the destructive sampling of six 5-year old trees. The FMO has advised that it will be engaging the services of a project forester to initiate and manage this research.
Corrective Action Request: The FMO shall initiate a research and development a program that aims to better understand commercial yields from the forest products and projected rates of growth. The research shall include, but not be limited to:	
<ul style="list-style-type: none"> • A literature review of rates of growth of both sandalwood and host species; • Establishment of inventory plots of suitable size and number and a suitable measurement regime within the FMO plantations; and • Establishment of the growth and yield responses of silvicultural practices (especially fertilizer x density trials). 	
Timeline for Compliance: Within one year of the issuance of a Certificate	

Audit findings: The FMO has compiled a review of literature relating to <i>S. spicatum</i> growth rates in
--

<p>plantations and natural forests in Western Australia.</p> <p>Inventory plots (temporary sample plots) have been established in the older plantations to record stem diameter and survival of sandalwood and the host. It is intended that these plots will be measured every 2 years and growth functions will be developed from the data. The data is currently being processed and analyzed by an external specialist.</p> <p>Trials to assess responses of growth and yield to silvicultural practices have not been planned or established.</p>
Status: OPEN.
Follow-up Action: The FMO shall document a research plan to assess responses of growth and yield to silvicultural practices.
This shall be undertaken within three months of receipt of this report.

CAR #: 12/05	Reference Standard #: 6.1
<p>Non-compliance: Major <input type="checkbox"/> Minor <input checked="" type="checkbox"/></p>	<p>Quantitative assessments of environmental impacts (both positive and negative) have not yet been undertaken by the FMO. The nature of the plantation estate provides an option to retain the overstorey of jam trees, even if a commercial crop of sandalwood is established as a second rotation. There consequently appears to be a unique opportunity to manage the connectivity of remnants. At the time of the assessment, the FMO had organised for a representative of the Department of Conservation and Land Management to assess management options for the native vegetation, however this assessment had not been completed.</p>
<p>Corrective Action Request: The FMO must facilitate a detailed assessment of native vegetation on all of the properties to be managed for sandalwood production. The results of these assessments shall be used to develop management and monitoring prescriptions that are included in management plans.</p>	
<p>Timeline for Compliance: Within one year of the issuance of a Certificate</p>	

<p>Audit findings: The older properties, Glenrowan and Coonaring have been reviewed by Mattiske Consulting to assess the flora, vegetation and fauna values. Mattiske Consulting submitted a combined report for the two properties, which includes some recommendations for future actions by Rewards Group. Management plans have been updated to include some of the recommended actions, however monitoring prescriptions resulting from the study have not been formulated.</p> <p>Management plans for the three properties being established this year include the requirement that an assessment of remnant native vegetation be undertaken by the Department of Environment and Conservation, and this is planned to be done in spring of 2007.</p>
Status: OPEN.
<p>Follow-up Action: The results of native forest assessments shall be used to develop monitoring prescriptions that are included in management plans. This shall be undertaken within three months of receipt of the final report.</p>

CAR #: 13/05	Reference Standard #: 6.6
Non-compliance: Major <input type="checkbox"/> Minor <input checked="" type="checkbox"/>	FSC prohibited chemicals are used by the company. Procedures had not been produced that would be consistent with FSC derogations (which are either to be developed, in the case of 1080 for rabbits, or made functional, in the case of Simazine).
Corrective Action Request: The FMO must develop a policy for chemical use that is consistent with FSC Principles and Criteria.	
Timeline for Compliance: Within one year of the issuance of a Certificate	

Audit findings: The FMO has documented a *Pesticide Policy*, which states a commitment to use pesticides in compliance with all national and state laws and regulations and FSC standards. There is also a *Weed Control Plantation Development Prescription*, which states that only those herbicides listed within the procedure are permitted to be used, and the use of any other herbicide is prohibited. It also refers to the list of FSC prohibited / highly hazardous pesticide list (1 January 2006). Procedures do not incorporate the requirements of the FSC Pesticide Derogation for '*Use of Simazine in Victoria, Western Australia and South Australia*'.

Status: OPEN.

Follow-up Action: The FMO shall amend procedures so that they are consistent with the FSC Pesticide Derogation for '*Use of Simazine in Victoria, Western Australia and South Australia*'. This shall be undertaken within three months of receipt of the final report.

CAR #: 14/05	Reference Standard #: 7.2
Non-compliance: Major <input type="checkbox"/> Minor <input checked="" type="checkbox"/>	The processes in place for revision and reporting against the Management Plan are logical, however there were no records indicating how this process was managed in previous years.
Corrective Action Request: The FMO must be able to provide documentation, such as minutes from meetings or edits to the previous management plan, that clearly demonstrate the process of reviewing the management plan.	
Timeline for Compliance: Within one year of the issuance of a Certificate	

Audit findings: The FMO demonstrated that the Coonaring 2004 Project management plan has been revised to include the recommendations from the assessment of the areas of native vegetation. However, the Glenrowan management plans have not been updated to include the recommendations. During the audit, Rewards outlined a process for systematically updating the management plans, which includes budget preparation for the following year, however it is not evident that this process has been followed for the existing management plans. The plans still contain some inaccuracies, including the number of seeds to be planted and the chemicals to be used for weed control.

Status: OPEN.

Follow-up Action: The FMO shall implement a process for reviewing and updating management plans and be able to demonstrate how this has been undertaken. This shall be undertaken within three months of receipt of the final report.

CAR #: 15/05	Reference Standard #: 7.3
Non-compliance: Major <input type="checkbox"/> Minor <input checked="" type="checkbox"/>	The Plantation Management Manual provides some detailed guidance to field staff on how to undertake operational activities. Some elements of this manual were either unclear with respect to operational requirements or inconsistent with FSC principles.
Corrective Action Request: The FMO shall ensure that the Plantation Management Manual is consistent with FSC principles. In particular, the FMO shall modify the text associated with first rotation cleanup in the Plantation Management Manual so that it is consistent with the intent of Criterion 4.6.10 and 4.10.9 and must ensure that the sections on chemical use clearly outline FSC policies in this area.	
Timeline for Compliance: Within one year of issuance of the certificate	

Audit findings: The <i>Cleanup First Rotation</i> and <i>Weed Control Plantation Development Prescriptions</i> have been revised to comply with FSC policies on chemical use and Criterion 6.10. The <i>Cleanup First Rotation</i> , however, does not mention the requirements of Criterion 10.9.	
Status: OPEN.	
Follow-up Action: The FMO shall modify the text associated with first rotation cleanup so that it is consistent with the requirements of Criterion 10.9. This shall be undertaken within three months of receipt of this report.	

CAR #: 16/05	Reference Standard #: 7.4
Non-compliance: Major <input type="checkbox"/> Minor <input checked="" type="checkbox"/>	The FMO has advised that it is willing to provide summary copies of management plans on request from the general public, but there have been no requests for these documents from external parties. At the present time the FMO does not have a suitable summary that could be distributed in the event of such a request.
Corrective Action Request: The FMO shall develop a summary of the management plan that is suitable for distribution to stakeholders.	
Timeline for Compliance: Within 6 months of the issuance of a Certificate	

Audit findings: The FMO has been using the complete management plans for distribution to local authorities and shire representatives. The FMO advised that as part of the public announcement of the management plan, the public has the right to review tabled documents, including the management plan. The FMO further advised that it would provide the complete management plan to the public if it was requested.	
Status: CLOSED.	
Follow-up Action N/A.	

CAR #: 17/05	Reference Standard #: 8.1
Non-compliance: Major <input type="checkbox"/> Minor <input checked="" type="checkbox"/>	The FMO has documented procedures for monitoring the production forest. These procedures were new at the time of the audit and documentation of monitoring activities is not yet consistent with the Plantation Management Manual. There was clear evidence, however, that adequate monitoring of the production area had been taking place and management plans contained documentation to support this. As the plantation area increases it will be increasingly important to ensure that procedures are consistent with the documentation.
Corrective Action Request: The FMO must be able to provide clear evidence that it is monitoring the productive plantation area in accordance with written monitoring procedures.	
Timeline for Compliance: Within one year of the issuance of a Certificate	

Audit findings: The FMO has undertaken survival and growth assessments using temporary sample plots and has retained records of these assessments. The Project Managers undertake quality assurance checks on the work of contractors, such as the achievement of ripping depth, and records have been retained. The FMO also has a checklist for routine, periodic monitoring of issues on plantations, such as weeds and insects. It was found during the audit that this type of monitoring was not being undertaken consistently and in accordance with the documented procedure.	
Status: OPEN.	
Follow-up: The FMO must be able to provide clear evidence that it is monitoring the issues contained within the routine monitoring checklist. This shall be undertaken within three months of receipt of the final report.	

CAR #: 18/05	Reference Standard #: 8.1
Non-compliance: Major <input type="checkbox"/> Minor <input checked="" type="checkbox"/>	There is not yet any monitoring of the non-production forest (remnant vegetation, wetlands etc) or the off-site impacts of operations. An assessment that is still to be undertaken by a representative from the Department of Conservation and Land Management was expected to provide benchmarks against which monitoring procedures can be planned and implemented in the future. This monitoring should not only focus on the potential for negative impacts from operational activities but also on the positive aspects of management such as increases in ground cover resulting from receding salinity. The FMO has advised its intention to initiate water monitoring in drainage lines on the properties to better understand the potential for chemical movement.
Corrective Action Request: The FMO must develop written monitoring procedures for non-productive forest assets. Monitoring should include, but not be limited to, the regular monitoring of ground water wells and the sampling of surface soils for long term changes in chemical structure.	
Timeline for Compliance: Within one year of the issuance of a Certificate	

Audit findings: The FMO has not developed written monitoring procedures for non-productive forest assets.	
Status: OPEN.	
Follow-up Action: The FMO must develop written monitoring procedures for non-productive forest assets. Monitoring should include, but not be limited to, the regular monitoring of ground water wells	

and the sampling of surface soils for long term changes in chemical structure.

This shall be undertaken within three months of receipt of the final report.

CAR #: 19/05	Reference Standard #: 8.3
Non-compliance: Major <input type="checkbox"/> Minor <input checked="" type="checkbox"/>	FMO has a documented procedure for tracing chain of custody, but the procedure was produced subsequent to the audit and has been reviewed by the Certification Team. The procedure includes appropriate guidance on labeling, but does not have any detail on record keeping.
Corrective Action Request: The FMO must amend documented procedures for chain of custody to include procedures for record keeping and compiling annual audit data. All procedural documents shall be sent to SmartWood.	
Timeline for Compliance: Within 12 months of the issuance of a Certificate and prior to any sale of certified products.	

Audit findings: The FMO has included a description of how and what records will be maintained and a requirement that volume summaries are created and records made available during audits, in its chain of custody procedure.

Status: CLOSED.

Follow-up Action: N/A

CAR #: 20/05	Reference Standard #: 9.3
Non-compliance: Major <input type="checkbox"/> Minor <input checked="" type="checkbox"/>	Subsequent to the assessment, the FMO reported that an assessment of HCVF had taken place and that no HCVF had been reported. Discussions with a representative of the Department of Conservation, Forests and Lands who undertook the assessment revealed that the scope included only rare and endangered flora and was only undertaken on the Glenrowan property. The assessor was not provided with any working definition of HCVF in the FSC context and consequently did not consider HCVF at the ecosystem level, including the extent to which remnants were represented in the reserve system. The assessor did not agree with the conclusion that there was no HCVF on any of the properties, only that there were no rare and endangered species identified on the Glenrowan property. The identification and subsequent management of any identified HCVF needs to be undertaken.
Corrective Action Request: Procedures for management and monitoring should be adapted to ensure the maintenance and/or enhancement of any HCVF identified within the properties.	
Timeline for Compliance: Within 12 months of the issuance of a Certificate	

Audit findings: The FMO commissioned Matiske Consulting to undertake a review of flora, vegetation and fauna values of Glenrowan and Coonaring. The consultant found that the York Gum and Salmon Gum woodlands are considered to be “locally and regionally significant”, as the majority of these woodlands have been cleared or modified for agricultural activities. These communities are High Conservation Value Forests. The presence of HCVF has not been acknowledged in the management plans, and the consultant’s recommendations for weed control and infill planting have not been included in the management plans, with the exception of the plan for Coonaring Project 2004. Procedures for management and monitoring to ensure the maintenance and/or enhancement of HCVF have not been developed.

Status: OPEN.

Follow-up Action

Management plans shall be revised to reflect the presence of HCVF. Procedures for management and monitoring shall be developed to ensure the maintenance and/or enhancement of any HCVF identified within the properties.

This shall be undertaken within three months of receipt of the final report.

2.4. Current corrective actions and new corrective actions issued as a result of this audit

CAR #: 4/05	Reference Standard #: 1.6
Non-compliance: Major <input checked="" type="checkbox"/> Minor <input type="checkbox"/>	David Groom has briefed the Compliance Committee on the FSC Principles and Criteria, via a document tabled at a meeting. The <i>Rewards Group Sandalwood Project 2007</i> product disclosure statement includes reference to FSC certification, however it does not go into detail about what the Principles and Criteria are. It refers to FSC certification in terms of environmental management, however it does not acknowledge the goals of either social or economic sustainability. The FMO has documented a <i>Forestry Training Procedure</i> , which states that a register of required training will be used show what training is required to be completed by personnel holding various positions. This component of the training procedure has not been implemented. The induction process does not include mention of FSC commitments.
Corrective Action Request: The FMO shall implement its training procedure to include induction and awareness training of the FSC Principles and Criteria, and shall clearly communicate its commitment to FSC Principles and Criteria, including economic, environmental and social objectives in prospectus documents, annual reports and other public documents.	
Timeline for Compliance: This shall be undertaken within three months of receipt of this report.	
CAR #: 9/05	Reference Standard #: 4.1
Non-compliance: Major <input checked="" type="checkbox"/> Minor <input type="checkbox"/>	A <i>Forestry Training Procedure</i> has been documented, which includes a process for identifying training required for each position, through the use of a training register, and through personnel identifying training that they feel is required. However, the procedure does not include a requirement for the documentation of training completed, and the training register has not yet been developed and implemented. An Access database exists for the recording of training completed, however the sandalwood Project Managers are not included in the database.
Corrective Action Request: The FMO shall include, in the <i>Forestry Training Procedure</i> , a requirement that records of training completed be retained, and the FMO shall implement the procedure.	
Timeline for Compliance: This shall be undertaken within three months of receipt of this report.	
CAR #: 10/05	Reference Standard #: 4.2
Non-compliance: Major <input checked="" type="checkbox"/> Minor <input type="checkbox"/>	The OH&S manual does not specifically address safety issues relevant to the sandalwood programme.
Corrective Action Request: The FMO shall develop an OH&S manual that specifically addresses forestry issues, including procedures for emergency response.	
Timeline for Compliance: This shall be undertaken within three months of receipt of this report.	
CAR #: 11/05	Reference Standard #: 5.6
Non-compliance: Major <input checked="" type="checkbox"/> Minor <input type="checkbox"/>	Trials to assess responses of growth and yield to silvicultural practices have not been planned or established.
Corrective Action Request: The FMO shall document a research plan to assess responses of growth and yield to silvicultural practices.	

Timeline for Compliance: This shall be undertaken within three months of receipt of this report.

CAR #: 12/05	Reference Standard #: 6.1
Non-compliance: Major <input checked="" type="checkbox"/> Minor <input type="checkbox"/>	<p>The older properties, Glenrowan and Coonaring have been reviewed by Mattiske Consulting to assess the flora, vegetation and fauna values. Mattiske Consulting submitted a combined report for the two properties, which includes some recommendations for future actions by Rewards Group. Management plans have been updated to include some of the recommended actions, however monitoring prescriptions resulting from the study have not been formulated.</p> <p>Management plans for the three properties being established this year include the requirement that an assessment of remnant native vegetation be undertaken by the Department of Environment and Conservation, and this is planned to be done in spring of 2007.</p>
Corrective Action Request: The results of native forest assessments shall be used to develop monitoring prescriptions that are included in management plans.	
Timeline for Compliance: This shall be undertaken within three months of receipt of this report.	

CAR #: 13/05	Reference Standard #: 6.6
Non-compliance: Major <input checked="" type="checkbox"/> Minor <input type="checkbox"/>	<p>The FMO has documented a <i>Pesticide Policy</i>, which states a commitment to use pesticides in compliance with all national and state laws and regulations and FSC standards. There is also a <i>Weed Control Plantation Development Prescription</i>, which states that only those herbicides listed within the procedure are permitted to be used, and the use of any other herbicide is prohibited. It also refers to the list of FSC prohibited / highly hazardous pesticide list (1 January 2006).</p> <p>Procedures do not incorporate the requirements of the FSC Pesticide Derogation for '<i>Use of Simazine in Victoria, Western Australia and South Australia</i>'.</p>
Corrective Action Request: The FMO shall amend procedures so that they are consistent with the FSC Pesticide Derogation for ' <i>Use of Simazine in Victoria, Western Australia and South Australia</i> '.	
Timeline for Compliance: This shall be undertaken within three months of receipt of this report.	

CAR #: 14/05	Reference Standard #: 7.2
Non-compliance: Major <input checked="" type="checkbox"/> Minor <input type="checkbox"/>	<p>The FMO demonstrated that the Coonaring 2004 Project management plan has been revised to include the recommendations from the assessment of the areas of native vegetation. However, the Glenrowan management plans have not been updated to include the recommendations. During the audit, Rewards outlined a process for systematically updating the management plans, which includes budget preparation for the following year, however it is not evident that this process has been followed for the existing management plans. The plans still contain some inaccuracies, including the number of seeds to be planted and the chemicals to be used for weed control.</p>
Corrective Action Request: The FMO shall implement a process for reviewing and updating management plans and be able to demonstrate how this has been undertaken.	
Timeline for Compliance: This shall be undertaken within three months of receipt of this report.	

CAR #: 15/05	Reference Standard #: 7.3
Non-compliance: Major <input checked="" type="checkbox"/> Minor <input type="checkbox"/>	The <i>Cleanup First Rotation</i> and <i>Weed Control Plantation Development Prescriptions</i> have been revised to comply with FSC policies on chemical use and Criterion 4.6.10. The <i>Cleanup First Rotation</i> , however, does not mention the requirements of Criterion 4.10.9.
Corrective Action Request: The FMO shall modify the text associated with first rotation cleanup so that it is consistent with the requirements of Criterion 10.9.	
Timeline for Compliance: This shall be undertaken within three months of receipt of this report.	

CAR #: 17/05	Reference Standard #: 8.1
Non-compliance: Major <input checked="" type="checkbox"/> Minor <input type="checkbox"/>	The FMO has a checklist for routine, periodic monitoring of issues on plantations, such as weeds and insects. It was found during the audit that this type of monitoring was not being undertaken consistently and in accordance with the documented procedure.
Corrective Action Request: The FMO must be able to provide clear evidence that it is monitoring the issues contained within the routine monitoring checklist.	
Timeline for Compliance: This shall be undertaken within three months of receipt of this report.	

CAR #: 18/05	Reference Standard #: 8.1
Non-compliance: Major <input checked="" type="checkbox"/> Minor <input type="checkbox"/>	The FMO has not developed written monitoring procedures for non-productive forest assets.
Corrective Action Request: The FMO must develop written monitoring procedures for non-productive forest assets. Monitoring should include, but not be limited to, the regular monitoring of ground water wells and the sampling of surface soils for long term changes in chemical structure.	
Timeline for Compliance: This shall be undertaken within three months of receipt of this report.	

CAR #: 20/05	Reference Standard #: 9.3
Non-compliance: Major <input checked="" type="checkbox"/> Minor <input type="checkbox"/>	The presence of HCVF has not been acknowledged in the management plans, and the consultant's recommendations for weed control and infill planting have not been included in the management plans, with the exception of the plan for the Coonaring 2004 Project. Procedures for management and monitoring to ensure the maintenance and/or enhancement of HCVF have not been developed.
Corrective Action Request: Management plans shall be revised to reflect the presence of HCVF. Procedures for management and monitoring shall be developed to ensure the maintenance and/or enhancement of any HCVF identified within the properties.	
Timeline for Compliance: This shall be undertaken within three months of receipt of this report.	

CAR #: 1/07	Reference Standard #: 5.6
Non-compliance: Major <input type="checkbox"/> Minor <input checked="" type="checkbox"/>	Trials to assess responses of growth and yield to silvicultural practices have not been planned or established.
Corrective Action Request: The FMO shall implement the research plan to assess responses of growth and yield to silvicultural practices and report on the methodology, initial findings and the monitoring process.	
Timeline for Compliance: This shall be assessed during the 2009 annual audit.	

CAR #: 2/07	Reference Standard #: 6.1
Non-compliance: Major <input type="checkbox"/> Minor <input checked="" type="checkbox"/>	Assessment of native vegetation has routinely been planned for completion after the establishment works have commenced, rather than during the planning phase.
Corrective Action Request: The FMO shall undertake assessment of native vegetation during the planning phase of property management.	
Timeline for Compliance: This shall be assessed during the 2008 annual audit.	

CAR #: 3/07	Reference Standard #: 7.1
Non-compliance: Major <input type="checkbox"/> Minor <input checked="" type="checkbox"/>	Management plans do not include the following: <ul style="list-style-type: none"> • A requirement that rare and threatened species will be assessed, along with endangered species; • Maps do not show natural forest ecosystem types and management requirements; • An outline of the inventory program.
Corrective Action Request: The FMO shall revise all management plans to reflect the requirements of the standard.	
Timeline for Compliance: This shall be assessed during the 2008 annual audit.	

CAR #: 4/07	Reference Standard #: 3.3
Non-compliance: Major <input type="checkbox"/> Minor <input checked="" type="checkbox"/>	The FMO has developed a <i>Cultural Heritage Protection Procedure</i> , however Project Managers and contractors have not been given formal training in how to recognize significant features.
Corrective Action Request: Project Managers shall be given formal training to better equip them to recognize significant features. Consideration shall also be given to including regular contractors in the formal training. A recognized specialist shall be identified to undertake site surveys if required.	
Timeline for Compliance: This shall be assessed during the 2008 annual audit.	

CAR #: 5/07	Reference Standard #: 8.4
Non-compliance: Major <input type="checkbox"/> Minor <input checked="" type="checkbox"/>	The FMO has not included results of monitoring in revisions of management plans.
Corrective Action Request: The FMO shall include results of monitoring in revisions of management plans.	
Timeline for Compliance: This shall be assessed during the 2008 annual audit.	

CAR #: 6/07	Reference Standard #: CoC 5
Non-compliance: Major <input type="checkbox"/> Minor <input checked="" type="checkbox"/>	The documented procedure does not include a description of how sales and shipping documentation will be managed.
Corrective Action Request: The FMO shall include procedures for how sales and shipping documentation will be managed, in its Chain-of-Custody procedure.	
Timeline for Compliance: This shall be assessed during the 2008 annual audit.	

2.5. Audit observations

Observation	Reference Std #
Observation 1/07 –Revise operational procedures to include neighbour notification.	2.3

2.6. Audit decision

The FMO has demonstrated partial compliance with the requirements of the “*Rainforest Alliance/SmartWood Interim Standards for Assessing Forest Management in Australia*”. In order to maintain certification the FMO must adequately address 12 Major and 5 Minor CARs within the specified timeframes.