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Program Coordinator  
Daishowa-Marubeni International Ltd.  
Peace River Pulp Division  
Postal Bag 6500, Pulp Mill Site  
Peace River, AB T8S 1V4

March 3, 2006

Dear Mr. Volkman:

**Re: ISO 14001 Surveillance Audit Report for Daishowa-Marubeni International Ltd.**

The ISO 14001 surveillance audit report for Daishowa-Marubeni International Ltd. is attached. The report documents the results of the audit that took place during the period February 28, 2006 – March 3, 2006.

As communicated to you during the implementation assessment, you are required to submit corrective action plans to address all identified nonconformities within 30 days of the date of the closing meeting. Upon receipt by KPMG PRI, these will be reviewed to verify that they adequately address the root cause(s) of the nonconformities identified during the audit, and either approved or returned to you for revision.

We value the ongoing working relationship that we have with Daishowa-Marubeni International Ltd., and appreciate the assistance provided to the audit team by Company staff and contractors during the audit process.

If you have any questions regarding the results of the audit or what is required in the way of corrective actions, please call me at the phone number listed below.

Yours very truly,

Craig Roessler, CEA(SFM), EMS(LA)  
*Senior Assessor*  
*KPMG Performance Registrar*  
(604) 691-3115

Enclosure: ISO 14001 Surveillance Audit #1 Report for DMI



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# **ISO 14001 Surveillance Audit #1 Report**

## **Daishowa-Marubeni International Ltd.**

The information in this audit report is confidential and may be legally privileged. It is intended solely for the use of the intended recipient, Daishowa-Marubeni International Ltd. Access to this audit report by anyone else is unauthorized. If you are not the intended recipient, any disclosure, copying, distribution or any action taken or omitted to be taken in reliance on it, is prohibited and may be unlawful. Any opinions contained in this audit report are subject to the terms and conditions expressed in the governing KPMG PRI client engagement contract.



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## A. Client Information

<b>Client Name:</b>	Daishowa-Marubeni International Ltd.– Peace River Pulp Division Forest Resources Business Unit
<b>Audit Criteria:</b>	ISO 14001:2004
<b>Scope of Registration:</b>	
<b>Client Representative:</b>	Mr. Robert Volkman, Program Coordinator
<b>Assessment Number:</b>	2438

## B. Document Review Findings

This was a limited scope surveillance audit against selected elements of the ISO 14001 standard. As such, no formal document review was required in advance of the audit



### C. Audit Details

<b>Type of Audit:</b>	Surveillance audit
<b>Date(s) of Document Review:</b>	May 10 – 12, 2005
<b>Date(s) of Implementation Assessment:</b>	August 23 – 26, 2005
<b>Date(s) of Surveillance Audit:</b>	<b>Periodic Assessment #1: February 28 – March 3, 2006</b>
<b>Date of Next Assessment:</b>	August 2006
<b>Audit team:</b>	Lead auditor: Craig Roessler
<b>Audit Report Distribution:</b>	<ul style="list-style-type: none"><li>▪ Daishowa-Marubeni International Ltd.</li><li>▪ KPMG PRI audit files</li></ul>
<b>Audit objective(s):</b>	The objective of the audit was to evaluate the environmental management system at Daishowa-Marubeni International Ltd., its implementation, effectiveness and conformance with the requirements of ISO 14001:2004.
<b>Audit scope:</b>	The scope of the audit included: <ol style="list-style-type: none"><li>1. The elements of ISO 14001 outlined in the audit plan.</li><li>2. Activities conducted under the Company's management system during the period August 27, 2005 – March 3, 2006.</li><li>3. Review of the implementation of Company action plans designed to address nonconformities identified during the last KPMG assessment.</li><li>4. Visits to the Company's woodlands and associated operations administered and managed by the Peace River Pulp Division Forest Resources Business Unit.</li></ol>
<b>Audit sample size:</b>	Number of field sites visited during the audit: <ul style="list-style-type: none"><li>• Roads: 1 (active road construction assoc. with active block)</li><li>• Harvesting: 16 (10 active and 6 inactive)</li><li>• Silviculture: 0</li><li>• Camps: 3</li><li>• Satellite Chipping Yard: 1</li></ul> Number of contractors assessed during audit: 5 harvesting/chipping contractors (Allwood; Pine Ridge; High Level Chippers; Estabrook; Peace River), in addition to a number of trucking contractors.



## D. Audit Findings

### Good Practices

The following good practices were noted during the audit:

1. Good examples of on-block retention were observed during the field audit (i.e., single-tree, clumps and patches designed to meet AOP targets).
2. The operation has done a good job in its planning and layout of protecting streams by locating most streams outside harvest block boundaries and within retention patches.
3. Conditions observed on the ground during the field audit were consistent with operational plans (i.e., there were no findings relating to operational issues).
4. The operation's EMS documentation has recently been posted on its website, providing easy access to up-to-date documentation to staff and eventually contractors.
5. The newly developed Forest Resources annual report demonstrates the organization's willingness to communicate pertinent forest resource issues both within the organization and to the general public.
6. The operation has devoted a lot of effort since the last audit towards developing a commendable and reasonable set of EMS objectives and targets and has established an appropriate set of logically sequenced action plans to achieve these objectives and targets.

### Follow-up on open nonconformities from previous audits

At the time of this assessment there were a total of 4 open nonconformities from previous audits. The auditor reviewed the implementation of the action plans developed by Daishowa-Marubeni International Ltd. to address these issues, and found that they had been effectively implemented for 2 of the nonconformities (2438-NC-IA-02 respecting the control of objectives, targets and action plans and 2438-NC-IA-04 respecting the management review). As a result, **2438-NC-IA-02 and 2438-NC-IA-04 have now been closed.** However, the auditor determined that action plans had not been sufficiently effectively implemented to address the remaining two minor nonconformities, as follows:

- **2438-NC-IA-01:** Although DMI has made progress in addressing the training and awareness deficiencies of contractors, not all corrective actions designed to address this issue have been fully implemented (i.e., ISO 14001 awareness training to all contractor personnel, incorporation of ERP training into truck driver safety program and delivery of this program training to all truck drivers). In addition, isolated weaknesses in awareness amongst contractor personnel interviewed were noted during the audit (particularly amongst a sample of interviewed truck drivers respecting emergency preparedness steps). **Consequently this minor nonconformity remains open. The effectiveness of the implementation of the existing action plans to address this findings will be assessed during the next periodic assessment.**



- **2438-NC-IA-03:** Although there has been a noticeable improvement in emergency preparedness and response and fuel handling/management amongst contractors since the last audit, isolated weaknesses were found during the audit (e.g., no readily available spill kit on block to enable prompt response (Allwood: Block 9); 26,000 liter diesel tank with exposed, uncontained hose, small spill kit and a 1202 label missing (Allwood); 1202 labels missing from diesel fuel truck (Pine Ridge: Block 92); propane tanks without collision protection (Pine Ridge camp); no or inadequate secondary containment for generator diesel tanks (Allwood camp; Pine Ridge: Block 99); large diesel fuel tank without collision protection (Chingchanga Satellite Chipping Yard); uncertified/untested and poorly anchored tidy tank (Allwood: Block 353); no spill kit with chip truck (Goldstar truck on Estabrook Block 120)). In addition, due to the time of year of this audit it was not possible to assess whether the operation has addressed those issues pertaining to inadequate fire response equipment (except respecting fire extinguishers, for which there were no new issues identified during this audit). **Consequently this minor nonconformity remains open. A written corrective action plan that is designed to address the root causes of this nonconformity is required within 30 days of the closing meeting. The effectiveness of the implementation of the approved action plan will be assessed during the next periodic assessment.**

**Failure to effectively address the issues underlying the two open minor nonconformities could lead to them being upgraded to major nonconformities during the next assessment.**

In addition, there were two opportunities for improvement from the previous assessment. The auditor reviewed the issues associated with these opportunities for improvement to determine whether they had been effectively dealt with and determined that **2438-OFI-IA-02 had been dealt with and was consequently closed.** However, **the status of 2438-OFI-IA-01 remains essentially the same as when first raised and therefore remains open as an opportunity for improvement.** This issue will be reviewed during the next periodic assessment.

## Major nonconformities

No major nonconformities were identified during the audit

## Minor nonconformities

The following 3 minor non-conformities were identified during the audit:

1. **Minor nonconformity: 2438-NC- A1-01**

**Standard/Element(s):** 4.4.5 Control of documents; 4.4.6 Operational control

**Client Procedure:** EMSP-445; EMSP-446

The ISO 14001 standard at 4.4.5 requires organizations to establish, implement and maintain procedures to ensure relevant versions of applicable documents are available at points of use. In addition the ISO 14001 standard at 4.4.6 requires the organization to communicate applicable procedures and requirements to contractors.

Although the field audit determined that most essential documents were readily available to contractors, isolated gaps were noted (e.g., detailed block maps for all Allwood personnel (on blocks 8 and 9); pre-commencement binder for all Allwood personnel and woodlands response guide for cat operator (on block 353); AOP tables showing block-specific retention



levels (Pine Ridge blocks 92 and 97 – i.e., levels were verbally communicated)).  
In addition, skidder operators are not commonly provided with block maps.

2. **Minor nonconformity: 2438-NC- A1-02**

**Standard/Element(s):** 4.4.2 Competence, training and awareness

**Client Procedure:** EMSP-442

It was found during the field audit that operators are driving diesel fuel trucks within and between blocks without TDG training as required by the TDG Regulations (Allwood).

3. **Minor nonconformity: 2438-NC- A1-03**

**Standard/Element(s):** 4.5.4 Control of records

**Client Procedure:** EMS-442; EMSP-445; EMSP-445.2

The ISO 14001 standard at 4.5.4 requires that the organization establish and maintain records as necessary to demonstrate conformity to the requirements of its EMS and ISO 14001 standard and that the records are legible, identifiable and traceable. The following records were found to be incomplete and therefore not clearly demonstrating conformity to the requirements of the operation's EMS and ISO 14001 standard:

- The training needs matrix does not indicate the requirement for TDG training of pertinent staff and contractors and WHMIS training for contractors (Note: the ISO 14001 standard at 4.4.2 requires training needs associated with the operation's environmental aspects and EMS be identified, which would include regulatory training).
- Review of a sample of completed incident & issues tracking forms and database-generated woodlands incidents reports indicated that not all required information is always being identified and captured in the system (e.g., root cause; actions that clearly address the root cause; results of noted investigations; whether noted required action was taken; whether required follow-up was undertaken; etc.) and that inconsistent information is sometimes recorded. In addition, follow-up by DMI supervisors is not always clearly documented on the form and database/report to demonstrate that the corrective and preventive actions taken were effective in addressing the incident and consequently that the issue can be closed to the satisfaction of the DMI supervisor (i.e., the actions satisfactorily address the root causes as required by the ISO 14001 standard at 4.5.3).
- Although the operation implemented corrective actions to address issues identified during the August 3, 2005 audit, these were not recorded as required by the ISO 14001 standard at 4.5.3.

## Opportunities for improvement

The following 3 opportunities for improvement were identified during the audit:

1. **Opportunity for improvement: 2438-OFI-A1-01**

**Standard/Element(s):** 4.4.7 Emergency preparedness and response

**Client Procedure:** EMSP-447

The ISO 14001 standard at 4.4.7 requires organizations to periodically test its emergency preparedness and response procedures where practicable. Although the field audit determined that contractors are periodically conducting emergency testing (e.g., personal injury drills, fire



drills, etc.) it is not evident that the testing is always being done to evaluate the effectiveness of the operation's emergency preparedness and response procedures (i.e., there is no consistent approach for documenting the results of drills and in some cases the results of the drills are poorly documented so provide little value for feedback to the EMS; interview evidence suggests that the operation is not always communicating its expectations respecting testing and recording requirements and consequently a consistent, comprehensive approach is not being promoted).

**2. Opportunity for improvement: 2438-OFI-A1-02**

**Standard/Element(s):** 4.4.6 Operational control

**Client Procedure:** EMSP-446

A review of Detailed Block Plan maps for the sample of blocks inspected in the field revealed that the maps provided to contractors are not always consistent with conditions on the ground (i.e., respecting nest and water crossing locations). In addition, the maps do not provide any details on some critical site factors that operators should be aware of to direct them in their operations (e.g., classification of streams, retention levels, "other", etc.).

**3. Opportunity for improvement: 2438-OFI-A1-03**

**Standard/Element(s):** 4.5.3 Nonconformity, corrective action and preventive action

**Client Procedure:** EMSP-453

Although the operation incorporates incidents and operational issues requiring corrective actions (e.g., nonconformities and non-compliances) into databases and tracks both issues and corrective actions within the databases, the current system is not set up to report out in a manner which allows for trend analyses and easy evaluation of action effectiveness (i.e., is the issue recurring despite the actions taken?).

## **Audit conclusions**

The audit found that Daishowa-Marubeni International Ltd.'s environmental management system continues to be effectively implemented. As a result, a decision has been reached by the lead auditor to recommend that Daishowa-Marubeni International Ltd. continue to be registered to the ISO 14001 standard.

Our assessment by its nature is a sample and is not intended to be as comprehensive as your internal audit. It is possible for nonconforming issues to remain undetected. Our next assessment will verify that your internal audits have continued to operate as the primary mechanism to ensure that your management system remains effectively implemented and continues to improve.

## **E. Corrective Action Plans**

Written corrective action plans that are designed to address the root causes of all identified non-conformities are required within 30 days of the closing meeting. These will be reviewed by KPMG PRI for adequacy, and either approved or returned for revision.

A template for Daishowa-Marubeni International Ltd. to develop the required corrective action will be provided to you for this purpose. Please complete the appropriate section of this template and e-mail your proposed corrective actions to the KPMG PRI lead auditor for review.



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## **F. Focus Areas for Next Audit Visit**

The following issues/potential concerns have been identified as focus areas for the next audit visit:

1. A sub-set of the remaining elements of the ISO 14001 standard not assessed during this surveillance audit.
2. Elements of the ISO 14001 standard assessed during every audit (i.e., external communication; assessment of performance against objectives and targets; Evaluation of Compliance; Nonconformity, Corrective and Preventive Action; Internal Audit; and Management Review).
3. Review of the implementation of action plans designed to address findings raised during this assessment as well as those remaining open from the last assessment.
4. The impact of staff changes on the continuing implementation and effectiveness of the EMS.
5. Activities that were not or could not be assessed during this audit (i.e., silviculture, fire preparedness, road construction and deactivation, etc.).