

# ASI-ACCREDITATION SERVICES INTERNATIONAL GmbH

Charles-de-Gaulle-Str. 5 • 53113 Bonn, Germany • Tel.: +49 - 228 - 367 66 0 • info@accreditation-services.com

## FSC Re-accreditation of

**KPMG Forest Certification Services Inc. (KF)**

**Forest Management Accreditation Assessment**

**to**

**Mistik Management Ltd, Canada (CAN)**

**Date of assessment: 24-26 October 2007**

*(FINAL)*

	<b>NAME</b>	<b>DATE</b>
Report drafted by:	Paolo Tranquillini	20 March 2008
Reviewed by ASI:	Alfredo Unda	25 March 2008
Reviewed by CAB:	David Bebb	10 April 2008
Finalized by ASI:	Paolo Tranquillini	10 July 2008
Report last updated:	Paolo Tranquillini	16 October 2008

# ASI-ACCREDITATION SERVICES INTERNATIONAL GmbH

## Credits

The author would like to thank Mr. David Bebb from KPMG and Al Balisky from Mistik Management, and all their staff, for preparing and making the arrangements that made this assessment possible and efficient.

## 1 Background

The operation audited by KPMG Forest Certification Services Inc. (KF)

<b>Name of operation</b>	Mistik Management Ltd. (Mistik)
<b>Total area</b>	1,831,964 ha (1,570,505 ha of forested area)
<b>Type of management</b>	Forest Management Agreement (FMA); natural and semi-natural boreal forest (aspen and jack pine main timber species)
<b>Name of contact person</b>	Mr. Al Balisky
<b>Address</b>	Box 9060 Meadow Lake, Sask., Canada S9X 1V7
<b>Country</b>	Canada
<b>Phone number</b>	(306) 236-9708
<b>Fax number</b>	
<b>URL</b>	<a href="http://www.mistik.ca">www.mistik.ca</a>
<b>E-mail address</b>	al.balisky@mistik.ca
<b>Brief description of the operation</b>	Mistik is a FM company 50% owned by First Nation (MLTC), and one single Crown-owned and privately managed FMU (FMA), composed of 12 management sections. Forested area is 1,570,000 ha and operable forest is 820,000 ha, with 1.2 M m <sup>3</sup> annual harvest volume.

The certification history

<b>Pre-audit</b>	20-24 February 2006
<b>Main audit:</b>	18-22 September 2006
<b>(follow-up)</b>	24-26 October 2007 (this audit)
<b>Date of certificate issue</b>	16 November 2007
<b>Date of 1st surveillance</b>	-
<b>Date of 2nd surveillance</b>	-

ASI Assessment Details

<b>Purpose of audit</b>	FM re-accreditation audit for KF, Canada, on behalf of FSC AC
<b>ASI lead auditor</b>	Paolo Tranquillini
<b>ASI auditor</b>	-
<b>Local Expert/ translator</b>	Tom Clark
<b>Audit language</b>	English
<b>Sites audited</b>	Office and sampled sites in the forest

Assessment agenda

Before the audit started, on the evening of 23 Oct, ASI team could witness a scheduled meeting of one of the Co-management Boards CMB (for sector 01-Divide) within the Mistik FMU, in St. Walburg. CMBs are created by Mistik on a local basis (Fur Conservation Areas) to seek consensus and participation and distribute benefits.	
<b>Wed 24 October 2007</b>	
0800	Opening meeting. Presentations
0930	Review of NCs from main audit
1100-1230	Big Island Lake Cree Nation (BIL) complaint file and history
1330	Meeting with MLTC (Flying Dust Band)
1500-1700	Document review, FMP and field visits planning
<b>Thu 25 October 2007</b>	
0800	Split teams: Field visit (caribou range, culvert, five harvest blocks) and Document review
1300-1800	Review of NCs from main audit
<b>Fri 26 October 2007</b>	
0800	ASI findings (local expert) communication
0930	ASI local expert s/holder meeting with Big Island Lake ASI auditor document review
1045-1200	Closing meeting and ASI adjourn to KF

People involved in the audit

<b>CAB</b>	David Bebb, KF lead auditor Bodo von Schilling, KF auditor
<b>Operation</b>	Al Balisky, General Manager Roger Nездoly, Planning Coordinator Kevin Gillis, Certification Coordinator Bill Murray, North District Superintendent
<b>Others</b>	-

**Assessment objectives and planning**

The objectives of this forest management assessment are:

1. Evaluation of certification body's performance in implementing its certification system in accordance with FSC accreditation requirements.
2. Witness an audit team to determine whether or not the team:
  - a) adequately applies the procedures and instructions of the certification body;
  - b) members exhibit the characteristics of an auditor as detailed in ISO 19011;
  - c) has the required expertise of the sector in which the audit is being undertaken;
  - d) applies appropriate expertise in the correct sense;
  - e) undertakes the audit effectively and draws correct conclusions.

3. Evaluation of the conformity of the certificate holder with FSC and certification body's certification requirements in so far as this is necessary to verify the performance of the certification body.
4. Evaluation of stakeholder comments or complaints ASI received in relation to this operation.

The assessment evidence is only based on a sample of the information available and therefore there is always an element of uncertainty in the assessment findings.

### 3 ASI stakeholder consultation process

The stakeholder consultation process employed by ASI consists of 2 parts:

1. public announcement of the assessment on the FSC electronic fora and on the ASI website about one month prior to the audit to solicit stakeholder comments;
2. direct interviews with selected key-stakeholders mainly conducted by the contracted local expert prior, during and after the audit.

Stakeholder comments	ASI response
Mistik did not perform meaningful consultation with relevant stakeholders, did not disclose adequate information, did not respect provincial laws (validity of FMP)	This comment comes from a significant interested party (First Nation) and is detailed further in this report under the assessment findings (Stakeholder consultation)
Long-time close relationship between KPMG and the company.	As an independent accredited certification body, KMPG operates according to FSC requirements for impartiality. It is current practice with some CBs, to perform FSC evaluations on clients that have already been audited and certified by them under other forestry schemes and/or EMS and QMS for some time.  <b>See REC.KF.FM.2007.01</b>
KPMG is not involved in communications (updates, forum discussions, participation on CB meetings) between FSC and the other CBs on important matters of mutual interest such as standards, protocols and general guidance. Given this lack of involvement, it is hard to believe that KPMG has maintained a sufficient working knowledge of key policies and protocols that all accredited CBs are expected to follow.	This issue has been discussed with KPMG during the re-accreditation office audit and after. ASI will take this into consideration for the next office surveillance.

Please note that some stakeholders provided their comments in confidence. ASI and FSC are respecting these requests.

4 Assessment findings

CAB AUDIT PERFORMANCE	
FSC requirements	Findings and conclusions
Standard adaptation (20-003)	NA
Auditor qualification (20-004)	From ASI re-accreditation office report: there was no evidence that KF staff and external auditors received FSC training and qualification. ASI raised a condition. (See COND.KF.OFF.2007.04). With reference to this condition, KF provided information of qualification regarding the audit team at this FM audit at Mistik. ASI will check evidence during the next office audit.
Stakeholder consultation (20-006)	<p>The most important part of the stakeholder consultation for this project is related to the Big Island Lake Cree Nation (BIL). This is one of the 14 First Nation Bands associated with the FMU, and among the five that are not part of the Meadow Lake Tribal Council (MTLC). BIL has filed a legal action in the court (still pending) against the Crown and industrial users (including Mistik) of their territories. From this, and from what witnessed during this assessment, ASI reports that:</p> <ul style="list-style-type: none"> <li>- as a matter of fact, relationships between Mistik and BIL are very difficult</li> <li>- until this issue is judged into Court, it does not appear that it is within Mistik's ability to resolve this dispute</li> <li>- since the beginning of this audit, contacts between BIL and KF have led to disappointment from both sides, and are not smooth.</li> </ul> <p>KF have provided opportunities for consultation with BIL. The consultation has not happened due to the complexity of the logistics. BIL needs to have their advisors present for the consultation, as they have been fully delegated (functionally if not formally). BIL's legal counsel and forestry advisor are not local. In addition, KPMG does not use local experts on their audit team either, which means that both parties need to travel from a distance, at significant cost to meet with each other. As well, finding mutually acceptable time for meetings is more of a problem due to the distance.</p> <p>BIL had expressed the need to meet with KF for one full day, in order to input comments on Mistik performance with respect to the FSC National Boreal Standard checklist. It is also true that, as the standard checklist is publicly available, BIL has already mailed comments to KF with reference to several clauses of the standard. ASI assessment could not witness KF's meetings with BIL (held in 2006).</p> <p><b>See COND.KF.FM.2007.01</b></p> <p>Caribou is a major issue. KF has carefully considered the input from ENGOs. Although KF has not interviewed a key person for this issue (the government biologist responsible for Caribou in this district), KF has discussed the status of caribou plan with Sask. Environment biologist in Prince Albert.</p> <p>There is no evidence (KF list of stakeholders) that KF has included any labour organizations or unions of forestry sector workers in the consultation process. However, KF has consulted with representatives of NorSask on labour issues.</p> <p><b>See COND.KF.FM.2007.02</b></p>

<p>Evaluation process (20-007; ISO 19011)</p> <p>The audit procedures used were those outlined in the KPMG FCSI Forest Stewardship Evaluation Handbook (version 2.0 dated November 2005). According to ASI Accreditation Procedure, ASI must evaluate the implementation of the forest management certification procedures, hence the whole certification process by the applicant in a practical exercise. What ASI could witness, was the final part of the evaluation process, i.e. a KF follow-up audit before issuing the certificate. This FM evaluation project (and ASI assessment) was only the first one after KF accreditation five years ago. It is ASI opinion that this exercise was enough to witness (although for the first time after accreditation) a good capacity of KF of performing FM evaluations, hence to maintain its accreditation. However, ASI wants to monitor closely KF performance in this phase, and then will option to witness the next FM audit of KF. (see Conclusions)</p>	
<p>Pre-evaluation (20-005)</p>	<p>Although it is evident that KF had communicated their pre-evaluation findings to the client, ASI does not have evidence that the certification body had prepared a written report on the pre-evaluation, and made it available to the supplier. <b>See COND.KF.FM.2007.03</b></p>
<p>Audit report (20-008)</p> <p>KF scheduled this audit 24-26 October 2007 as a surveillance audit, and concentrated on Principles 3, 6 and 9. The KF Forest Certification Audit Report was finalized and issued only after this audit and also the certification decision was taken after this audit. The certification report does not include any information regarding this audit (nor is a specific surveillance report available). KF explains that: the primary focus was obtaining an up to date status on what Mistik had done towards addressing the findings of the main assessment, and attempting to meet with an outstanding stakeholder; the results of this audit shall be recorded in the surveillance evaluation report 2008. ASI could witness that KF had communicated the results of the audits to their client. Although this practice does not result in formal non-compliance with FSC requirements, it is opportune for KF to improve timely transmission of audit findings and audit recordings through reports. <b>See REC.KF.FM.2007.02</b></p>	
<p>Public summary (20-009)</p>	<p>The public summary has not been published on KF website. ASI had already issued a condition regarding KF website communication (at the time of the office assessment); hence this is issued as precondition for accreditation. <b>See PRECOND.KF.FM.2007.04</b></p>
<p>Decision making (20-002, Part 2)</p> <p>Use of the “Opportunities for Improvement” (Observations) in the KPMG report is not consistent. KF system states that OFI does not always require action by the auditee, but in some cases it does. There are OFI which duplicate the Conditions. This could lead to confusion with the conditions and could cause misinterpretation. Five out of ten conditions have non conformances which reference multiple criteria. According to FSC requirements, the certification bodies shall make certification decisions based on their evaluation of the forest management enterprise's compliance with each indicator specified in the applicable standard. KF reports nonconformities referring to different indicators and different criteria. This grouping of indicators under one corrective action request makes difficult to detect compliance at criterion level, as required by FSC, hence does not allow to apply a correct decision making. A subsequent corrective</p>	

<p>action does not necessarily lead to compliance with all indicators listed under the relevant corrective action request. In such a situation, it is difficult to collect appropriate evidence to close out the corrective action request.  <b>See REC.KF.FM.2007.03</b></p>	
Application of FSC policies and guidelines	NA

OPERATION'S COMPLIANCE WITH CERTIFICATION REQUIREMENTS	
FSC requirements	Findings and conclusions
Principle 1	
Principle 2	<p>KF qualified the BIL dispute as outstanding and still ongoing. Although Mistik has met with Big Island Lake on a number of occasions in an attempt to address their concerns, the issue remains complicated by Big Island Lake's current legal case. KF addressed this issue with an OFI, which is linked to another more generic Condition issued to Mistik, under the criteria 2.2 and 3.1. Although, in the certification decision, KF is issuing a Conditional certification (one-year validity) to Mistik, it is ASI opinion that KF should have addressed this issue with a specific Condition instead.  <b>See COND.KF.FM.2007.05</b></p>
Principle 3	<p>There are actual court cases in Canada, promoted by various First Nations that are setting the threshold for "meaningful consultation". These cases have built up a large body of legal precedent. The legal requirement to consult is consistent with the way the FSC Boreal standard is written. A stakeholder comment mentioned that Mistik did not disclose adequate information. The stakeholder believes that Mistik shall provide their digital forest cover data at low or no-cost, and not only the elaborations thereof. Mistik provides elaborated maps, charts, etc., to enable the stakeholder to exercise its right of control on the forest management planning and operations, but refuses to provide the raw data, as these are an asset to the company. KF addressed the issue in compliance with the FSC standard.</p>
Principle 4	
Principle 5	
Principle 6	<p>Core forest areas are a biologically important requirement. Core area is ecologically quite significant in reversing a long history of featured species management (moose management causing fragmentation). Mistik might be compliant, but the evidence is weak. KF addressed this issue with a series of OFIs.</p>
Principle 7	<p>A stakeholder comment mentioned that Mistik is operating in absence of a valid FMP. Mistik FMA is technically under an extension of the 1997 to 2007 forest management plan, although, according to the Act, this is not necessary as long as there is an approved annual operating plan, which there is. Saskatchewan Manager of Forest Operations authorized harvesting under an annual operating plan. The annual plans go from Mar 31 to Apr 1 each year. Mistik is operating in compliance with law.</p>
Principle 8	
Principle 9	
Principle 10	NA

**5 Nonconformities and observations**

Major CAR(s)	Minor CAR(s)	Observations
1 (closed)	4 (1 closed)	3

Before the finalization of the report, KF submitted evidence to close the precondition for accreditation PRECOND.KF.FM.2007.04 and the COND.KF.FM.2007.01

See nonconformity reports (attached) for details.

**6 Conclusion and recommendation**

KF Canada conducted a good audit and addressed all the issues in a professional manner.

Based on the findings of this assessment, ASI conclusion is:

The witnessed FM exercise and the audit performance of KF were sufficient to demonstrate KF's ability to adequately implement their documented procedures in practice to the satisfaction of ASI.

**KF can be recommended for re-accreditation for FSC forest management evaluation worldwide.** Once, re-accredited, KF shall be witnessed during a full certification process, at the next available opportunity, in order to confirm full control of its FSC certification program (see section "Evaluation Process"). **KF shall inform ASI of the next available FM evaluation,** in order to negotiate ASI's participation.

**Attachments**

- Nonconformity reports (NCRs)
- ASI feedback to CAB comments on report
- KPMG letter of 10 April 08, with comments and expressing concerns on ASI draft (in full)

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### NONCONFORMITY / CORRECTIVE ACTION REQUEST

REF. No.	<b>COND.KF.FM.2007.01</b>	Date	<b>26 October 2007</b>	
Nonconformity detected by (name of assessor)		<b>Paolo Tranquillini</b>		
Through (e.g. office assessment, document review)		<b>FM Re-accreditation Assessment</b>		
Nonconformity	Status	<input type="checkbox"/> MAJOR <input checked="" type="checkbox"/> <b>MINOR</b> <input type="checkbox"/> OBSERVATION		
KF's approach has not to date resulted in effective consultation with BIL, to obtain direct, actual observations with regard to compliance with the requirements of the applicable Forest Stewardship Standard.				
Normative Reference(s)	FSC-STD-20-006, 3.1			
Corrective Action Request: <b>KF shall implement appropriate measures to correct the nonconformity detected in this assessment and described above within the given timeline. The measures shall be adequate to correct the current problems and to eliminating causes of nonconformities in order to avoid recurrence.</b>				
Deadline for implementation		<b>12 month from finalization of report</b>		
Corrective Action implemented by Certification Body				
KF has communicated to BIL the commitment to meet, in order to analyze, discuss and consider additional evidence that would potentially affect the certification decision. (KF letter to BIL, 14 April 08)				
Corrective Action evaluated by ASI				
The action addresses the issue. This condition is closed.				
<input checked="" type="checkbox"/> <b>CLOSED</b> <input type="checkbox"/> UPGRADED <input type="checkbox"/> OTHER DECISION*	Name assessor:	P. Tranquillini	Date:	10 July 08
Comments:				

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REF. No.	<b>COND.KF.FM.2007.02</b>	Date	<b>26 October 2007</b>
Nonconformity detected by (name of assessor)		<b>Paolo Tranquillini</b>	
Through (e.g. office assessment, document review)		<b>FM Re-accreditation Assessment</b>	
Nonconformity	Status	<input type="checkbox"/> MAJOR <input checked="" type="checkbox"/> <b>MINOR</b> <input type="checkbox"/> OBSERVATION	
There is no evidence (KF list of stakeholders) that KF has included any labour organizations or unions of forestry sector workers in the consultation process.			
Normative Reference(s)	FSC-STD-20-006, 2.3.f		
Corrective Action Request: <b>KF shall implement appropriate measures to correct the nonconformity detected in this assessment and described above within the given timeline. The measures shall be adequate to correct the current problems and to eliminating causes of nonconformities in order to avoid recurrence.</b>			
Deadline for implementation		<b>12 month from finalization of report</b>	
Corrective Action implemented by Certification Body			
<b>Here: describe action taken in detail</b>			
Corrective Action evaluated by ASI			
<b>Here: describe conclusion in detail</b>			
<input type="checkbox"/> CLOSED <input type="checkbox"/> UPGRADED <input type="checkbox"/> OTHER DECISION*	Name assessor:		Date:
Comments:			

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### NONCONFORMITY / CORRECTIVE ACTION REQUEST

REF. No.	<b>COND.KF.FM.2007.03</b>	Date	<b>26 October 2007</b>
Nonconformity detected by (name of assessor)		<b>Paolo Tranquillini</b>	
Through (e.g. office assessment, document review)		<b>FM Re-accreditation Assessment</b>	
Nonconformity	Status	<input type="checkbox"/> MAJOR <input checked="" type="checkbox"/> <b>MINOR</b> <input type="checkbox"/> OBSERVATION	
ASI does not have evidence that the certification body had prepared a written report on the pre-evaluation (and possibly made it available to the supplier).			
Normative Reference(s)	FSC-STD-20-005, 2.2		
Corrective Action Request: <b>KF shall implement appropriate measures to correct the nonconformity detected in this assessment and described above within the given timeline. The measures shall be adequate to correct the current problems and to eliminating causes of nonconformities in order to avoid recurrence.</b>			
Deadline for implementation		<b>12 month from finalization of report</b>	
Corrective Action implemented by Certification Body			
<b>Here: describe action taken in detail</b>			
Corrective Action evaluated by ASI			
<b>Here: describe conclusion in detail</b>			
<input type="checkbox"/> CLOSED <input type="checkbox"/> UPGRADED <input type="checkbox"/> OTHER DECISION*	Name assessor:		Date:
Comments:			

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### NONCONFORMITY / CORRECTIVE ACTION REQUEST

REF. No.	PRECOND.KF.FM.2007.04	Date	26 October 2007	
Nonconformity detected by (name of assessor)		Paolo Tranquillini		
Through (e.g. office assessment, document review)		FM Re-accreditation Assessment		
Nonconformity	Status	<input checked="" type="checkbox"/> MAJOR <input type="checkbox"/> MINOR <input type="checkbox"/> OBSERVATION		
The public summary was still not on KF website at the time of the ASI draft report				
Normative Reference(s)	FSC-STD-20-001, 9.4.d and 20-009, 2.1			
Corrective Action Request: <b>KF shall implement appropriate measures to correct the nonconformity detected in this assessment and described above within the given timeline. The measures shall be adequate to correct the current problems and to eliminating causes of nonconformities in order to avoid recurrence.</b>				
Deadline for implementation		1 month from finalization of report		
Corrective Action implemented by Certification Body				
<b>Here: describe action taken in detail</b>				
Corrective Action evaluated by ASI				
Public summary report is present on KF webpage, under <Certification Information>. This NC is closed. KF should consider to link public summaries under <Information on current projects and certificates>				
<input checked="" type="checkbox"/> <b>CLOSED</b> <input type="checkbox"/> UPGRADED <input type="checkbox"/> OTHER DECISION*	Name assessor:	P. Tranquillini	Date:	10 July 08
Comments:				

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REF. No.	<b>COND.KF.FM.2007.05</b>	Date	<b>26 October 2007</b>
Nonconformity detected by (name of assessor)		<b>Paolo Tranquillini</b>	
Through (e.g. office assessment, document review)		<b>FM Re-accreditation Assessment</b>	
Nonconformity	Status	<input type="checkbox"/> MAJOR <input checked="" type="checkbox"/> <b>MINOR</b> <input type="checkbox"/> OBSERVATION	
KF did not fully address the non compliances of the company under Principle 2.			
Normative Reference(s)	FSC-STD-20-002, 8.1		
Corrective Action Request: <b>KF shall implement appropriate measures to correct the nonconformity detected in this assessment and described above within the given timeline. The measures shall be adequate to correct the current problems and to eliminating causes of nonconformities in order to avoid recurrence.</b>			
Deadline for implementation		<b>12 month from finalization of report</b>	
Corrective Action implemented by Certification Body			
<b>Here: describe action taken in detail</b>			
Corrective Action evaluated by ASI			
<b>Here: describe conclusion in detail</b>			
<input type="checkbox"/> CLOSED <input type="checkbox"/> UPGRADED <input type="checkbox"/> OTHER DECISION*	Name assessor:		Date:
Comments:			

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### NONCONFORMITY / CORRECTIVE ACTION REQUEST

REF. No.	REC.KF.FM.2007.01	Date	26 October 2007	
Nonconformity detected by (name of assessor)		Paolo Tranquillini		
Through (e.g. office assessment, document review)		FM Re-accreditation Assessment		
Nonconformity	Status	<input type="checkbox"/> MAJOR <input type="checkbox"/> MINOR <input checked="" type="checkbox"/> <b>OBSERVATION</b>		
When evaluating a long-time client - and exceeding its standard impartiality procedures - KF should consider to rotate auditors more frequently.				
Normative Reference(s)				
Corrective Action Request: -				
Deadline for implementation		-		
Corrective Action implemented by Certification Body				
<b>Here: describe action taken in detail</b>				
Corrective Action evaluated by ASI				
<b>Here: describe conclusion in detail</b>				
<input type="checkbox"/> CLOSED <input type="checkbox"/> UPGRADED <input type="checkbox"/> OTHER DECISION*	Name assessor:		Date:	
Comments:				

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REF. No.	REC.KF.FM.2007.02	Date	26 October 2007	
Nonconformity detected by (name of assessor)		Paolo Tranquillini		
Through (e.g. office assessment, document review)		FM Re-accreditation Assessment		
Nonconformity	Status	<input type="checkbox"/> MAJOR <input type="checkbox"/> MINOR <input checked="" type="checkbox"/> <b>OBSERVATION</b>		
Following ISO/IEC Guide 65 indication, KF should report each audit in a formal and timely manner.				
Normative Reference(s)				
Corrective Action Request:				
-				
Deadline for implementation		-		
Corrective Action implemented by Certification Body				
<b>Here: describe action taken in detail</b>				
Corrective Action evaluated by ASI				
<b>Here: describe conclusion in detail</b>				
<input type="checkbox"/> CLOSED <input type="checkbox"/> UPGRADED <input type="checkbox"/> OTHER DECISION*	Name assessor:		Date:	
Comments:				

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### NONCONFORMITY / CORRECTIVE ACTION REQUEST

REF. No.	REC.KF.FM.2007.03	Date	10 July 2008	
Nonconformity detected by (name of assessor)		Paolo Tranquillini		
Through (e.g. office assessment, document review)		FM Re-accreditation Assessment		
Nonconformity		Status	<input type="checkbox"/> MAJOR <input type="checkbox"/> MINOR <input checked="" type="checkbox"/> <b>OBSERVATION</b>	
<p>KF reports nonconformities referring to different indicators and different criteria at the same time. This grouping of indicators under one corrective action request can make very difficult to detect compliance at criterion level, and also to understand the decision making process.</p>				
Normative Reference(s)		-		
Corrective Action Request:				
-				
Deadline for implementation		-		
Corrective Action implemented by Certification Body				
<b>Here: describe action taken in detail</b>				
Corrective Action evaluated by ASI				
<b>Here: describe conclusion in detail</b>				
<input type="checkbox"/> CLOSED <input type="checkbox"/> UPGRADED <input type="checkbox"/> OTHER DECISION*		Name assessor:		Date:
Comments:				

ASI feedback to CAB comments on report

KF comments	ASI response
<p>ASI 5-months delay in providing the draft report to CB.</p>	<p>ASI acknowledges the comment. Delay in reports delivery is due to understaffing. Is going to improve now. Prompt finalization of KF re-accreditation – although overdue – was not priority for us, as:</p> <ul style="list-style-type: none"> <li>- no critical issues had been found with KF</li> <li>- this did not hamper KF operations</li> </ul>
<p>Findings in report entirely new and not communicated at on-site closing meeting. ISO 19011 requirement.</p>	<p>As you know, we could not have a proper ASI/KF on-site closing meeting for this audit, for two reasons:</p> <ul style="list-style-type: none"> <li>- ASI local expert Tom was still on audit</li> <li>- we had to rush (KF had booked flights out of Saskatoon leaving around 4 p.m. on the same day).</li> </ul> <p>In the morning, Tom had given you a note with his findings. During the travel, I discussed with you the outcome of the audit in the car, outlining:</p> <ul style="list-style-type: none"> <li>- KF reporting of NCs (not at indicator level)</li> <li>- KF grading of NCs</li> <li>- improve stakeholder consultation.</li> </ul> <p>I understand that what you find in the report is not the same. We took this into account in reviewing findings and NCs.</p>
<p>“From what witnessed during this assessment (KF communications, interviews), there is no evidence that KF designed advertised and started consultation with BIL to solicit direct, factual observations with regard to compliance with the requirements of the applicable Forest Stewardship Standard.”</p>	<p>Statement amended</p>
<p>COND.KF.FM.2007.01</p>	<p>KF commitment for BIL consultation expressed in the recent letter 14 April 08 (response to BIL appeal) addresses the core of this condition.</p>
<p>KF has comprehensive procedures to ensure auditor independence far exceeding those of other FSC accredited CBs.</p> <p>ASI report implies that KF independence procedures and implementation are somehow wanting.</p>	<p>This recommendation is substantiated by previous findings. In ASI office report (p.20) we had stated: <i>The process of ensuring that the same client is not audited by the same auditors for more than 3 consecutive audits is not a formalised protocol.</i> So: PRECOND.KF.OFF.2007.01 reports that KF procedures are not in line; REC.KF.FM.2007.01 suggests attention in the implementation</p>
<p>COND.KF.FM.2007.03. KF Forest Certification Services Handbook Nov.05...it does require such a report to be prepared after <u>a pre-certification assessment</u>, but <u>that is not what was conducted</u> with respect to the Mistik audit.</p>	<p>KF comment has the following implication. Under FSC requirements, Mistik operation (greater than 10 000 ha) required KF to complete a pre-evaluation visit according to FSC-STD-20-005 and (2.2) a <i>written report</i>. KF Handbook requires more: <i>a full report is prepared and presented to the</i></p>

FSC FM re-accreditation assessment KPMG 2007, Mistik, CAN

	<p><i>operation's management.</i> Thus, either - COND.KF.FM.2007.03 is fully supported, or - KF had not conducted a pre-evaluation: then ASI will close the above (void) condition and raise a (new) Major CAR vs. req. FSC-STD-20-005 (1.1) This needs clarification at the next office audit.</p>
<p>When taken together, a number of related OFIs can sometimes merit being raised as a condition</p>	<p>The definition of major / minor non compliance (and of OFI) was not in your procedures at the time of Mistik audit. ASI had addressed this in the office report. KF Handbook (new version December 2007) states: <i>Opportunities for improvement are not non-conformities</i> (p. 39) For the FM pilot project Mistik, ASI witnessed a KF decision-making process not clearly described and applied. This needs to be improved. ASI withdraws COND.KF.FM.2007.05 and issues REC.KF.FM.2007.03</p>
<p>COND.KF.FM.2007.06. Principle 2. We have identified the current Mistik/BIL dispute as significant and ongoing. Addressed as OFI #3 under criterion 2.3. Mistik has provided us with detailed corrective action plan to address OFI #3</p>	<p>We agree that this dispute is significant, although its magnitude is limited. There is this specific indicator (NatBor STD 2.3.3), but the wording of OFI #3 is a statement, and it does not really recommend any action to Mistik. Nevertheless, you inform us that Mistik has submitted corrective action plan, which we will be happy to evaluate in your office. ASI's general purpose in issuing conditions / CARs like this is to ensure that a CB evaluates and addresses according to the FSC rule of field-performance-met at the time of the audit, and not of continual improvement in the future.</p>
<p>COND.KF.FM.2007.06. Principle 6. The condition should be withdrawn. Not sufficiently grounding.</p>	<p>Comment accepted. The COND.KF.FM.2007.06 (now becomes 05) has been reworded, and reference to NC vs. Principle 6 removed. Please, send us reference of instances with 4-year timelines for conditions issued by other CBs, for our information.</p>



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April 10, 2008 Dear Paulo:

**Re: Formal Response to the Draft KPMG (KF) Forest Management Re-accreditation Report that was provided to us on March 26, 2008**

I am writing to you to provide our formal response to the draft KPMG Forest Certification Services Inc. (KPMG) Forest Management Re-accreditation Assessment Report relating to our recent forest management/chain of custody audit of Mistik Management Ltd. The report was dated March 20, 2006, reviewed March 25, 2008 by ASI and provided to us by e-mail on March 26, 2008.

For ease of reference, our response is divided into the following sections:

- General comments on the draft forest management re-accreditation report;
- Comments on the results of the ASI stakeholder consultation process section of the report;
- Our response to ASI's assessment findings, and;
- Comments on the non-conformity/corrective action requests included in the draft forest management re-accreditation report.

**General Comments on the Draft Forest Management Re-accreditation Report**

Our review of the draft forest management re-accreditation report identified the following general concerns that should be addressed prior to report finalization by ASI:

- The draft report was provided to us more than 5 months after the witness audit was conducted by ASI. Our understanding is that ASI has committed to provide such reports within 2 months of the completion of witness audits, and it is not clear as to why such a lengthy delay was required in this instance.
- A number of the findings included in the draft report are entirely new to us, and were not discussed with the KPMG audit team during the on-site closing meeting. Such an approach is not consistent with the requirements of ISO 19011, which requires that the audit findings and conclusions be presented at the closing meeting so they are understood and acknowledged by the auditee. While we understand and appreciate that ASI did additional audit work following

the on-site closing meeting (such as the follow-up meeting with Big Island Lake), it is not clear to us why some of the findings raised in ASI's draft report were not communicated to us earlier. Had this been the case, we would not now be in a position of having to draft such a lengthy response as many of these issues could have been dealt with at the time of the audit rather than in writing 5 months after the fact.

- We understand that the KPMG forest management re-accreditation audit involved a wide range of complex and interrelated issues that required considerable review and analysis in order to fully understand them. However, our review of the draft report indicates that several of the ASI findings and conclusions included in the draft report are in error and are not supported by the facts. Others are vague, contradictory and/or subjective and do not stand up to close scrutiny. Our specific concerns in relation to these findings and conclusions are discussed in greater detail in the balance of this letter.
- The draft re-accreditation report includes the following statement by the ASI audit team "From what was witnessed during the assessment (KPMG communications, interviews) there is no evidence that KPMG designed, advertised and started consultation with BIL to solicit direct, factual observations with respect to compliance with the requirements of the applicable Forest Stewardship Standard." This statement is entirely without merit, and should be removed from the report. Moreover, it is completely at odds with a number of the ASI audit team observations that were verbally conveyed to KPMG during the October 2007 witness audit. Indeed, when asked a pointed question regarding whether or not there was anything else we could or should have done with respect to our efforts to consult with Big Island Lake, the ASI auditors replied that no, it did not appear that KPMG could have done anything more in this area, but that ASI's expectation was that KPMG would continue to try to solicit stakeholder input from BIL during future surveillance audits.

### **Comments on the Results of the ASI Stakeholder Consultation Process**

The draft re-accreditation report included summaries of 3 stakeholder comments and ASI's associated responses. Our comments in relation to this section of the report are as follows:

- The draft ASI report includes a stakeholder comment that expressed the stakeholder's opinion that Mistik did not perform meaningful consultation with relevant stakeholders, did not disclose adequate information and did not respect provincial laws. The ASI auditors appear to have taken this comment at face value, and their comments make reference to a related condition of KPMG's re-accreditation (COND.KF.FM.2007.01). However, we would like to point out that: (1) this stakeholder comment is not supported by the large volume of evidence that we obtained and reviewed during the course of our audit which demonstrated that Mistik had indeed made concerted, repeated and ongoing efforts to consult with the large body of stakeholders who have an interest in the FMA, and (2) condition COND.KF.FM.2007.01, while not supported by the evidence, relates to a perceived failing by KPMG and not Mistik (which the stakeholder comment refers to).
- The draft ASI report includes a stakeholder comment that appears to imply that there is an audit independence issue related to the fact that KPMG has provided other certification services (i.e., ISO 14001 and CSA Z809) to Mistik in the past. The ASI response appears to give some credence to this assertion, and includes a reference to an observation (REC.KF.FM.2007.01) that recommends that when evaluating an old client KPMG should implement appropriate measures to guarantee continuous impartiality. In relation to this section of the report we would like to point out that all of our previous work for Mistik has involved KPMG acting in the role of an independent external auditor.

It does not matter what standard is involved (ISO 14001, CSA Z809 or FSC) – the nature of the relationship is the same. KPMG has comprehensive procedures to ensure auditor independence that likely far exceed those of the large majority of the other FSC certification bodies that ASI accredits. However, by ignoring this fact and appearing to give credence to the comments of this stakeholder, the draft ASI reports leaves the reader with the impression that KPMG's independence procedures (and their implementation) are somehow wanting. We believe the inclusion of this recommendation does KPMG a significant disservice and should be removed from the audit report.

- The draft ASI report includes a stakeholder comment that suggests that KPMG's previous lack of participation in communications between the FSC and other certification bodies (CBs) may impair our ability to maintain an up to date understanding of the key policies and protocols that accredited CBs are expected to follow. In its response, ASI has indicated that this issue was discussed with KPMG during the re-accreditation audit and will be taken into consideration during the next surveillance audit. While we would agree that we have not participated in the Bonn, Germany CB meetings in recent years (due to the significant time and costs involved in attending relative to the small size of our FSC certification practice) it is a significant leap of reason to assume that this somehow impairs our ability to obtain and understand the various policies and procedure documents that have a bearing on our accreditation. These are all readily available on the FSC website. In addition: (1) we receive copies of all correspondence between the FSC, ASI and accredited CBs, and (2) ASI makes a point of providing all CBs (including KPMG) with a copy of the proceedings (minutes, presentations, etc.) of the annual CB meeting.

## Response to ASI's Assessment Findings

This portion of the draft re-accreditation report includes ASI's assessment findings under sections related to: (1) CB audit performance, and (2) the Operation's (i.e., Mistik's) compliance with certification requirements. Our responses to the findings included under this portion of the report are addressed under the following two sections of this letter. To enable a more ready comparison to the draft ASI report, we have included the references to the FSC requirements cited by ASI.

### 1. CB audit performance

Our comments in relation to this section of the draft ASI re-accreditation report are as follows:

- **Auditor qualification (20-003)** – The ASI re-accreditation office report raised a condition (COND.KF.OFF.2007.04) regarding the provision of FSC-specific training to KPMG auditors. KPMG has previously prepared and submitted (on December 12, 2007) a corrective action plan to ASI to address this issue. KPMG auditor training on a number of issues specific to FSC certification audits was provided to staff and contractors in February 2008. Records of this training are on file and can be reviewed by ASI during the next scheduled office audit.
- **Stakeholder consultation (20-006)** – The draft ASI re-accreditation report states that the most important part of the stakeholder consultation portion of the audit related to consultation with the Big Island Lake Cree Nation (BIL), which is one of 14 First Nations with an interest in the FMU and the only one that has expressed a significant level of dissatisfaction with their relationship with Mistik. The report goes on to say that KPMG has provided opportunities for consultation with BIL, but that this has not happened due to complicated logistics related to the travel distances involved and the fact that BIL requires that both its forestry consultant and legal counsel be present at any meeting. ASI expresses an opinion that although KPMG put considerable effort into evaluating and addressing most BIL concerns, we did not fully realize (and address) the implications of the dispute between BIL and Mistik during our audit. In attempting to support this opinion, ASI suggests that one piece of evidence is that we did not have a local (i.e., northern Saskatchewan-based) expert on our team as a means to help facilitate the prolonged and demanding stakeholder consultation requirements of this

audit. ASI also raises the fact that BIL had previously requested a full day meeting with KPMG to discuss their concerns, and that they have mailed their comments to us on several occasions. ASI concludes with the statement that: "From what was witnessed during the assessment (KPMG communications, interviews) there is no evidence that KPMG designed, advertised and started consultation with BIL to solicit direct, factual observations with respect to compliance with the requirements of the applicable Forest Stewardship Standard." The draft report then references a condition (COND.KF.FM.2007.01) which reiterates the previous text noted in parentheses.

KPMG takes significant exception to the observations and conclusions made by ASI with respect to our efforts to consult with and address the concerns raised by BIL. We believe that this finding is wholly without merit, and is not supported by the facts. Our reasons are outlined in the following points:

- KPMG realized very early in the audit planning process that the existing conflict between Mistik and Big Island Lake would require considerable time and effort to address during the audit. Although BIL is only one of many First Nations with an interest in the FMA (and the only one who has a significant disagreement with Mistik), it was clear that the pending legal action between the parties represents a significant and ongoing source of conflict. It is for this reason that we have made (and continue to make) several efforts to consult with BIL during the course of the audit. Indeed, ASI is well aware of our efforts in this area, as they were a significant topic of discussion during ASI's October 2007 onsite witness audit, and are also well documented in our August 9, 2007 response to ASI regarding BIL's complaint regarding the level of stakeholder consultation during the Mistik audit.
  - ASI suggests that although KPMG has provided opportunities for consultation with BIL, this has not happened due to the complexity of the issues involved. This is only partly true. It is true that we have made numerous requests for meetings with BIL which have largely been denied by BIL as they wish to have their forestry consultant and legal counsel present at all meetings. However, we were successful in having one face to face meeting with BIL on October 11, 2006 (which was shorter than originally planned due to the actions of BIL as ASI well knows). In addition, ASI is also aware that the argument of "difficult logistics", while real, has been used by BIL to reject our requests for meetings when in fact no such impediment exists. This was made very clear to the ASI audit team during the October 2007 witness audit. In this instance, KPMG had made 2 written requests to BIL for a meeting while we were onsite during the audit, only to be told by BIL that they could not meet with us during the audit as their forestry consultant and legal counsel were not available. However, ASI was itself able to schedule a meeting with BIL during the October 2007 witness audit to hear their concerns about the level of stakeholder consultation during the audit at which we understand both their forestry consultant and legal counsel were present. In essence, BIL was prepared to meet with ASI to complain about the stakeholder consultation process, while at the same time refusing a clear opportunity to participate in that same process. The implications of this level of political gamesmanship on the part of BIL should be quite clear to ASI, and were discussed in some detail with the ASI audit team during the October 2007 witness audit.
- ASI raises the issue that we did not have a "local" expert on the audit team and suggests that this might have helped facilitate the stakeholder consultation process. While it is true that we did not have any northern Saskatchewan-based auditors on the team, we would point out that this was a conscious decision by KPMG. The reality is that Saskatchewan is a relatively small province with a limited number of experts with sufficient First Nations knowledge and auditing expertise, none of whom would have been sufficiently independent of the First Nations with an interest in the FMA to enable them to function as an independent auditor on our audit team. As a result, and in order to ensure our independence, we made the correct decision to employ the services of a First Nations auditor from another province. However, it does not follow (as suggested by ASI) that this decision

is somehow evidence that KPMG failed to understand or consider the complex nature of the stakeholder consultation that would be required to conduct this audit.

- Regarding BIL’s request for a full day meeting – as ASI is already aware (and which is well documented in our August 9, 2007 response to ASI regarding BIL’s complaint regarding the level of stakeholder consultation during the Mistik audit), this meeting was originally scheduled to take place over a 6 hour period by mutual agreement of KPMG and BIL, but was subsequently shortened to a 2 hour meeting due solely to the actions of BIL. However, the draft re-accreditation report neglects to mention this fact.
- As noted previously in this letter in the general comments section, the ASI statement that “From what was witnessed during the assessment (KPMG communications, interviews) there is no evidence that KPMG designed, advertised and started consultation with BIL to solicit direct, factual observations with respect to compliance with the requirements of the applicable Forest Stewardship Standard” is completely at odds with a number of the ASI audit team observations that were verbally conveyed to KPMG during the October 2007 witness audit. Indeed, when asked a pointed question regarding whether or not there was anything else we could or should have done with respect to our efforts to consult with Big Island Lake, the ASI auditors replied that no, it did not appear that KPMG could have done anything more in this area, but that ASI’s expectation was that KPMG would continue to try to solicit stakeholder input from BIL during future surveillance audits.

For all of the above reasons, we believe that this section of the report should be significantly revised, and the associated condition (COND.KF.FM.2007.01) should be withdrawn. However, we would agree (as discussed on-site with the ASI audit team) that we do have an ongoing obligation to attempt to consult with BIL during the course of future surveillance audits, and are committed to this end. As such, we would be prepared to accept an observation in the re-accreditation report (as a replacement for COND.KF.FM.2007.01) as a means for ASI to highlight their concerns in this area. Possible wording for such an observation might be as follows: “One of the local First Nations was not satisfied with the stakeholder consultation process conducted by KPMG and has filed a complaint against KPMG and an appeal of the Mistik certification. As part of its internal investigation procedures KPMG should carefully assess whether additional stakeholder consultation measures are required for the Mistik and future audits.”

- **Evaluation process (20-007; ISO 19011)** – The draft re-accreditation report suggests that KPMG has carefully considered the input from ENGOs received during the audit, but that: (1) KPMG did not interview the local government biologist responsible for caribou in the district, and (2) there is no evidence that KPMG has included any labour organizations or unions of forestry sector workers in the consultation process. This section of the report references a condition (COND.KF.2007.02) that requires us to address this perceived deficiency. However, both of the assertions made by the ASI audit team are in error. As a result, this section of the report should be revised to address this fact, and the associated condition should be withdrawn. Our reasons for this are as follows:
  - KPMG interviewed both the local government biologist as well as the Saskatchewan Environment biologist in Prince Albert regarding the provincial caribou strategy. While it is true that neither of these individuals were listed as having been interviewed in the stakeholder consultation list included in the Mistik audit report (which we agree was an oversight), that does not negate the fact that these interviews did in fact take place.
  - Regarding the ASI statement that KPMG did not interview any labour organizations or unions of forestry sector workers during the audit – we would like to point out that the Mistik workforce is not unionized, and the only union affiliated with forestry in northern Saskatchewan is the one

associated with NorSask Forest Products Inc. (IWA Local 1-184). NorSask's unionized workforce was invited by Mistik to participate in the Company's public advisory group (which has been in operation since 2004/05), at which time the union designated NorSask management staff to represent them at these meetings. KPMG interviewed several members of the Mistik public advisory group during the course of the audit, including the NorSask employees who represent both management and employee issues.

- **Pre-evaluation (20-005)** – The draft re-accreditation report indicates that KPMG has communicated the findings of the pre-evaluation visit to Mistik (this was done verbally at the end of the planning/scoping visit). It also states that ASI does not have evidence that KPMG prepared a written report on the pre-evaluation and made it available to the client. The report references a related condition (COND.KF.FM.2007.03) that requires us to address this perceived deficiency. However, we would like to point out the fact that the KPMG Forest Certification Services Handbook (which was updated in November 2005 after FSC-STD-20-005 came into effect and reviewed by FSC at that time, although no report was ever issued by FSC) does not require the preparation of formal report after the completion of the planning/scoping visit (it does require such a report to be prepared after a pre-certification assessment, but that is not what was conducted with respect to the Mistik audit). As such, the absence of a formal report to document the results of the February 20-24, 2006 planning/scoping visit is entirely consistent with the KPMG procedures that were in effect at the time this visit took place. However, that said, the key findings of the planning/scoping visit were documented and communicated to the client as part of the detailed certification plan that was prepared during the planning phase of the audit. If desired, we would be happy to send ASI a copy of the detailed certification plan for their review.

In light of the above rationale, we believe that COND.KF.FM.2007.03 is not supported by the facts and should be withdrawn.

- **Audit report (20-008)** – The draft re-accreditation report correctly points out that the October 24-26, 2007 site visit, while originally scheduled as a surveillance audit, actually pre-dated the formal certification decision and has not been documented in a separate audit report. This visit focused on Principles 3, 6 and 9, and the primary objectives were to: (1) obtain an up to date assessment of what Mistik had done to date towards addressing the findings of the main assessment, (2) attempt (yet again) to meet with BIL to hear their concerns, and (3) provide ASI with an opportunity to witness a portion of the audit. Although there was no separate report written for this visit, the results were communicated verbally to the client at the time and were incorporated into the main assessment report. As explained to ASI, it was felt that due to the absence of new information obtained during this visit and the fact that the results had been incorporated into the main assessment report anyway (through re-wording some of the audit findings, etc.), there was little justification for producing a separate audit report. A reference to the results of this visit will however be included in the 2008 surveillance audit report.
- **Public summary (20-009)** – The draft re-accreditation report suggests that the Mistik public summary report has not been posted to the KPMG website. It includes reference to a precondition (PRECOND.KF.FM.2007.04) that requires us to address this alleged nonconformity before the KPMG re-accreditation can proceed. However, this statement in the draft re-accreditation report is in error. The Mistik certification decision was made by KPMG on November 16, 2007 and the main assessment report was published on that date. Work then began on the preparation of the Mistik public summary report, which was completed on December 4, 2007. Following completion, the public summary report was posted to the KPMG website on December 20, 2007, which was only 4 days later than the FSC-STD-20-009 requirement to post this report within 30 days of the certificate being issued (the delay was a result of website update issues that had to be resolved with our IT people before the updated website could go live). NB: For reference, the link to the KPMG website which contains the Mistik public summary report is as follows:

[www.kpmg.ca/en/ms/forestcertification/report.html](http://www.kpmg.ca/en/ms/forestcertification/report.html).

In light of the above, we believe that pre-condition PRECOND.KF.FM.2007.04 should be withdrawn. However, we acknowledge that the public summary report was posted 4 days later than the standard requires. As such, we would be prepared to accept an observation (as a replacement for PRECOND.KF.FM.2007.04) that would serve to highlight the need to ensure that public summary reports are posted to our website in a timely manner. Possible wording for such an observation might be as follows: “This Mistik public summary report was posted to the KPMG website 4 days later than the 30 day post-certificate issuance requirement outlined in FSC-STD-20-009. KPMG should take care to ensure that this requirement is met on all future audits”.

**Decision making (20-002, Part 2)** – The draft re-accreditation report suggests that the use of “opportunities for improvement” in the Mistik report is not consistent. The report asserts that some OFIs are too vague, and that others duplicate some of the text included in conditions. The draft re-accreditation report also indicates that: (1) 5 out of the 10 conditions have nonconformances which reference multiple criteria, and that (2) according to FSC requirements, certification bodies are required to make certification decisions based on their evaluation of the forest management enterprise’s compliance with each indicator specified in the applicable standard. The draft re-accreditation report raises concerns about the grouping of findings under one corrective action request (suggesting that it make it difficult to detect compliance at the criterion level), and references a condition (COND.KF.FM.2007.05) that would require us to address this alleged deficiency. In relation to these observations of the ASI audit team, we would like to point out the following:

- Regarding the issue of OFIs – we do not believe that there is any inconsistency in how we have dealt with these in the Mistik report and what is required under the KPMG Forest Stewardship Evaluation Handbook. The preparation of correction action plans by a client to address OFIs has always been optional and remains so. However, we strongly encourage our clients to do so as it helps to ensure that these issues are given the priority they deserve, and reduces the risk that they will become non-conformities during future assessments. As to whether or not some of the OFIs are too vague – we disagree, and note that the client is well aware of what is required to address them as evidenced by the detailed corrective actions that they have developed in response. Further, we note that the OFI numbering scheme referenced in the ASI audit report is in error, and reflects comments on the draft set of OFIs that were revised (and clarified) subsequent to the onsite witness audit taking place and before the main assessment report was finalized. Finally, while it is true that the OFIs duplicate some elements of the conditions, this is a reflection of: (1) the level of duplication of the performance requirements included in various sections of the National Boreal Standard, and (2) the fact that, when taken together, a number of related OFIs can sometimes merit being raised as a condition (which we have done in a few instances in the Mistik report).
- The Mistik audit report does indeed include a number of corrective action requests that reference multiple FSC criteria. However, although this may be somewhat different from what ASI has seen from other CBs, we see nothing wrong with this approach and do not see how this contravenes the requirements of section 8.1, 8.2 or 8.3 of FSC-STD-20-002. These sections of the standard require that: (1) decisions be made based on an evaluation of compliance with each indicator specified in the applicable standard, (2) all noncompliances of all indicators be recorded in the evaluation report or associated checklist, and that (3) each non-compliance be evaluated to determine whether it constitutes a minor or major non-compliance at the level of the associated FSC criterion. A close review of the Mistik report (and the associated checklist, which is included as Appendix B) shows that: (1) decisions on compliance have been made in relation to each indicator included in the National Boreal Standard, (2) all non-compliances are recorded in both the audit checklist and the main body of the report, and (3) both the checklist and the main body of the report include conclusions regarding compliance at the criterion level. As such, we can see no evidence that we

have not met this requirement of the standard. The fact that we have chosen to group some findings under certain corrective action requests (which we chose to do for the purpose of brevity and to avoid the duplication in performance requirements that is inherent in the National Boreal Standard) is a separate matter to which this section of FSC-STD-20-002 does not apply (the requirements for conditions that are included in certification reports are covered under section 5.3 of FSC-STD-20-008).

In light of the above, we believe that condition COND.KF.FM.2007.05 should be withdrawn. However, we are aware that the ASI audit team is concerned that there is a risk that the implementation of a corrective action might not lead to compliance with all of the indicators listed under the relevant corrective action request. While we do not share this view, we would be prepared to accept an observation (as a replacement for COND.KF.FM.2007.05) that would serve to highlight the ASI audit team's concerns in this area. Possible wording for such an observation might be as follows: "KPMG has grouped non-conformities with multiple indicators under 5 out of the 10 corrective action requested included in the Mistik audit report. Such an approach creates a risk that the implementation of a corrective action might not lead to compliance with all of the indicators listed under the relevant corrective action request. In following up on Mistik's completion of the approved corrective actions during the 2008 surveillance audit, KPMG should take care to ensure that this situation does not occur."

## 2. Operation's compliance with certification requirements

Our comments in relation to this section of the draft ASI re-accreditation report are as follows:

- **Principle 2** – The draft re-accreditation report notes that we have identified the current legal dispute between Mistik and BIL as significant and ongoing. It notes that we have addressed this issue as an OFI (OFI #3) under criterion 2.3, as well various other more general conditions (Conditions #4 and #5) that require the Company to: (1) obtain specific agreements with each Aboriginal community that the co-management boards are an acceptable vehicle for ensuring their interests and concerns are adequately addressed in Mistik's FMPs and practices, or develop an alternative vehicle for integrating those Aboriginal community's concerns into Mistik's planning and processes, and (2) develop and implement a formal dispute resolution procedure for use in situations where no formal dispute resolution procedure currently exists (i.e., outside of the co-management board and Public Advisory Group Processes). The draft re-accreditation report also points out that we have issued a 1 year (conditional) certification to Mistik, but indicates that in ASI's opinion the existence of the ongoing dispute between Mistik and BIL should have been addressed with a Condition that is specific to this issue. We respectfully disagree, and believe that this condition should be deleted from the draft audit report. Our reasons are as follows:
  - We agree that the existence of the legal dispute between Mistik and Big Island Lake is significant and ongoing. We have stated this in a number of places in the Mistik audit report, and have gone to considerable lengths to research, understand and evaluate the implications of this dispute for Mistik's certification to the National Boreal Standard. Based on this audit work we have concluded that: (1) Mistik has made (and continues to make) considerable efforts to consult with BIL to identify and address their concerns, many of which have been frustrated by the actions of BIL and their legal counsel, and (2) as the dispute has 2 parties (i.e., Mistik and BIL) and it would take both of them to make meaningful efforts in order to resolve the dispute. However, given the actions of BIL in this matter and the existence of their unresolved legal case, it is not within Mistik's power to resolve this dispute without the cooperation of BIL. Indeed, BIL and their legal counsel have yet to advance their legal action against Mistik and the government of Saskatchewan beyond the statement of claim stage, even though they filed their claim with the court approximately 8 years ago. ASI itself acknowledges this problem on page 5 of the draft re-accreditation report with the statement that "until this issue is judged in court, it does not appear that it is within Mistik's ability to

resolve this dispute.”

We firmly believe that the opportunity for improvement and 2 corrective action requests that relate to this issue are reasonable and sufficient to address this issue under the current circumstances that exist relative to this dispute. Mistik has provided us with detailed corrective action plans that are designed to address these audit findings (including a corrective action plan to address OFI #3 which includes specific actions that relate directly to the ongoing dispute with BIL), and we will be following up on their implementation during the 2008 surveillance audit.

- Given the FSC requirement that conditions should not be issued for periods exceeding 12 months, and the fact that it is not within Mistik’s power to unilaterally resolve this dispute (which ASI have themselves acknowledged in the draft re-accreditation report), we are at a loss to see how it would be possible to issue a condition to Mistik to that would result in an action plan that would demonstrably improve Mistik’s relationship with BIL over the next 12 months in the absence of BIL’s willingness to also work towards improving the relationship.
- **Principle 3** – We are largely in agreement with most of what is included in this section. However, we would like to point out that the ASI comments are now somewhat out of date. As you know, Mistik had previously provided a large volume of information (maps, reports, inventory information, etc.) to BIL’s forestry consultant in attempting to satisfy his requests for information. However, although they had offered to allow him access to the raw inventory data through a web-based portal, they were not prepared to give him possession of this data as it is viewed as an important and valuable asset by Mistik and its parent companies that the Company has invested several millions of dollars in obtaining. During our audit, we concluded that Mistik’s efforts to try to satisfy BIL’s forestry consultant’s requests for information had met the requirements of the National Boreal Standard. However, since that time Mistik has sent BIL a proposal (in a letter dated January 28, 2008) for achieving meaningful consultation and improving the relationship between Mistik and BIL. As part of this proposal Mistik has offered BIL and their forestry consultant access to the raw data under a limited term license.
- **Principle 6** – The draft re-accreditation report indicates that the assessment of one indicator (6.3) was not in harmony with other certificates in the Canadian boreal forest. It further suggests that a condition may be warranted, and that there is no evidence that KPMG addressed this issue correctly. The draft report also includes reference to a condition (COND.KF.FM.2007.06) which states that KPMG did not address adequately the noncompliances of the Company under Principle 2 and Principle 6. It is our opinion that the statements made by the ASI audit team are not defensible, and condition COND.KF.FM.2007.06 should be withdrawn. Our reasons are as follows:

The wording of both this section of the draft report and COND.KF.FM.2007.06 are vague and unclear. It suggests that our assessment of Criterion 6.3 was not in harmony with other certificates (i.e., those issued by Smartwood) in the Canadian boreal forest. This may be true. However, we conducted our assessment against the requirements of the Canadian Boreal Standard, not the Smartwood standard. There is no basis for issuing a condition to Mistik regarding Criterion 6.3 simply because Smartwood may have issued a condition to some of their clients for different landbases that are subject to different forest management plans. Furthermore, we have conducted a fair amount of research regarding a number of Smartwood certifications in the Canadian Boreal as they relate to requirements for both protected areas and caribou management and noted a number of inconsistencies in the approaches taken by various Smartwood assessment teams. In more than one instance, Smartwood has given the auditee up to the end of year 4 of their certification in order to address the condition, which is a clear violation of FSC requirements and which we were very mindful of in crafting the wording of the conditions that we issued to Mistik (if ASI is interested, we would be happy to forward this material to them for consideration, although it is all readily available on the Smartwood website). In light of the foregoing, it is very clear that comparisons between the KPMG approach to evaluating Criterion 6.3 and those taken by Smartwood are not a sufficient basis for an audit finding against KPMG.

- The draft re-accreditation report states that “Mistik might be compliant, but the evidence is weak”. It also states that “a condition may be warranted”, and that “there is no evidence that KPMG addressed this issue correctly.” All of these statements are vague and provide no justification for issuing condition COND.KF.FM.2007.06. How does ASI justify issuing a condition on the basis of a terse and unsubstantiated statement that “a condition may be warranted”? Further, the assertion that “there is no evidence that KPMG addressed this issue correctly” is not evidence that we didn’t address it correctly. Rather, it demonstrates that the ASI audit team either did not fully understand the approach we took during the audit, or were unable to find evidence that our approach met their expectations. However, regardless of which is actually the case, it is further evidence that COND.KF.FM.2007.06 is without merit and should be deleted from the draft report.
- **Principle 7** – We are largely in agreement with the contents of this section. However, beyond the fact that Mistik is operating under an approved annual operating plan, we would also like to point out that the FMP approval process in Saskatchewan is a staged process that takes place over several months. Various elements of the FMP are submitted to Saskatchewan Environment for approval in principle according to a defined timeline. It is only after all elements of the FMP have been approved in principle that the formal decision is made by the Minister to approve the overall plan. We have researched this issue in some detail as part of the audit, and received confirmation from Saskatchewan Environment that: (1) Mistik has submitted all of the required FMP elements according to the specified timeline, and (2) all of the required approvals in principle are in place. However, Mistik is still awaiting the Minister’s overall approval of the FMP.

#### **Comments on the Non-conformity/Corrective Action Requests Included in the Draft Forest Management Re-accreditation Report**

The draft re-accreditation report included a total of 1 major corrective action request (CAR), 5 minor CARs and 2 observations. The issues related to these findings have been discussed in detail earlier in the body of this letter. As such, the following is just a summary of our conclusions in relation to each of the findings included in the draft re-certification report. In summary:

- **COND.KF.FM.2007.01 (Minor CAR)** – As noted previously in this letter, COND.KF.FM.2007.01 is not supported by the facts and should be withdrawn. However, we would agree (as discussed on-site with the ASI audit team) that we do have an ongoing obligation to attempt to consult with BIL during the course of future surveillance audits, and are committed to this end. As such, we would be prepared to accept an observation in the reaccreditation report (as a replacement for COND.KF.FM.2007.01) as a means for ASI to highlight their concerns in this area. Possible wording for such an observation might be as follows: “One of the local First Nations was not satisfied with the stakeholder consultation process conducted by KPMG and has filed a complaint against KPMG and an appeal of the Mistik certification. As part of its internal investigation procedures KPMG should carefully assess whether additional stakeholder consultation measures are required for the Mistik and future audits.”
- **COND.KF.FM.2007.02 (Minor CAR)** – As noted previously in this letter, COND.KF.FM.2007.02 is not supported by the facts and should be withdrawn.
- **COND.KF.FM.2007.03 (Minor CAR)** – As noted previously in this letter, COND.KF.FM.2007.03 is not supported by the facts and should be withdrawn.
- **PRECOND.KF.FM.2007.04 (Major CAR)** – As noted previously in this letter, PRECOND.KF.FM.2007.04 is not supported by the facts and should be withdrawn. However, we acknowledge that the public summary report was posted 4 days later than the standard requires. As such, we would be prepared to accept an observation (as a replacement for PRECOND.KF.FM.2007.04) that would serve to highlight the need to ensure that public summary reports are posted to our website in a timely manner. Possible wording for such an observation might

be as follows: "This Mistik public summary report was posted to the KPMG website 4 days later than the 30 day post-certificate issuance requirement outlined in FSC-STD-20-009. KPMG should take care to ensure that this requirement is met on all future audits".

- **COND.KF.FM.2007.05 (Minor CAR)** – As noted previously in this letter, COND.KF.FM.2007.05 is not supported by the facts and should be withdrawn. However, we are aware that the ASI audit team is concerned that there is a risk that the implementation of a corrective action might not lead to compliance with all of the indicators listed under the relevant corrective action request. While we do not share this view, we would be prepared to accept an observation (as a replacement for COND.KF.FM.2007.05) that would serve to highlight the ASI audit team's concerns in this area. Possible wording for such an observation might be as follows: "KPMG has grouped non-conformities with multiple indicators under 5 out of the 10 corrective action requested included in the Mistik audit report. Such an approach creates a risk that the implementation of a corrective action might not lead to compliance with all of the indicators listed under the relevant corrective action request. In following up on Mistik's completion of the approved corrective actions during the 2008 surveillance audit, KPMG should take care to ensure that this situation does not occur."
- **COND.KF.FM.2007.06 (Minor CAR)** – As noted previously in this letter, COND.KF.FM.2007.06 is not supported by the facts and should be withdrawn.
- **REC.KF.FM.2007.01 (Observation)** – KPMG has comprehensive procedures to ensure auditor independence that likely far exceed those of the large majority of the other FSC certification bodies that ASI accredits. However, by ignoring this fact and appearing to give credence to the comments of this stakeholder, the draft ASI reports leaves the reader with the impression that KPMG's independence procedures (and their implementation) are somehow wanting. We believe the inclusion of this recommendation does KPMG a significant disservice and should be removed from the audit report.
- **REC.KF.FM.2007.02 (Observation)** – As noted previously in this letter, we believe that there was an adequate rationale for not producing a separate report to document the results of the October 2007 site visit, given that the main assessment report had not yet been finalized at the time and the results of this visit were used to fine-tune the findings included in it.

However, we are prepared to accept this observation if ASI really believes that we should have handled this differently.

I trust that the above comments provide you with sufficient detail regarding our views regarding the draft forest management re-accreditation report. Should you wish to discuss this matter further, please give me a call at the telephone number noted below.

Yours very truly,



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