

Management System Certification Audit Summary Report

Organization:	Ladang Sabah Sdn. Bhd.		
Address:	Mile 45, Sandakan/ Telupid Road, W.D.T 164 90009, Sandakan, Sabah, Malaysia.		
Standard(s):	MS2530-3 and MS2530-4	Accreditation Body(s): STANDARDS MALAYSIA	
Representative:	Ms. Veronica Abel		
Site(s) audited:	As per address above	Date(s) of audit(s):	6 to 8 Feb 2018
Visit Type:	Initial Audit		
Lead auditor:	Abdullah Din	Additional team member(s):	Mohd Saifuddin Rozlan Ahmad Kamal Shahabuddin
This report is confidential and distribution is limited to the audit team, client representative and the SGS office.			

1. Audit objectives

The objectives of this audit were:

- to confirm that the management system conforms with all the requirements of the audit standard;
- to confirm that the organization has effectively implemented the planned management system;
- to confirm that the management system is capable of achieving the organization's policy objectives.

2. Scope of certification

Production of Crude Palm Oil (CPO) and Palm Kernel (PK)

Has this scope been amended as a result of this audit? ☐ Yes ☒ No

This is a multi-site audit and an information (See Table 1) listing all relevant sites and/or remote locations has been established and agreed with the client ☒ Yes ☐ No

3. Current audit findings and conclusions

The audit team conducted a process-based audit focusing on significant aspects/risks/objectives required by the standard(s). The audit methods used were interviews, observation of activities and review of documentation and records.

The structure of the audit was in accordance with the audit plan is included as annexes to this summary report.

The audit team concludes that the organization ☒ has ☐ has not established and maintained its management system in line with the requirements of the standard and demonstrated the ability of the system to systematically achieve agreed requirements for products or services within the scope and the organization's policy and objectives.

Number of nonconformities identified: 0 Major 0 Minor

Therefore, the audit team recommends that, based on the results of this audit and the system's demonstrated state of development and maturity, management system certification be:

☒ Granted / ☐ Continued / ☐ Withheld / ☐ Suspended until satisfactory corrective action is completed.

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4. Previous Audit Results

The results of the last audit of this system have been reviewed, in particular to assure appropriate correction and corrective action has been implemented to address any nonconformity identified. This review has concluded that:

- ☒ Any nonconformity identified during previous audits has been corrected and the corrective action continues to be effective.
- ☐ The management system has not adequately addressed nonconformity identified during previous audit activities and the specific issue has been re-defined in the nonconformity section of this report.

5. Audit Findings

The audit team conducted a process-based audit focusing on significant aspects/risks/objectives. The audit methods used were interviews, observation of activities and review of documentation and records.

The management system documentation demonstrated conformity with the requirements of the audit standard and provided sufficient structure to support implementation and maintenance of the management system. ☒ Yes ☐ No

The organization has demonstrated effective implementation and maintenance / improvement of its management system. ☒ Yes ☐ No

The organization has demonstrated the establishment and tracking of appropriate key performance objectives and targets and monitored progress towards their achievement. ☒ Yes ☐ No

The internal audit program has been fully implemented and demonstrates effectiveness as a tool for maintaining and improving the management system. ☒ Yes ☐ No

The management review process demonstrated capability to ensure the continuing suitability, adequacy and effectiveness of the management system. ☒ Yes ☐ No

Throughout the audit process, the management system demonstrated overall conformance with the requirements of the audit standard. ☒ Yes ☐ No

Certification claims are accurate and in accordance with SGS guidance ☒ N/A ☐ Yes ☐ No

6. Significant Audit Trails Followed

The specific processes, activities and functions reviewed are detailed in the Audit Plan. In performing the audit, various audit trails and linkages were developed, including the following primary audit trails, followed throughout:

Location and Maps

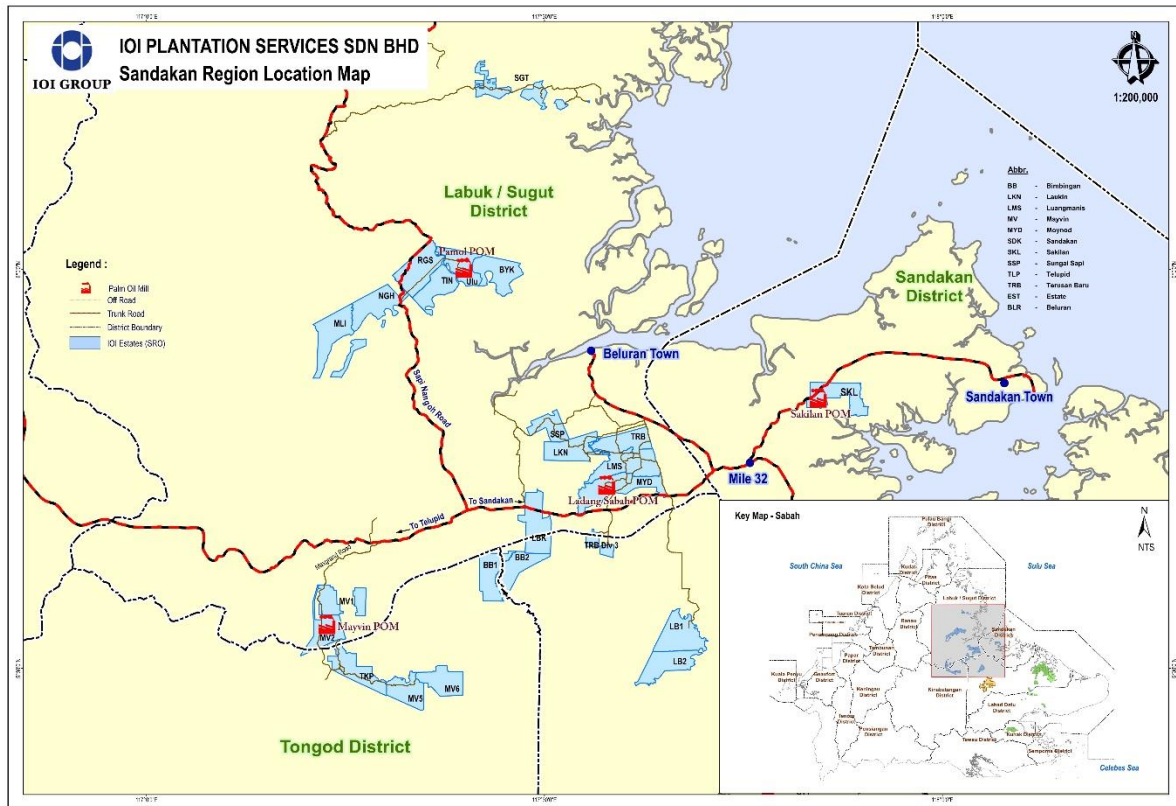
Ladang Sabah Estates (**Figure 1**) is located about one hour and forty five minutes' drive from Bandar Sandakan. Ladang Sabah Estate comprises of 8 estates and 1 mill . The GPS locations of the mill and estates are shown in **Table 1**.

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Table 1: Mill and Supply Base GPS Location

	Mill/Supply Base	Longitude	Latitude
Mill	Ladang Sabah Palm Oil Mill	E 117°34'39.9"	N 05°43'47.96"
1	Bimbingan 1 Estate	E 117°28'35.18"	N 5°38'3.91"
2	Bimbingan 2 Estate	E 117°26'3.55"	N 5°33'0.41"
3	Labuk Estate	E 117°29'15.56"	N 5°40'56.03"
4	Moynod Estate	E 117°35'54.28"	N 5°43'56.46"
5	Luangmanis Estate	E 117°35'52.66"	N 5°45'30.28"
6	Terusan Baru Estate	E 117°34'36.01"	N 5°46'50.56"
7	Laukin Estate	E 117°32'2.47"	N 5°46'29.35"
8	Sg. Sapi Estate	E 117°29'28.21"	N 5°48'18.29"

Figure 1: Location Map for IOI Ladang Sabah Sdn. Bhd.



Description of Supply Base and Mill Processing Capacity

The FFB are sourced from their supply base estates which are directly managed by IOI Corporation as well as from surrounding independent smallholders. The actual crop yield from each estate is listed in Table 2 below.

Table 2: FFB Production

Estate	FFB Production (MT)	
	Jan to Dec 2017 (Actual)	Jan to Dec 2017 (Projection)
Bimbingan 1 Estate	32,959.93	41,678.00
Bimbingan 2 Estate	34,708.60	43,897.00
Labuk Estate	60,661.58	74,154.00
Moynod Estate	60,620.55	73,329.00
Luangmanis Estate	58,212.11	69,863.00
Terusan Baru Estate	31,408.41	42,516.00
Laukin Estate	45,651.99	55,735.00
Sg. Sapi Estate	30,325.26	37,207.00

Table 3: Actual and Projected Mill Processing Data

Ladang Sabah Oil Mill	Actual FY (Jan – Dec 17)		Projected (Jan – Dec 17)	
	CPO (mt)	PK (mt)	CPO (mt)	PK (mt)
	73615.12	19370.642	96729.00	25.868.00
	OER: 20.61%	KER: 5.42 %	OER: 21.5%	KER: 5.75%

Area of Plantation

The areas of supplying estates for this operating unit are listed in Table 5. Details of production area (mature/immature) are also listed.

Table 4: Area Statement of the Supplying Estates

Name of estate	Title area (ha)	Plantation area				
		Immature (ha)	Production (ha)	Conservation (ha)	HCV (ha)	*Others
Bimbingan 1 Estate	1974.20	0.00	1795.00	138.11	0.00	179.20
Bimbingan 2 Estate	1918.80	158.00	1577.00	155.46	0.00	183.80
Labuk Estate	2668.50	0.00	2367.00	133.82	87.25	301.50
Moynod Estate	3043.71	414.00	2363.00	100.06	0.00	266.71
Luangmanis Estate	2713.29	153.00	2347.00	71.60	0.00	213.29
Terusan Baru Estate	2503.53	890.00	1357.00	200.44	76.73	256.53
Laukin Estate	2128.00	48.00	1927.00	1.29	0.00	163.00
Sg. Sapi Estate	1299.30	0.00	1220.00	7.88	33.70	79.30

Stakeholder Consultation and List of Stakeholders Contacted

Stakeholder consultation took place in the form of meetings and interviews. Due to this is the main assessment, meetings with workers were held in their respective premises within and near the estates and mill. In all the interviews and meetings, the purpose of the audit was clarified at the outset followed by an evaluation of the relationship between the stakeholder and the company before discussions proceeded in accordance with relevant MSPO principles, criteria and indicators. See **Appendix D** for stakeholder's details and comments.

Appendix D: List of Stakeholders Contacted

Stakeholder	Type of Stakeholder	Issues raised	Comments/Action Taken
DOE, Agensi Pekerjaan MNK and contractor at mill	External stakeholders	No issues raised	Nil
Internal – worker's representative, field workers, Hospital Assistant office staff and management	Internal stakeholders	No issue raised	Nil

Comment on MS2530-3 Compliance Status:

Comment on Principle 1	<u>Malaysian Sustainable Palm Oil (MSPO) Policy</u> Ladang Sabah implement the policy established by IOI Group entitled “Sustainable Palm Oil Policy” dated on June 2017 signed by Dato’ Lee Yeow Chor (Group Chief Executive Officer) and Dr. Surina Ismail (Group Head of Sustainability) The policy is communicated to the workers during the first-time employment. The policy is displayed at the notice board in the office and made accessible to all employees. <u>Internal Audit</u> Internal Audit Procedure has been established (ref doc: Internal Audit Procedure – ref no: MSPO/SOP/IA/1 – dated 1 Aug 2017). Section 4.1 “Frequency” of the Internal Audit Procedure stated that an internal audit must be conducted at least twice a year. More audits may be conducted for higher risk units. Non-conformities identified during internal audit are recorded into Internal Audit Summary Report. <u>Management Review</u> Management review meeting shall be conducted at least once a year. Report of internal audit is reviewed during management review meeting. Minutes of Management Review Meeting is maintained. <u>Continual Improvement</u> Ladang Sabah has established action plan for continual improvement on social, safety and health and environmental impact of the company.
Comment on Principle 2	<u>Transparency of documents relevant to MSPO requirements</u> To date, there is no request from stakeholders for the information related to MSPO. The MSPO Officer is appointed for each estate to communicate the information requested by the relevant stakeholders (ref doc: Appointment Letter of MSPO Officer). Information will be provided in the appropriate languages and forms, except those limited by commercial confidentiality or disclosure that could result in negative environmental or social outcomes. Management documents that includes policy, social assessment report, stakeholders request, land title and complaints record for the estate are made publicly available upon request.

	<u>Transparent method of communication and consultation</u> All management documents requested by external stakeholders are handled by MSPO Officer for each estate and mill. IOI Ladang Sabah has established a procedure for consultation and communication with the relevant stakeholders Meeting with internal and external stakeholders is carried out at least once a year. Records of meeting with internal and external stakeholders are available. <u>Traceability</u> All estate only delivered Fresh Fruit Bunch (FFB) to Ladang Sabah Palm Oil Mill. The traceability of FFB delivered to the mill can be conducted by using information stated on FFB Delivery Chit.
Comment on Principle 3	<u>Regulatory requirements</u> The estates have been established since 1980's. There is no evidence of the oil palm cultivation activities diminish the land use rights of other users. All estates are operating on valid land titles. The estates field maps are evident and during site visit the boundaries are visibly sighted and well maintained by the estate. All license operation is valid including MPOB license. <u>Legal land use rights</u> There is no evidence of the oil palm cultivation activities diminish the land use rights of other users. All estates are operating on valid land title. The land was acquired from the state government There is no issue on legal acquisition of land title and fair compensation that have been or are being made to previous owners and occupants in the estate. <u>Customary rights</u> There are no issues encountered on customary rights in the estates. The estate will respond according to the Complaints/Grievance Mechanism should any cases arise in future. Sustainability Team (based in HQ) will be referred for any issues of customary rights.
Comment on Principle 4	<u>Social Impact Assessment</u> Social Impact Assessment (SIA) report for each estate is available. The report showed that the social impact assessment has been conducted internally by Sustainability Team with participation of affected parties (internal and external stakeholders) through meeting with stakeholders. A time table with responsibilities for the mitigating the negative impacts and actions taken are documented in the SIA report. <u>Complaints and grievances</u> The Flow Chart detailing the complaints and grievance procedure is available. The procedure specifies the estimated time shall be taken for each of the process to be addressed before proceeding to the subsequent process. Details of complaints/grievances, date and details of action taken has been recorded. Communication with employees is done through meetings with worker's committee established in the estate. <u>Commitment to contribute to local sustainable developments</u> Ladang Sabah is actively contributing to local sustainable development of local communities. <u>Employees health and safety</u> Ladang Sabah has established the Occupational Safety & Health Policy. Signed Policy dated 11 Jul 2011 is available.

	The policy is displayed in the Estate Office. The policy has been communicated to all workers through briefing session (muster ground). The occupational safety and health plan is implemented according to MSPO standard requirements. <u>Employment conditions</u> The policy on good social practices regarding human rights are available. The top management of Ladang Sabah (IOI Corporation Berhad) is committed to implement the equal opportunity within their organization. Their commitment is clearly described in Equal Opportunity Employment & Freedom of Association Policies signed by Plantation Director. There were no evidences of any form of discrimination based on race, national origin, religion, gender, union and political affiliation and is covered in the policy as well. Interview with workers (including foreign workers) at all estates and mill indicates that there is no such discrimination occurs in the workplace. The payroll and pay slip records of employees showed that all employees are paid with the basic salary are compliance with the local minimum wages requirements. Each estate and mill of Ladang Sabah maintain an accurate record of all employees. Employment Contract Form for local and foreign workers are available. Information indicated in the form showed that all employees are provided with fair contracts in term of salary, accommodation and other benefits. Time recording system has been carried out manually on daily basis for field and office staff. Pay slip and pay rolls records indicate that working hours for all employees is 8 hours daily from Monday to Saturday. On-site living quarters are provided to general workers and staff. Observed that the living quarters are habitable and have amenities such as water, electricity etc. Joint Consultative Committee (JCC) has been established at each estates and mill chaired by the respective Estate and Mill Manager. The JCC meeting has been regularly conducted which were attended by the management and employee's representative to discussed issues raised by employees. <u>Training and competency</u> Observed that all employees are appropriately trained. Interviews with several group of workers that includes spraying team, harvesting team, sustainability team at all estates visited. Observed that they are competent in implementing MSPO system that related to their job responsibilities. Training needs of individual employees at Ladang Sabah has been established by each Estate Manager based on competency required which has been reported by the Assistant Estate Manager in the employee 's Training Needs Analysis Report. Ladang Sabah has continuously implemented training program at all level employees.at estates and mill. Annual training programme and training records are available.
Comment on Principle 5	<u>Environmental management programme</u> Policy was established and well communicated and implemented. Environmental management plan (EIA) was made available and covered all aspect, impact, control measures and continual improvement. Training/briefing was provided regularly to the employees

	<u>Efficiency of energy use and use of renewal energy</u> Use of non-renewable energy are properly monitored and records of usage is maintained by mill. <u>Waste management and disposal</u> Waste management and disposal are implemented according to procedure and national regulations. <u>Reduction of pollution and emission</u> All polluting activities are well documented in the Environmental Management Plan. <u>Natural water resources</u> Water management plan was available which access & monitoring of water usage and sources, reduce of water waste. Regular monitoring of water quality at the upstream/ downstream river flowing through the plantation conducted every 6 months. All parameters tested were within permissible limit <u>Status of rare, threatened or endangered species and high biodiversity value area</u> The HCV within the three estates are limited to HCV1 (forest buffer zone next to the Luangmanis forest reserve) and HCV 4 (natural stream that flows through the estate) which are 10m buffer zone and riparian reserve along other estates respectively. Water catchment area has been established within the three estates. Other than that, the ecological value within the project site is not deemed significant as it does not contain flora and fauna of protected and endangered species. <u>Zero burning practices</u> Zero burning policy is adopted for the whole of the three estates in all land clearing sites and housing areas. In the IOI Group Corporation stated burning should be avoided unless necessary. Prior approval must be obtained from the DOE. Signboards of zero burning observed during onsite audit.
Comment on Principle 6	<u>Implementation of standard best practices</u> IOI Berhad has developed SOPs for estate. Sighted the Good Agricultural Practices (GAP) Policy, Standard Operation Procedure on Sustainability and Standard Operating Procedures and Safety Operation Procedure. All the SOPs are established and controlled by Head Quarters. All employees are appropriately trained. All training program is summarized in Training programme for 2018. <u>Site management</u> The daily monitoring records are well maintained for the past 12 months. All SOP and procedures are kept and will be updated periodically. The mechanism to ensure that all procedures has been implemented is internal audit and daily supervising. The purpose of the internal audit is to verify records and procedure against specific requirement and relevant standards requirements. The estate regularly conducted training for all workers in the estate operations to ensure that all workers are fully aware and understand the SOP. <u>Economic and financial viability plan</u> Long Term Management Planning to demonstrate attention to economic and financial viability has been established at IOI Group Corporation Bhd Level. As far as the estate level, Budget 2017/18 is available which includes the projection of replanting activities and FFB production trend. 5 years Forecast Crop Monthly Distribution is available. The estates have established five years replanting programme. <u>Transparent and fair pricing dealing</u>

	The pricing mechanism for the three estates are set by Marketing Department. The estate is only delivering FFB to Ladang Sabah POM (managed by same legal entity). <u>Subcontractor</u> There is no contract between the estate and mill (managed by same legal entity). Contract agreements between the estates and the contractors for FFB transportation, Renovation of workers quarters and maintenance works are available The contract agreement is fair, legal and payment is paid in timely manner and attached with the MSPO requirement
Comment on Principle 7	Not applicable

Comments on MS2530-4 Compliance Status:

Comment on Principle 1	<u>Policy on Implementation of MSPO</u> LSPOM was established the policy to all relevant stakeholder (internal & external) to show their commitment in continual improvement the milling operation <u>Internal Audit</u> MSPO standard part 4 was use by LSPOM to conduct the internal audit by SPO team twice a year according to "SPO Team Visit Schedule". All non-conformity was detected was addressed by internal auditor and action taken was in timeline according their SOP. <u>Management Review</u> Minutes was available show the internal audit report was available to LSPOM management <u>Continual Improvement</u> Continues improvement Programme was established consist 3Ps (People, Planet & Profit) and was identified by LSPOM. New technologies were applied according to the new national environment regulations.
Comment on Principle 2	<u>Transparency of documents relevant to MSPO requirements</u> LSPOM was established several procedures to ensure request, response and release of information (environmental, social & legal issues) to all relevant stakeholder in relevant languages and forms. Annual report was made available at company website and public available to all stakeholders. <u>Transparent method of communication and consultation</u> LSPOM was established several procedures of communication and consultation for internal & external relevant stakeholders and appointed personnel to ensure the communication and consultation in line with the LSPOM procedure. List of stakeholders was updated and maintained. <u>Traceability</u> Traceability procedure was evident and ensure the traceability within LSPOM operation. SPO team was checked the traceability compliance twice a year in their internal audit programme. Personnel in LSPOM was appointed to ensure the compliance in traceability system. Record of storage, sales, delivery or transportation of CPO and PK was maintained.
Comment on Principle 3	<u>Regulatory requirements</u> LSPOM was maintained all relevant law to POM and comply to all national regulations. Amendments of laws monitoring was control by each every department related to law or regulations.

	<u>Legal land use rights</u> LSPOM area was in Moynod Estate (Please refer to estate report) <u>Customary rights</u> LSPOM area was in Moynod Estate (Please refer to estate report)
Comment on Principle 4	<u>Social Impact Assessment</u> LSPOM was identified and plan social impact in Social Impact Assessment (SIA) <u>Complaints and grievances</u> Complaint/grievances procedure was established. Record and forms was made available and maintained since 2012. Employees and surrounding communities was aware with any time complaint/grievances can be made. Observed all complaint/grievances was reply in timely manner by LSPOM and not more than 24 months. <u>Commitment to contribute to local sustainable developments</u> Several contributions were given to local communities by request or volunteering. All input was being made in stakeholder meeting and official letters. <u>Employees health and safety</u> Safety and policy was well established. Safety and health plan was covered all following requirements. Observed LSPOM was established several safety procedures in line with the working SOP. Training programme and training record was maintained. Mill manager was responsible person for related to safety and health. Safety minutes meeting was maintained. Medical & Audiometry test was conducted frequently. JKPP or DOSH was visited LSPOM to ensure compliance to local OSHA requirements. <u>Employment conditions</u> Policy was maintained by LSPOM. LSPOM was comply to the minimum wages order from government. Observed work hours, attendance (electronic & manual), contract and payslip was according to national regulations. Based on interviewed with employees, no discrimination was occurring, medical care and housing (with basic amenities) was provided by LSPOM. No children were allowed work in the LSPOM. <u>Training and competency</u> Training programme was available. Training record was maintained. Training matrix was used to ensure the competencies of employees after attended the training.
Comment on Principle 5	<u>Environmental management programme</u> Policy was established and well communicated and implemented by LSPOM. Environmental management plan (EIA) was made available and covered all aspect, impact, control measures and continual improvement. Training/briefing was provided regularly to the employees. <u>Efficiency of energy use and use of renewal energy</u> LSPOM was closely monitored non-renewable energy usage in 3 – 5 years period. LSPOM was fully operate renewably energy resources as below: • Fibre & Shell - Boiler • Methane - Biogas <u>Waste management and disposal</u> LSPOM was identified the categories of waste (Refer EIA). All waste was disposal according to procedure and national regulations. <u>Reduction of pollution and emission</u> LSPOM was identified techniques or area for GHG reduction. Quarterly report was send by LSPOM to DOE for ensure the compliance to local environment law and regulations.

	<u>Natural water resources</u> Water management plan was available which access & monitoring of water usage and sources, reduce of water waste.
Comment on Principle 6	<u>Mill management</u> LSPOM was management per the Group Operating Procedure for Palm Oil Mill. <u>Economic and financial viability plan</u> 5-year business plan was available for LSPOM. <u>Transparent and fair pricing dealing</u> All pricing for FFB and CPO was control by IOI HQ as same entities and based on MPOB monthly pricing. <u>Subcontractor</u> All contractor works was based on job basis and contractual agreement. Every completion of work was verified by LSPOM management before issue any voucher payment to the contractor.

7. Nonconformities

- Nil -

8. General Observations & Opportunities for Improvement

Positive Observations:

1. The management fully committed for continual improvement to sustainability requirement.
2. Good record keeping and records are easy accessible.
3. Road conditions within the estate is well maintained

Important Observations and Opportunities for Improvements:

OBS #	Indicator	Observation Detail			
1	4.4.4.2b)	Date Recorded>	8 Feb 2018	Date Closed>	dd MMM yy
		Observation:			
		Spraying team should not carry drinking water bottle inside a pocket of apron and towel during performing spraying to avoid risk of contamination. Training should be conducted to ensure that only designated PPE is used during spraying.			
		Follow-up evidence:			
2	4.4.4.2e)	Date Recorded>	8 Feb 2018	Date Closed>	dd MMM yy
		Observation:			
		All chemical should be stored in container with correct labelling to avoid misused.			
		Follow-up evidence:			
3	4.3.11	Date Recorded>	8 Feb 2018	Date Closed>	dd MMM yy
		Observation:			
		The oxygen tank at clinic should be securely chain			
		Follow-up evidence:			

Appendix 1: Multi –Site Address List

Site name / Address	Audit Dates	Activities at this site
Moynod Estate	6 Feb 2018	Interview, review of documents and sites inspection
Terusan Baru Estate	7 Feb 2018	
Luang Manis Estate	8 Feb 2018	
Ladang Sabah POM	6 & 7 Feb 2018	