

Environment Protection Authority

Estimating financial assurances: Guideline on Independent Assessment of Costs



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This guideline sets out the EPA's requirements for estimating financial assurances.

It covers:

- estimating costs
- independent assessment of the cost estimate.

Glossary

Term	Definition
Actions	<p>Refers to:</p> <ul style="list-style-type: none"> actions required by a management order, ongoing maintenance order, public positive covenant or restriction issued or imposed under the <i>Contaminated Land Management Act 1997</i> works or programs required by an environment protection licence issued under the <i>Protection of the Environment Operations Act 1997</i> works or programs required by a radiation management licence issued under the <i>Radiation Control Act 1990</i> actions required to meet product stewardship requirements or targets under the <i>Plastic Reduction and Circular Economy Act 2021</i>.
Audit	<p>An engagement of an auditor to check that the cost estimate is reasonable and supported by enough evidence.</p> <p>An audit provides a higher level of confidence in the reasonableness of the cost estimate than a verification engagement. For financial experts, an audit is usually known as a 'reasonable assurance' or 'limited assurance'.</p>
Auditor	A registered company auditor. This is a financial expert who has enough technical knowledge and expertise in financial accounting, auditing or analysis and/or other relevant disciplines to assess the reasonableness of the cost estimate. For financial experts, the auditor is usually known as an 'assurance practitioner'.
Contamination	Contamination has the same meaning as defined in section 5 of the <i>Contaminated Land Management Act 1997</i> .
Cost estimate	A reasonable estimate of the total likely costs and expenses that may be incurred in carrying out the actions required by or under the <i>Contaminated Land Management Act 1997</i> , <i>Plastic Reduction and Circular Economy Act 2021</i> , <i>Protection of the Environment Operations Act 1997</i> or <i>Radiation Control Act 1990</i> .
Financial assurance	<p>The monetary security or guarantee provided by a responsible person or company towards actions arising under:</p> <ul style="list-style-type: none"> a management order under s14 of the <i>Contaminated Land Management Act 1997</i> an ongoing maintenance order under s28 of the <i>Contaminated Land Management Act 1997</i> a public positive covenant or restriction under s29 of the <i>Contaminated Land Management Act 1997</i> the <i>Plastic Reduction and Circular Economy Act 2021</i> an environment protection licence under the <i>Protection of the Environment Operations Act 1997</i>, or a radiation management licence under s6 of the <i>Radiation Control Act 1990</i>.
Independent assessment	A check of the costs of the actions, which is carried out by an auditor not related to the responsible person or company.
Licence	An environment protection licence issued under the <i>Protection of the Environment Operations Act 1997</i> or a radiation management licence issued under the <i>Radiation Control Act 1990</i> .

Management order	An order issued under the <i>Contaminated Land Management Act 1997</i> to carry out any action in relation to the management of significantly contaminated land.
Pollution	Pollution has the same meaning as pollution defined in section 4 of the <i>Protection of the Environment Operations Act 1997</i> .
Regulatory instrument	Refers to: <ul style="list-style-type: none"> the product stewardship requirements and targets under the <i>Plastic Reduction and Circular Economy Act 2021</i> an environment protection licence issued under the <i>Protection of the Environment Operations Act 1997</i> a management order or ongoing maintenance order issued under the <i>Contaminated Land Management Act 1997</i> a public positive covenant or restriction imposed under the <i>Contaminated Land Management Act 1997</i> a radiation management licence issued under the <i>Radiation Control Act 1990</i>.
Responsible person or company	The holder of, or person subject to: <ul style="list-style-type: none"> a management order or ongoing maintenance order issued under the <i>Contaminated Land Management Act 1997</i> a public positive covenant or restriction imposed under the <i>Contaminated Land Management Act 1997</i> an environment protection licence issued under the <i>Protection of the Environment Operations Act 1997</i> a radiation management licence issued under the <i>Radiation Control Act 1990</i> an action plan approved under the <i>Plastic Reduction and Circular Economy Act 2021</i>, or from whom the EPA may require financial assurance to secure or guarantee funding towards actions.
Review	A re-assessment of the cost estimate.
Technical specialist	A firm, or a person who is an employee of a firm, who meets the requirements in appendix C.
Verification	An engagement of an auditor where the scope of the engagement has been agreed between the auditor, responsible person or company and the NSW Environment Protection Authority (EPA). For financial experts, verification is usually known as an 'agreed upon procedures' engagement.

For the purposes of this guideline, terms used are defined as set out in this glossary. Where applicable, all terms have the same meaning as in the *Contaminated Land Management Act 1997* (CLM Act), *Plastic Reduction and Circular Economy Act 2021* (PRCE Act), *Protection of the Environment Operations Act 1997* (POEO Act) and the *Radiation Control Act 1990* (RC Act). Terms relating to an audit or verification performed by an auditor may differ to those used by financial experts in practice. Further explanation of audits and verifications are provided in appendix E.

Introduction

Estimating financial assurances involves you, or a technical specialist you engage, estimating the likely costs and expenses of carrying out actions for which you are responsible and, in some circumstances, an independent assessment of those costs by a financial expert.

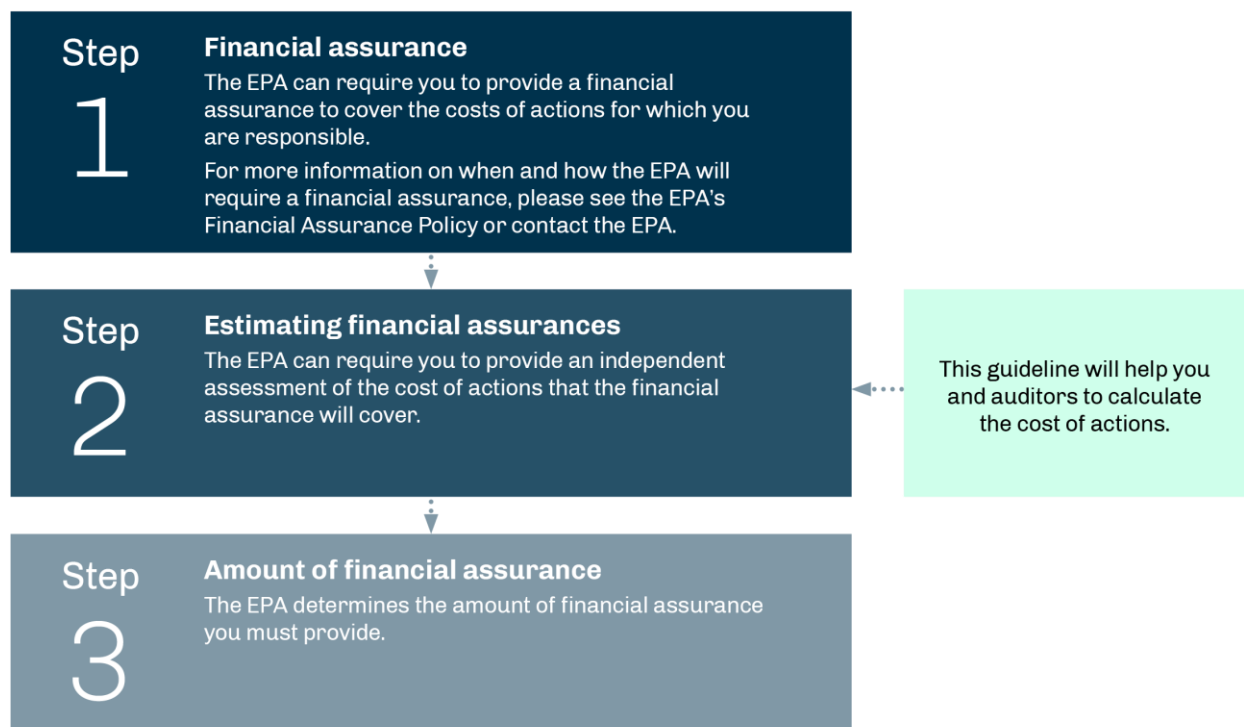
The EPA can require you, as a responsible person or company, to provide an independent assessment of the cost of carrying out your actions under several laws that the EPA administers. The EPA can do this when it requires a financial assurance to secure or guarantee funding for the actions under your regulatory instrument. The independent assessment assists the EPA to determine the amount of financial assurance that may be required.

This guideline sets out the EPA's requirements if you need to provide an independent assessment of the cost of your regulated actions. This guideline addresses:

- when an independent assessment of costs is required
- what are the components of an independent assessment and the requirements for the different types of cost calculations and independent assessment
- who prepares or provides the components of an independent assessment
- how frequently an independent assessment may be required.

This guideline does not address the EPA's process for deciding when a financial assurance is required or determining the amount of one in the absence of a requirement to undertake an independent cost assessment. This is illustrated in Diagram 1 below.

Diagram 1: The purpose of an independent cost assessment



Guideline overview

This guideline outlines the requirements for estimating financial assurances by an independent assessment of the cost of carrying out your regulated actions.

1.1. Purpose of the guideline

The EPA can require an independent assessment of the cost of carrying out regulated actions when a responsible person or company must provide a financial assurance, to secure or guarantee funding towards those actions, under:

- a management order or ongoing maintenance order issued, or public positive covenant or restriction imposed, under the *Contaminated Land Management Act 1997* (CLM Act)
- an action plan approved under the *Plastic Reduction and Circular Economy Act 2021* (PRCE Act)
- an environment protection licence issued under the *Protection of the Environment Operations Act 1997* (POEO Act), or
- a radiation management licence issued under the *Radiation Control Act 1990* (RC Act).

An independent assessment of the likely cost of actions the responsible person or company must carry out (such as pollution reduction programs, remediation or closure works, or monitoring and maintenance requirements post-closure) helps the EPA to decide the amount of financial assurance it needs.

The amount of financial assurance required can be no more than the total cost of carrying out the actions that the financial assurance is required for. The total cost is what the EPA considers to be a reasonable estimate of the total likely costs and expenses that may be incurred in carrying out the actions. This includes the likely costs and expenses of the EPA or the appropriate regulatory authority in directing or supervising the work.

This guideline contains the EPA's requirements if you need to provide an independent assessment of the cost of carrying out actions for which the financial assurance is required for. The cost assessment does not conclude on the amount of assurance required by the EPA.

This guideline does not apply in other situations where potential liabilities are being calculated for a different purpose.

It also provides guidance to technical specialists you engage to prepare a cost estimate and auditors undertaking an independent assessment.

1.2. Application of the guideline

This guideline applies to you if the EPA requires you, in a condition of your regulatory instrument or approved action plan under the PRCE Act, to provide an independent assessment of the cost of your actions under:

- section 42D of the CLM Act
- section 27 of the PRCE Act
- section 300(3) of the POEO Act, or
- section 28E of the RC Act.

You will only need to provide an independent assessment of costs where a condition of your regulatory instrument or approved action plan also requires a financial assurance to secure or

guarantee funding towards your obligations under the regulatory instrument or under the PRCE Act.

This guideline does not address when the EPA will require a financial assurance. This is covered in the EPA's *Financial Assurance Policy*.

1.3. Structure of the guideline

This guideline is structured into the following sections:



2. Costing actions

This section explains the components of an independent assessment of the cost of regulated actions.

An independent assessment of costs is a two-step process involving:

1. **a cost estimate** to calculate a reasonable estimate of the costs of carrying out the action that the financial assurance is required for. The requirements for estimating the costs are in section 3 of this guideline.
2. **an independent assessment** to provide the EPA with confidence that the cost estimate is reasonable. The requirements are in section 4 of this guideline.

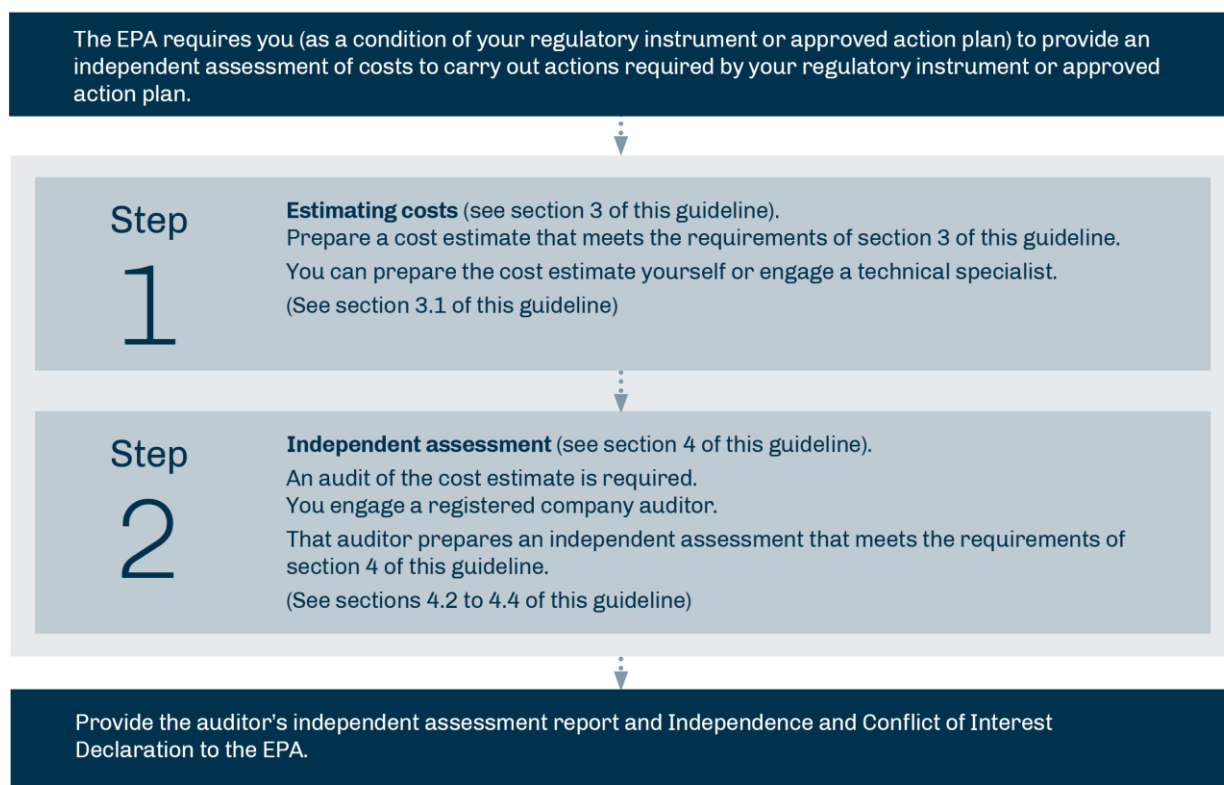
An overview of this process is illustrated in Diagram 2 below.

The EPA may also require a review and re-assessment of the cost estimate to confirm the continuing accuracy of costs of actions, particularly for projects that extend many years into the future or where there are major variations to the scope of actions. The EPA takes a risk-based approach to determining the requirements for reviewing cost estimates by considering:

- how often a review and re-assessment of the cost estimate is needed
- whether a review results in a major or minor change to the cost estimate
- whether an independent assessment of the review is needed.

The requirements for **reviewing the cost estimate** are in section 5 of this guideline.

Diagram 2: Overview of independent cost assessment process



2.1. Estimating costs

The EPA will generally require an estimate of the cost of carrying out the relevant actions required by a regulatory instrument.

Calculating this cost can be a complex and data intensive exercise. The requirements for preparing a cost estimate are in section 3.

2.1.1. Who prepares the cost estimate?

Where the EPA requires you to get an independent assessment of the costs, you must prepare and provide a cost estimate to the EPA.

It is not a requirement to, but you can engage a technical specialist to assist with preparing this. Further information on technical specialists is in section 3.1.1.

2.2. Independent assessment

An independent assessment is an audit of the cost estimate by a registered company auditor.

It is to provide the EPA with confidence that the costs calculated for carrying out the actions required by the regulatory instrument are reasonable.

The requirements for independent assessments are in sections 4 and 5 and appendices E and F.

If the financial expert cannot perform an audit on your cost estimate, you should contact the EPA and discuss whether an alternative independent assessment such as a verification is acceptable.

2.2.1. Who prepares the independent assessment?

The independent assessment is undertaken by a registered company auditor. This is a person (or an authorised audit company) registered as an auditor with the Australian Securities and Investment Commission (ASIC) for the purposes of the *Corporations Act 2001*.

You are responsible for engaging a registered company auditor to undertake the independent assessment and provide the report to the EPA.

You can find a registered company auditor by an online search, for example, of your local Yellow Pages. If you know the individual name of an auditor, you can also check the ASIC Professional Registers to ensure that they are a registered company auditor.

2.3. Ensuring compliance

The EPA may conduct monitoring activity of responsible persons or companies and auditors to ensure they are maintaining compliance with the requirements of this guideline.

Monitoring may include inspection of documents that support the cost estimate or independent assessment report. Inspections may be conducted by the EPA.

3. Estimating costs

This section sets out the requirements for preparing a cost estimate of carrying out the actions required by a regulatory instrument.

Checklist of requirements for estimating costs

You must:		
1.	Prepare the cost estimate in accordance with this guideline	<input checked="" type="checkbox"/>
2.	Where you engage a technical specialist to prepare the cost estimate, the technical specialist must:	
	a. be appropriately qualified	<input checked="" type="checkbox"/>
	b. prepare the cost estimate in accordance with this guideline	<input checked="" type="checkbox"/>
3.	The cost estimate is for the actions specified in the condition requiring financial assurance in your regulatory instrument or approved action plan	<input checked="" type="checkbox"/>
4.	The cost estimate includes the estimated amounts of money needed for the actions	<input checked="" type="checkbox"/>
5.	The cost estimate includes provision for an EPA site auditor if applicable	<input checked="" type="checkbox"/>
6.	The calculation methodology or tool includes a detailed quantified schedule of items making up the pollution reduction or contamination remediation actions	<input checked="" type="checkbox"/>
7.	Costs are estimated using the best data available at the time and can be referenced and verified	<input checked="" type="checkbox"/>
8.	The cost estimate includes provision for contingency that is appropriate to reflect the risks — and the contingency rate(s) are documented and their rationale clearly explained	<input checked="" type="checkbox"/>
9.	The cost estimate takes into account the effects of inflation	<input checked="" type="checkbox"/>
10.	The cost estimate documentation clearly identifies and delineates different site areas or issues being costed and includes the documentation listed in the guideline	<input checked="" type="checkbox"/>
11.	All documents you and/or a technical specialist produce or reference to support the cost estimate are made available to the auditor engaged to undertake an independent assessment	<input checked="" type="checkbox"/>

3.1. Your responsibilities

You are responsible for preparing a cost estimate for your actions.

You are responsible for ensuring the cost estimate is prepared in accordance with the requirements of this guideline. This responsibility includes:

- establishing and maintaining adequate records and internal controls for the preparation and presentation of the estimate of costs
- selecting and applying measurement methods to prepare and present the data, and
- making representations and assumptions that are reasonable in the circumstances, and setting out those assumptions in the cost estimate.

You can engage a technical specialist to help you prepare the cost estimate.

Considerations for engaging technical specialists are outlined in appendix C. The independence of technical specialists is covered in appendix D.

3.2. Requirements for preparing the cost estimate

The cost estimate must be prepared in accordance with this guideline.

It must be a reasonable estimate of the total likely costs and expenses that may be incurred in carrying out the actions as required by this guideline.

It includes the components listed in Table 1 below.

Table 1 Components of the cost estimate

Cost estimate	Costs to include
Your cost	Costs associated with actions (sections 3.2.1 to 3.2.4) Site Auditor, if applicable (section 3.2.2) Contingency (section 3.2.5)

3.2.1. Scope of cost estimate

The cost estimate must be prepared for the actions specified in the condition requiring financial assurance in your regulatory instrument or approved action plan.

A cost estimate may reflect a range of clean-up standards, such as :

- making a site safe to reduce any risks to human health and prevent degradation of the environment
- remediating a site for a future 'more sensitive use' appropriate to its zoning
- undertaking monitoring and maintenance requirements post closure.

For the PRCE Act, it may reflect actions required to meet product stewardship requirements or targets. For example, actions for the recycling, recovery or disposal of a regulated product.

The cost estimate relates to the actions you are required to provide a financial assurance for. It does not apply to your requirements under other statutory approvals. The actions that the cost estimate is prepared for will be specified in your regulatory instrument or approved action plan.

Appendix A contains guidance on the types of actions that may need to be costed.

The cost estimate includes the estimated amounts of money needed for the pollution reduction or remediation actions, or actions to meet product stewardship requirements or targets.

The cost estimate does not include:

- costs to compensate for loss or ongoing damage to other parties as a result of the pollution or contamination
- social, economic or broader environmental impacts that may be assessed in a comprehensive sustainable remediation analysis or cost benefit analysis, such as human health or ecological costs of exposure to pollution or contamination, or impacts to land values of the site or surrounding property
- costs of social closure, e.g. costs of community programmes to help transition to a sustainable economy in an area dependent on mining.

The cost estimate must include provision for EPA site auditor activities if required under a management order.

3.2.2. Method of calculation

A methodology or tool used by the person or company preparing the cost estimate must include a detailed quantified schedule of items making up the pollution reduction or

contamination remediation actions or actions to meet product stewardship requirements or targets.

The detailed quantified schedule of items must include:

1. a brief description of each cost component (line item)
2. measurement units and unit costs for different line items, where applicable
3. costs against each line item
4. sub totals and total costs.

The calculation methodology or tool used to develop the cost estimate is not specified. A spreadsheet, cash flow model or cost benefit analysis model may be suitable.

An example format for the detailed quantified schedule is provided in appendix B.

3.2.3. Basis of cost estimate

Costs must be estimated using the best data available at the time.

The best data may include:

- direct measurement
- engineering and scientific studies and assessments
- previous experience
- previous reports and studies of a similar nature
- pilot trial results
- advice and quotations from relevant suppliers, customers and contractors
- recognised experts who are familiar with such costs (and income if applicable, e.g. sales proceeds for by-products of remediation processes or disposal of plant and equipment when actions end).

All components of the cost estimate must be shown on a 'gross' or whole cost (or income) basis and not be reduced by deductions or other offsets.

All costs (and income) must be specific to the site of the actions, include an estimated dollar value and the years in which the costs (and income) are forecast to occur.

GST should be excluded from the cost estimate.

Data must be able to be referenced and verified.

Costs need to be based on quantifiable industry rates applied to site specific assumptions rather than high level 'ball park' estimates.

For example, unit costs for expense items could be based on actual costs of previous similar actions or rates databases developed by engineering firms. The Rehabilitation Cost Estimation Tool developed by the Department of Regional NSW (Division of Mining, Exploration and Geoscience) for estimating mine site rehabilitation costs might be useful where applicable to contaminated sites.

3.2.4. Uncertainty

The cost estimate, being forward looking in nature, involves uncertainty. The nature and reliability of information available to develop the cost estimate varies widely and judgement is needed to evaluate and apply this information. Precise measurement of some elements of the cost estimate may also not be possible and assumptions are often required.

Any uncertainty in the cost estimate should be clearly identified and explained. Including a contingency amount in the cost estimate will address this uncertainty.

3.2.5. Contingency

The cost estimate must include provision for contingency that is appropriate to reflect the risks.

Cost estimation of actions is inherently uncertain due to incomplete knowledge of circumstances at the time the actions will be undertaken. This uncertainty is 'costed' by including a contingency provision to cover unplanned or unforeseeable conditions such as adverse weather events, material or supply shortages, or changes due to incomplete design information, remediation failure or regulatory requirements.

As a guide, contingencies of 10% to 20% of total estimated costs are commonly applied to actions in overseas jurisdictions.

Generally, provisions for contingencies are highest during the initial planning or early design stages of a project when less information is available and decrease as the project progresses and more detailed designs are developed, and results become available. Proposals involving established practices and technologies may require a lower contingency than innovative or untested treatment methods. The contingency level may therefore need to be adjusted over time.

The contingency rate applied must be documented and the rationale for it clearly explained.

Uncertainty impacts need to be measured using recognised industry contingency estimation frameworks.

Engineering firms, quantity surveyors and industry associations in Australia or overseas can provide well defined approaches and methodologies for applying contingencies for different aspects of actions and at different stages of completion.

3.2.6. Inflation

The cost estimate must take into account the effects of inflation.

The long lead times and the duration of some pollution reduction, contamination remediation and product stewardship projects mean there is often a difference in the cost of actions between the start and end of the project. This variation must be accounted for by increasing costs over the project period. Costs are initially estimated and presented in today's costs (i.e. at the time of estimation and independent assessment of costs) and then adjusted for future inflation. You can find information on inflation rates at the Australian Bureau of Statistics and Reserve Bank of Australia websites.

3.3. Documenting the cost estimate

The cost estimate documentation should clearly identify and delineate different site areas or issues being costed and include, but not be limited to, the documents listed below.

- a summary cost schedule
- supporting schedules providing a detailed breakdown of each expense category, and showing the periods in which expenses will be incurred if the actions extend over multiple years
- suitably referenced data sources
- any representations you make, and assumptions used in the estimate
- rationale for the selection of the contingency rate(s) and the rate(s) used
- rationale for the selection of the inflation rate and the rate used
- documents regarding the use of any technical specialists, including determination of scope, assessment of suitability of their work and the specialist's report.

If you are required to prepare an independent cost assessment, all documents you and/or a technical specialist produce or reference to support the cost estimate must be made available to the auditor undertaking the independent assessment.

All inputs to the cost estimate, management representations and assumptions must be substantiated and provided to the auditor. This includes quantifying uncertainty with reference, for example, to established contingency estimation frameworks.

Where a technical specialist is engaged to prepare the cost estimate you must ensure they provide supporting evidence with the cost estimate or facilitate the auditor's access to them to make enquiries if needed.

This evidence may include records of the items listed in sections 3.2.3 and 3.2.5.

The auditor needs this information to have enough appropriate evidence to assess whether the cost estimate is reasonable.

3.4. Providing supporting documents to the EPA

You must provide the cost estimate and supporting documents together with the auditor's independent assessment report on the cost estimate to the EPA.

The auditor's independent assessment report is discussed in section 4.

4. Independent assessment

This section sets out how to get an independent assessment of the estimated costs for carrying out the actions if required by the EPA.

Checklist of requirements for getting an independent assessment of the cost estimate

You must:		
1.	engage an auditor to undertake the independent assessment	<input checked="" type="checkbox"/>
2.	be independent of and free from conflicts of interest with the auditor	<input checked="" type="checkbox"/>
3.	discuss early with the auditor whether an audit can be performed. Where it can't, discuss with the EPA whether an alternative independent assessment is acceptable	<input checked="" type="checkbox"/>
4.	get an independent assessment that meets the requirements of section 4.2 or 4.3, as applicable	<input checked="" type="checkbox"/>
5.	provide all evidence supporting the cost estimate to the auditor	<input checked="" type="checkbox"/>
6.	provide the independent assessment report to the EPA	<input checked="" type="checkbox"/>
7.	provide the EPA with a copy of the Independence and Conflict of Interest Declaration	<input checked="" type="checkbox"/>

4.1. Your responsibilities

You are responsible for:

- appointing an auditor to undertake an independent assessment to meet the requirements of this part of the guideline (see sections 4.2 and 4.3)
- ensuring that the auditor undertaking the independent assessment has the necessary skills and expertise to satisfactorily prepare for and carry out all aspects of it
- arranging for the independent assessment to be undertaken
- providing all evidence to support the cost estimate to the auditor (see section 3.3)
- providing the independent assessment report to the EPA.

4.2. Independent assessment of cost estimates

An audit of the cost estimate is to be carried out by a registered company auditor.

The auditor will assess the cost calculation tools and information supporting the cost estimate to enable them to form a conclusion about the reasonableness of the cost estimate. The auditor will issue a report with an opinion as to whether the cost estimate is fairly stated.

Further information about the types of assessment auditors perform and the levels of confidence about the cost estimate and opinions they provide can be found in appendix E.

You must discuss early with your auditor whether an audit can be performed on the information you have available to support the cost estimate.

You must be able to provide the auditor with all the documentation outlined in section 3.3 and all supporting evidence that may include records of the items listed in sections 3.2.2, 3.2.3 and 3.2.5.

If the auditor believes they cannot perform an audit, you must discuss with the EPA whether an alternative independent assessment is acceptable (see section 4.3).

4.3. Alternative independent assessment

A verification may be undertaken when an audit cannot be performed. An audit may not be able to be performed when the auditor has concerns about specific aspects of the cost estimate, such as whether all cost items are included.

A verification involves an auditor performing procedures that you, the auditor and the EPA agree on so that the auditor can provide factual findings on the cost estimate.

This is an alternative independent assessment to an audit, as the auditor is not forming a conclusion on the cost estimate. However, for the purposes of this guideline and its requirements, verification is considered an independent assessment of costs where the terms and scope of the verification is agreed to by you, the auditor, and the EPA.

Further information about the scope and types of assessment auditors perform in a verification can be found in appendix E.

The scope of the verification must be agreed upon by you, the auditor and the EPA.

The terms of the engagement, including procedures and reporting of findings, will depend on the circumstances and must be agreed upon by you, the auditor and the EPA. Scope exclusions (what is not included) should also be discussed and agreed upon.

The auditor will perform only the agreed procedures and will not make any evaluations, judgments or conclusions. The auditor will not perform extra procedures, even if misstatements are found, unless you, the auditor and the EPA agree the scope should be varied.

You must be able to provide the auditor with all the documentation outlined in section 3.3 and all supporting evidence that may include records of the items listed in sections 3.2.2, 3.2.3 and 3.2.5.

4.4. Requirements of independent assessment of costs

You must engage an auditor to perform an independent assessment and confirm that the cost estimate is prepared in accordance with the requirements in this guideline.

You must engage an auditor to undertake the independent assessment of costs.

Auditors in practice are required to apply relevant standards for their profession. These are issued by the Auditing and Assurance Standards Board.

The auditor must be independent of you and free from conflicts of interest.

Being independent and free of conflicts of interest allows the auditor to exercise professional judgement and objectively assess the cost estimate.

If the auditor engages their own experts to assist with the independent assessment of costs, these experts are also subject to the independence, conflict of interest and quality control requirements applicable to the auditor. These experts may include the technical specialists discussed in section 3.1. Independence considerations are explained further in appendix D.

You must provide the auditor's report on the independent assessment of costs to the EPA.

The report must include the auditor's conclusions (in the case of an audit) and findings. The report must explain the significance of findings and provide any recommendations.

The report must show how the overall cost estimate is affected when those recommendations are applied. This must be indicated in percentage and dollar terms, both individually for the cost element and in aggregate for the cost estimate as a whole. This analysis may inform judgements about the significance of findings.

Findings and recommendations may arise in respect of:

- the calculation tool or methodology
- inputs to the tool or methodology

- representations and assumptions needed to provide a reasonable estimate of the total likely costs and expenses of carrying out the actions.

Other examples will arise, and the list above is not exhaustive.

Templates for an audit report and a verification report are provided in appendix G.

At the time of providing the report on the independent assessment, you must provide the EPA with the signed auditor's 'Independence and Conflict of Interest Declaration' covering all members who worked on the independent assessment of costs.

A template for the declaration is provided in appendix F.

4.5. When an independent cost assessment cannot be performed

An auditor may be unable to perform either an audit or verification when you do not provide enough evidence to substantiate all components of the cost estimate. This will mean the EPA does not have a reliable cost calculation from which to decide the amount of financial assurance it will need from you.

Where you do not provide a reliable cost estimate, the EPA may consider whether:

- to direct you to provide the information if it is held by you but not included in your independent cost assessment
- extra contingency is needed to cover the uncertainty around the reasonableness of the cost estimate. The EPA could add this to the amount of financial assurance you are required to provide to address the risk of underestimating the costs of carrying out the actions.
- you have breached a condition of your regulatory instrument or approved action plan. The EPA will consider this in light of its Compliance Policy.
- you are fit and proper to hold a licence. If you are unable to provide a reliable cost estimate, this suggests you may not be able to estimate the cost of your potential liabilities and be able to fund them.

If there are valid reasons why you cannot provide information you should discuss these with the EPA.

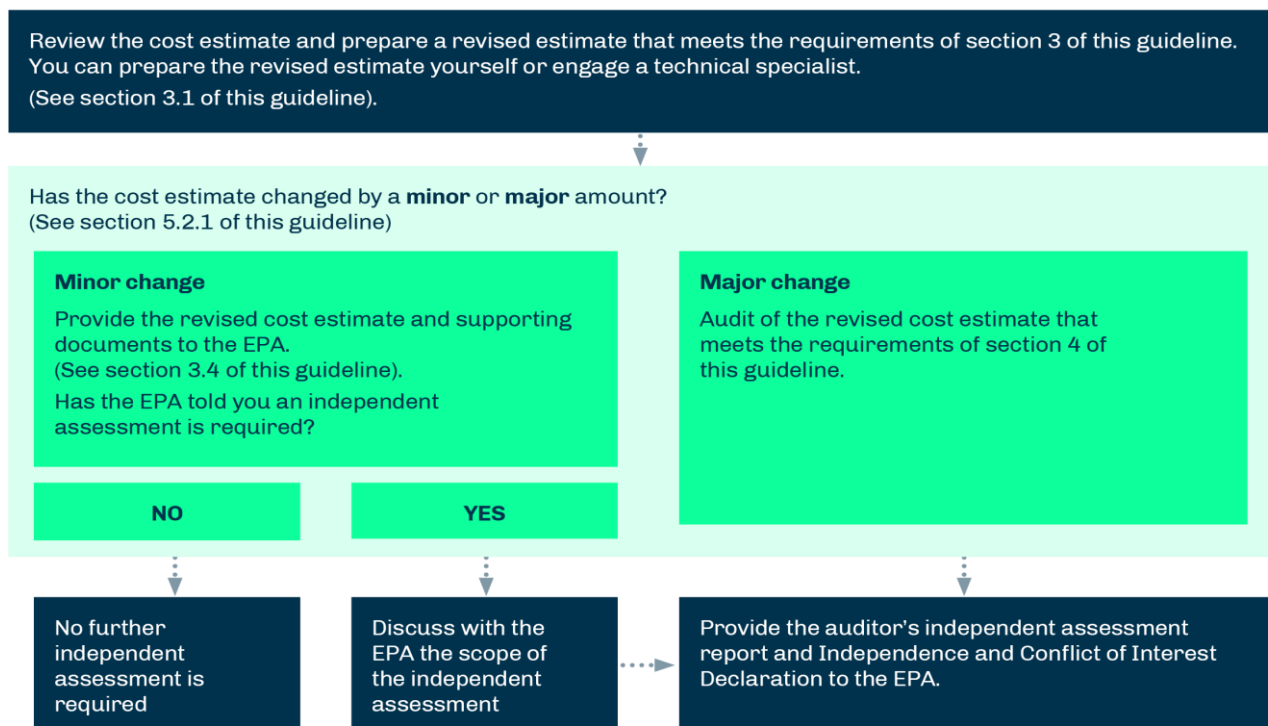
5. Reviewing the cost estimate

This section sets out the requirements for reviewing the cost estimate.

From time to time the EPA may require information about any changes to the costs of the actions so it can consider whether any financial assurance already provided is still adequate. You may need to prepare a revised cost estimate to help the EPA assess this.

If you are required to review your cost estimate, the steps that you may need to follow are shown in Diagram 3 below.

Diagram 3: Overview of a cost estimate review



Checklist of requirements for reviewing cost estimates

- | | | |
|----|---|-------------------------------------|
| 1. | You must review the cost estimate by applying the requirements in section 3 of this guideline | <input checked="" type="checkbox"/> |
| 2. | Where there is a minor change to the cost estimate, provide the revised estimate and supporting documents to the EPA which include a detailed breakdown of each expense (and income) category showing percentage movements since the previous cost estimate | <input checked="" type="checkbox"/> |
| 3. | Where the EPA directs that a minor change to the cost estimate must be independently assessed, obtain a verification of the cost estimate that meets the requirements of section 4 of this guideline | <input checked="" type="checkbox"/> |
| 4. | Where there is a major change to the cost estimate, get an audit of the cost estimate that meets the requirements of section 4 of this guideline | <input checked="" type="checkbox"/> |

5.1. Frequency of review

How often the EPA may require you to review the cost estimate depends on whether your circumstances change, what the particular regulatory instrument or approved action plan condition requires, or as part of the five-yearly licence review.

Cost assessments become more accurate as actions progress. New, revised or more defined information may be discovered and modifications due to technology or site-specific developments may arise after the investigation, planning or early project stages. The amount of the financial assurance may therefore need to be adjusted for changes to the cost of carrying out the action, particularly if your project extends many years into the future.

Your regulatory instrument or approved action plan condition may specify the interval for a review of the independent cost assessment. If not, the EPA may consider reviewing the cost estimate to coincide with your licence review period or may require you to review the independent cost assessment as part of an approved action plan review.

Major variations to the scope of actions to be covered by the financial assurance would normally require a variation of your regulatory instrument or approved action plan condition. A review of the cost estimate may be required at this time.

You may choose to review the cost estimate more than the EPA requires — for example, annually as part of your financial reporting processes.

5.2. Revising the cost estimate

You must provide a detailed breakdown of each expense (and income) category showing percentage movements since the previous estimate.

You are responsible for reviewing the cost estimate and providing a revised one to the EPA. This is done by estimating the costs as outlined in section 3 of the guideline.

You can engage a technical specialist to help you with a cost estimate revision.

In addition to the supporting documents required in section 3, you are required to provide a breakdown of the percentage movement since the previous cost estimate was prepared.

This information will help the EPA consider if the change is major or minor, and whether an independent assessment is required.

5.2.1. Major and minor changes to the cost estimate

A review of the cost estimate may result in either a minor or major change. A minor change may involve a simple revision to data inputs or assumptions — for example for unit cost increases or decreases over time. A major change may involve more substantial revisions to reflect improved information since the estimate was initially made, or changing circumstances such as a change in scope of the actions.

The following table sets out when a change in the cost estimate will generally be considered minor or major.

Table 2 Minor and major changes to the cost estimate

Change in cost estimate	Criteria	Example of circumstance when criteria is met
Minor change Both criteria must be met	Little or no change to the scope, nature and timing of actions Minor revision to the costing of inputs and/or management assumptions calculated	<ul style="list-style-type: none"> on review of regulatory instrument or approved action plan condition
Major change Either or both criteria must be met, or when directed by the EPA	Substantial change in the scope, nature and/or timing of actions Significant revision to the costing of inputs and/or management assumptions calculated	<ul style="list-style-type: none"> newly discovered emissions or contamination or a change in the extent of previously identified pollution or contamination adoption of new or alternative technologies interim findings requiring a change in approach, e.g. due to ineffective remediation techniques significant delays changes to product stewardship actions or targets required under the PRCE Act renegotiated contractor rates resulting in significant revision to the cost estimate major increase/decrease in costs of equipment, materials, works or supplies unexpected repairs to plant or equipment savings associated with productivity improvements product stewardship reporting shows actions taken to meet product stewardship requirements and targets are unlikely to be adequate

5.3. Independent assessment of revised cost estimates

If there is a **major change** to the cost estimate, an independent assessment that meets the requirements of section 4 of this guideline is required. You will need to engage a registered company auditor to undertake the independent assessment and provide the report and Independence and Conflict of Interest Declaration to the EPA.

For a **minor change**, the EPA will consider the information you provide and advise whether an independent assessment of costs is required. A minor change may not require an independent assessment of costs unless the EPA considers the revised cost estimate has not been prepared with enough rigour, or you don't provide enough supporting documentation on the revised cost estimate. In this case, the EPA may require a verification that meets the requirements of section 4 of this guideline.

Alternatively, where a cost estimate (or a component of a cost estimate) has been examined by an auditor as part of an audit of your financial statements (at financial year end), the EPA may seek further information about the work that was performed by the auditor and the results of that work.

The independent assessment of costs requirements for revised cost estimates are set out in Table 3.

Table 3 Independent assessment requirements for revised cost estimates

Change in cost estimate	Type of assessment
Minor change Little or no change in scope and minor revision to costing	Audit not required unless advised by the EPA. The EPA may require some level of verification (for example, where technical specialists are not involved in preparing the revised cost estimate or you don't provide enough supporting documentation to the EPA)
Major change Significant change in scope or major revision to costing Or as directed by the EPA	Audit of the revised cost estimate

Appendix A: Guidance on actions informing cost estimates

The table below contains guidance on the types of actions that may need to be costed, depending on the requirements of the conditions of a regulatory instrument for which the financial assurance is provided. The actions may address pollution or contamination in more than one phase or area of operations, or there may be some overlap. Equally, not all activities listed in the table will apply to every action.

Phase	Actions in this phase
Operational Ordinary company activities undertaken at a facility or site. Short to long-term measures may be needed to address a pollution or contamination issue during a facility or site's ongoing operations.	Conditions under a regulatory instrument may require you to address soil, surface water, groundwater or air pollution or contamination by carrying out: <ul style="list-style-type: none"> • site investigation works to determine the amount of the pollution or contamination • an environmental risk assessment to determine what risks are posed to environmental receptors and appropriate pollution reduction or contamination remediation strategies • implementation of pollution reduction or contamination remediation works, programs or actions (e.g. decontamination, waste disposal, excavation, containment, treatment, environmental verification testing and/or design, installation of in-situ treatment systems, temporary replacement of water supply, topsoil replacement, landscaping) • a securing of the site • maintenance and monitoring.
Shut down or decommissioning The ending of ordinary company activities and retirement, significant asset disposal, deactivation and/or removal of facility or site infrastructure. Involves relatively short-term measures to close a site. In some cases, there may be no further environmental liabilities once shut down and decommissioning is complete.	May include: <ul style="list-style-type: none"> • decontamination and cleaning of plant and equipment • removal, re-use or recycling of plant and equipment • implementation of minor remediation works • removal of waste offsite for recovery or disposal • securing the site • site monitoring.
Closure/rehabilitation This phase addresses any contamination associated with land, to return it to a usage appropriate for its zoning under the relevant Local Government Area Local Environment Plan or State Environmental Planning Policy (SEPP).	Activities include remediation and rehabilitation where soil, groundwater or surface water contamination has occurred, or where land use changes are anticipated or planned, for example, on the site of landfills, extractive waste facilities, quarries or industrial facilities. This may include:

Longer-term measures are needed if environmental liabilities remain after activity ceases and a site is decommissioned.

- site investigation works to determine the amount of the pollution or contamination
- an environmental risk assessment to determine what risks are posed to environmental receptors and appropriate remediation strategies
- implementation of remediation works or actions (e.g. excavation, treatment, environmental verification testing and/or design, installation of in-situ treatment systems)
- securing the site
- maintenance and monitoring.

Post closure phase

Ongoing management (as agreed in the management plan or in accordance with relevant legislation) of environmental liabilities remaining at a site or facility following closure/rehabilitation. This may be required in perpetuity (e.g. containment cells regulated by the EPA). This phase may also include relinquishment of tenure and liability. The post closure phase is preceded by the shutdown/ decommissioning phase.

Can require long-term measures once rehabilitation activities are complete, including ongoing emissions control and monitoring, to ensure that closure and rehabilitation measures continue to be effective and the site remains stable.

Post closure measures may involve simply monitoring over a period of time, or more complex ongoing pollution control measures. These may include:

- maintenance of surface water drainage systems
- operation of contaminated soil and groundwater pump and treat systems (including in-perpetuity at some sites)
- ongoing landfill/containment cell gas extraction and flaring and utilisation
- ongoing leachate extraction and treatment and disposal (including in-perpetuity at some sites)
- maintenance of access to monitoring locations
- servicing and calibrating of monitoring equipment
- containment cell capping maintenance
- landscape maintenance of grass cover and planting.

It may be helpful to also consider actions in terms of when they occur, to ensure all relevant items are included. This includes:

- initial activities, including ones associated with start-up and operation — for example, site investigation, action plan development and construction of any relevant infrastructure
- annual or ongoing activities, including operating and maintenance activities for the continued effectiveness of the project throughout its lifetime — for example, personnel and contractor costs, monitoring, project management and administrative costs
- periodic, ad hoc or irregular activities which may be of either a capital or operating and maintenance nature, that keep the project on track and for winding it up on completion — for example, remedial reviews and plan revisions and major equipment replacement.

Actions for meeting product stewardship requirements or targets under the PRCE Act will depend heavily on the nature of the regulated product and the requirements and targets. Product stewardship requirements and targets may apply to one or more stages of the stewardship of the life cycle of a product, including the development, design, creation, production, assembly, supply, use or re-use, recovery, recycling or disposal of a product.

Appendix B: Sample detailed cost estimate templates

Sample format for preparing the cost estimate – operational phase

Activity	Description	Year cost expected to be incurred	Quantity	Measure ment unit	Unit rate (excl. GST) \$	Cost (excl. GST) \$	Source of unit rates/ notes
		0 to maximum	A	e.g. per day, tonne, m ² , ha	B	= A x B	e.g. supplier/ contractor quote
Operational phase							
Technical planning and support	Site investigation (e.g. consultants)						
	Environmental/human health risk assessment (e.g. consultants)						
	Environmental impact assessments and/or environmental/human health risk assessments						
	Development of management plan						
	Cost of technical studies that may be required to better understand contamination, rehabilitation requirements etc.						
Implementation of pollution reduction or remediation programs	Labour (personnel, contractor costs)						
	Materials and equipment						
	Temporary facilities (fencing, roads, signage)						
	Temporary replacement water supply						
	Decontamination of plant and equipment, e.g. chemical, biological and fuel storage and processing units, abatement/treatment systems and utilities (chillers, boilers, cooling towers, generators, transformers, etc)						

	Installation of test pits
	Installation of boreholes
	Slope stability assessment
	Excavation of contaminated soil
	In-situ treatment of contaminated soil and/or groundwater
	Installation of barriers
	Transport and disposal of hazardous waste
	Transport and disposal of non-hazardous waste
	Water treatment
	Capping
	Soil vapour, ground gas and/or leachate management
	Landscaping and revegetation
Waste recovery or disposal	Transport and disposal of soil, sludge, wood, textiles, solvents/paints, metal, waste oils, asbestos, ash, animal by-products and other solid, liquid and gaseous wastes
Monitoring	Sampling, testing and analysis of surface water, groundwater, noise, air, gas, soil, leachate, ecological systems, waste, etc
Pollution reduction/remedial plan review and revision	Analysis and redevelopment of management plan should monitoring indicate a deterioration at the facility or site or original plan failure.
Site audit	EPA-accredited site auditor involvement (e.g. site audit statement)
Securing the site	Gates, fencing, etc
	CCTV
	Security personnel

Management and administration	Management personnel
	General administration and other personnel
	Insurance
	Overheads (utilities, services, etc)
Total (\$)	
Contingency	xx%
TOTAL COST ESTIMATE including contingency (\$)	

Sample format for preparing the cost estimate – shut down and decommissioning and closure/rehabilitation phases

Activity	Description	Year cost expected to be incurred	Quantity	Measurement unit	Unit rate (excl. GST) \$	Cost (excl. GST) \$	Source of unit rates/ notes
		0 to maximum	A	e.g. per day, tonne, m2, ha	B	= A x B	e.g. supplier/contractor quote
Shut down and decommissioning							
Technical planning and support	Site investigation (e.g. consultants)						
	Environmental impact assessment (e.g. consultants)						
	Development of a management plan						
Plant and equipment decontamination, i.e. cleaning and removal of chemical and other residues	Labour (personnel, contractor costs)						
	Materials and equipment for decontamination of chemical, biological and fuel storage and processing units, abatement/treatment systems and utilities (e.g. chillers, boilers, cooling towers, generators, transformers, etc)						
Plant and equipment decommissioning, i.e. removal from service	Labour (personnel, contractor costs)						
	Materials and equipment for decommissioning of chemical, biological and fuel storage and processing units, abatement/treatment systems and utilities (e.g. chillers, boilers,						

	cooling towers, generators, transformers, etc)
	Transport
	Disposal
	Recovery
Demolition	Works to remove any risk of pollution or contamination and/or return the site to a usage appropriate for its zoning
Remedial action	Site investigation (e.g. consultants)
	Excavation of contaminated soil
	Disposal of contaminated soil
	In-situ treatment of contaminated soil and/or groundwater
	Capping
	Soil vapour and ground gas and/or leachate management
Waste recovery or disposal	Transport and disposal of soil, sludge, wood, textiles, solvents/paints, metal, waste oils, asbestos, ash, animal by- products and other solid, liquid and gaseous wastes
Monitoring	Sampling, testing and analysis of surface water, groundwater, noise, air, gas, soil, leachate, ecological systems, waste, etc
Shut down and decommissioning plan review and revision	Analysis and redevelopment of implementation plan should monitoring indicate original plan failure

Site audit	EPA-accredited site auditor involvement (e.g. site audit statement)
Securing the site	Gates, fencing, etc
	CCTV
	Security personnel
Management and administration	Management personnel
	General administration and other personnel
	Insurance
	Overheads (utilities, services, etc)
Closure/rehabilitation	
Remedial design and planning	Site investigation (e.g. consultants)
	Environmental impact assessment and/or environmental/human health risk assessment (e.g. consultants)
	Development of management plan
	Permitting and approvals
	Capital works management, including design, tendering and contract administration
Remediation of soil, groundwater and surface water contamination	Labour (personnel, contractor costs)
	Materials and equipment for remediation works or action
	Temporary facilities (fencing, roads, signage)
	Installation of test pits

	Installation of boreholes
	Slope stability assessment
	Excavation of contaminated soil
	In-situ treatment of contaminated soil and/or groundwater
	Installation of barriers
	Transport and disposal of hazardous waste
	Transport and disposal of non-hazardous waste
	Capping
	Soil vapour, ground gas and/or leachate management and maintenance
Waste recovery or disposal	Transport and disposal of soil, sludge, wood, textiles, solvents/paints, metal, waste oils, asbestos, ash, animal by-products and other solid, liquid and gaseous wastes
Land use changes	Permanent infrastructure works, e.g. roads, drainage, ongoing gas flaring or leachate management works, vapour barriers in off-site locations
	Infrastructure maintenance
	Pest control
	Landscaping and revegetation
Monitoring	Sampling, testing and analysis of surface water, groundwater, noise, air, gas, soil, leachate, ecological systems, waste, etc

Remedial plan review/revision	Analysis and redevelopment of implementation plan should monitoring indicate a deterioration at the facility or site or original plan failure.
Removal of remedial infrastructure	Decommissioning and removal of structures, plant, equipment and other supplies used during the remediation process
Site audit	EPA-accredited site auditor involvement (e.g. site audit statement)
Securing the site	Gates, fencing, etc
	CCTV
	Security personnel
Management and administration	Management personnel
	General administration and other personnel
	Insurance
	Overheads (utilities, services, etc)
Total (\$)	
Contingency	xx%
TOTAL COST ESTIMATE including contingency (\$)	

Sample format for preparing the cost estimate – post closure phase

Activity	Description	Year cost expected to be incurred	Quantity	Measurement unit	Unit rate (excl. GST) \$	Cost (excl. GST) \$	Source of unit rates/notes
		0 to maximum	A	e.g. per day, tonne, m ² , ha	B	= A x B	e.g. supplier/contractor quote
Post closure							
Post closure design and planning (where not addressed in closure/rehabilitation phase)	Development of implementation plan						
	Permitting and approvals						
	Capital works management, including design, tendering and contract administration — e.g. for soil or groundwater treatment plant, containment cells, hydraulic and permeable reactive barriers, vapour extraction systems, etc						
Capital works and/or improvements	Labour (personnel, contractor costs)						
	Infrastructure construction materials and equipment						
Site operation	Labour (personnel, contractor costs)						
Income (if applicable)	Sale of by-products of remediation processes — e.g. treated water, steam, etc						
Maintenance	Routine plant and equipment inspection, testing and repair/replacement programs						

	Major equipment replacement programs
	Site maintenance, e.g. access, landscape
Monitoring	Sampling, testing and analysis of surface water, groundwater, noise, air, gas, soil, leachate, ecological systems, waste, etc
Remedial plan review/revision	Analysis and redevelopment of implementation plan should monitoring indicate a deterioration at the facility or site or original plan failure
Site audit	EPA-accredited site audit or involvement (e.g. site audit statement)
Securing the site	Gates, fencing, etc
	CCTV
	Security personnel
Management and administration	Management personnel
	General administration and other personnel
	Insurance
	Overheads (utilities, services, etc)
Total (\$)	
Contingency	xx%
TOTAL COST ESTIMATE including contingency (\$)	

Sample format for preparing the cost estimate – product stewardship requirements or targets

Activity	Description	Year cost expected to be incurred	Quantity	Measurement unit	Unit rate (excl. GST) \$	Cost (excl. GST) \$	Source of unit rates/notes
		0 to maximum	A	e.g. per day, tonne, m2, ha	B	= A x B	e.g. supplier/contractor quote
[List the particular product stewardship requirement of target here. For example, it may include a requirement about the development, design, creation, production, assembly, supply, use or re-use, recovery, recycling or disposal of the regulated product.]							
[Specify actions for reaching the product stewardship requirement or target in this column]	[Specify the various components for achieving that action in this column]						

Appendix C: Technical specialist considerations

The responsible person or company may engage technical specialists to help prepare a cost estimate. This might include environmental consultants, contaminated site assessors, site auditors, remediation specialists, tear down and demolition cost experts, environmental or waste auditors, commercial consultants or lawyers.

Qualifications

Technical specialists must have appropriate qualifications and professional body memberships for their relevant engineering and scientific fields.

Where a technical specialist is involved in preparing cost estimates required under the CLM Act, the technical specialist must be a certified contaminated land consultant. The EPA recognises the following certifications:

- Certified Environmental Practitioner (Site Contamination) (CEnvP (SC))
- Certified Professional Soil Scientist Contaminated Site Assessment and Management (CPSS CSAM).

Further information about finding a contaminated land consultant can be found on the EPA's website.

Compliance with relevant professional requirements and quality control

Relevant requirements will vary depending on the qualifications and memberships held by the technical specialist. Technical specialists may need to comply with applicable codes of ethics.

Regardless of relevant requirements, technical specialists must:

- be satisfied that they have the appropriate competence and capabilities to perform the tasks requested in the context of the preparing the cost estimate in accordance with this guideline
- maintain a comprehensive system of quality control including documented policies and procedures for carrying out their work, including preparing, planning, performing and reporting on an engagement to assist with preparing a cost estimate
- issue a report appropriate to their engagement that details the scope of work performed, findings and recommendations, where appropriate.

Independence

Technical specialists must be independent of and free from conflicts of interest with the responsible person or company. They must meet relevant professional requirements regarding independence. This is assessed by considering the independence guidance in appendix D.

Appendix D: Independence explained

The EPA requires that the assessment of costs be undertaken by person(s) who are independent of and free from conflicts of interest with the responsible person or company. This ensures that they can exercise professional judgement and objectively assess the cost estimate.

The following sections outline independence considerations for financial auditors. These are also relevant for technical specialists who prepare a cost estimate for the responsible person or company or assist an auditor undertaking the independent assessment.

Independence considerations

Financial auditors should follow any professional requirements regarding independence and conflicts of interest.

Financial auditors for example, are expected to follow APESB 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board.

All persons assessing the cost estimate must maintain independence from and be free of conflicts of interest with the responsible person or company whose cost estimate they are assessing.

The persons must both be and appear to be independent, that is:

- all members of the team undertaking the work must be able to exercise objective and impartial judgement in relation to the independent assessment (independence in fact), and
- a reasonable person, with full knowledge of all relevant facts and circumstances, must be able to conclude that all members of the team undertaking the work are able to exercise objective and impartial judgement in relation to the independent assessment (independence in appearance).

Risks to independence may occur in a variety of ways, as set out in Table A4.1.

Table A4.1 Risks to independence of auditors

Risk	Explanation
Self-interest	The risk that a financial or other interest will inappropriately influence the auditor's judgement or behaviour
Self-review	The risk that an auditor will not appropriately evaluate the results of a previous judgement made or service performed by the auditor, or by another individual within the auditor's firm, on which the auditor will rely when forming a judgement as part of providing a current service
Advocacy	The risk that an auditor will promote a responsible person or company's position to the point that the auditor's objectivity is compromised
Familiarity	The risk that due to a long or close relationship with the responsible person or company an auditor will be too sympathetic to their interests or too accepting of their work
Intimidation	The risk that an auditor will be deterred from acting objectively because of actual or perceived pressures, including attempts to exercise undue influence over the auditor

Common conflict of interest situations that create risks to independence include:

- the team undertaking the work, or members of the team, perform or have performed other work for the responsible person or company which may impair, or give the impression of impairing,

their independence (e.g. implementation of a system of internal controls relevant to the cost estimate), which would constitute a self-review risk.

- the assessing firm or an entity it controls receives a significant amount of its income from the responsible person or company or a related party of the responsible person or company, which would constitute a self-interest risk. A person will be related if their interaction with the responsible person or company could be impacted by the relationship with the responsible person or company.
- individual team members and/or an immediate family member have financial or other interests or relationships with the responsible person or company or related party (e.g. financial investments in or debt owing, close relatives occupying key positions in the responsible person or company's or related party's operating, reporting or management functions), which could constitute self-interest, familiarity or advocacy risks.

Australian Accounting Standard AASB 124 Related Party Disclosures contains guidance on identifying related parties.

If the leader of the team performing the independent assessment of costs becomes aware of a risk to the independence of any team member, they should try to mitigate that risk.

The team leader should:

- inform the responsible person or company and the EPA of the risk
- take all reasonable steps to ensure the risk is mitigated and advise the responsible person or company and the EPA of the steps taken
- assess whether the reasonable steps will sufficiently mitigate the risk and advise the responsible person or company and the EPA of their assessment
- resign from the independent assessment of costs engagement if the risk cannot be sufficiently mitigated.

In assessing risk mitigation, the team leader decides whether reasonable steps will mitigate the risk to independence, both in fact and in appearance, is maintained. APESB 110 contains extensive material on risk mitigation in the form of safeguards.

The EPA will consider the team leader's assessment. Even if the team leader is satisfied independence is maintained, the EPA may determine otherwise, in which case the independent assessment must end.

Appendix E: Audits explained

Auditors commonly call an audit an assurance engagement. In this guideline, we are referring to assurance engagements as an audit. Assurance in this sense is different to the financial assurance the EPA requires from responsible persons or companies.

This financial assurance is a security or guarantee provided by a responsible person or company regarding their environmental obligations.

An audit is undertaken by the auditor, commonly called an assurance practitioner, who is independent of the responsible person or company and who expresses a conclusion on the cost of complying with environmental obligations.

Background to audits

An audit is a means of providing confidence to the EPA about the measurement of a cost estimate. In an audit, an auditor evaluates whether a cost estimate has been prepared in accordance with the guideline and expresses a conclusion.

Audit engagements have three parties	
Auditor	The auditor expresses a conclusion based on evidence about the cost estimate.
Responsible person or company	The person or company responsible for preparing the cost estimate in accordance with the guideline.
Intended user	The EPA, which seeks to obtain confidence in the cost estimate.

Levels of audit

Audits can provide:

- reasonable assurance (the highest level of confidence in the cost estimate)
- limited assurance (a lower level of confidence in the cost estimate)
- a combination of reasonable and limited assurance.

The higher the level of assurance provided, the lower the risk that the cost estimate is materially misstated and the greater the confidence the EPA can place in the cost estimate. An audit cannot provide absolute assurance because it is not possible to reduce the risk of material misstatement to zero.

Misstatements, including omissions, are considered to be material if they, individually or in aggregate, could reasonably be expected to influence relevant decisions of intended users taken on the basis of the subject matter information, such as if the EPA's decision about financial assurance (the financial security or guarantee) is influenced.

An auditor can perform procedures of an assurance nature that have been agreed with the intended users. In such 'agreed-upon procedures engagements', no conclusion is expressed and no assurance is provided.

These agreed upon procedures are called a **verification** in this guideline. Verification does not provide an assurance on the cost estimate but is still performed by an auditor.

For the purpose of this guideline, a verification is the alternative independent assessment where an audit cannot be performed.

Differences between the engagements are summarised in Table A5.1 on the next page.¹

¹ Based on the Auditing and Assurance Standards Board (AUASB)'s Framework for Assurance Engagements Appendix 1 and Australian Standard on Related Services *ASRS 4400 Agreed-upon Procedures Engagements to Report Factual Findings*.

Table A5.1 Differences in engagements undertaken by assurance practitioners when performing an independent assessment

	Conclusion and reporting	Assurance level	Evidence
Reasonable assurance engagement (Audit)	<p>The assurance practitioner's conclusion is expressed in a positive form.</p> <p>The assurance practitioner's conclusion is expressed as an opinion.</p> <p>Example conclusion:</p> <p>"In our opinion, the cost estimate has been prepared, in all material respects, in accordance with the guideline."</p>	Reasonable assurance, which is a high but not absolute level of assurance	<p>Procedures of an assurance nature determined by the assurance practitioner.</p> <p>Extensive procedures are undertaken in order to provide enough basis upon which to form an opinion.</p>
Limited assurance engagement (Audit)	<p>The assurance practitioner's conclusion is expressed in a negative form. No opinion is provided.</p> <p>Example conclusion:</p> <p>"Based on the procedures performed and evidence obtained, nothing has come to our attention that causes us to believe that the cost estimate has not been prepared, in all material respects, in accordance with the guideline."</p>	A reduction in assurance engagement risk to a level that is acceptable in the circumstances of the engagement but where that risk is greater than for a reasonable assurance engagement, as the basis for a negatively expressed conclusion.	<p>Procedures of an assurance nature determined by the assurance practitioner.</p> <p>Procedures are limited in their nature and extent in comparison to a reasonable assurance engagement (e.g. inquiry and analysis, extra procedures as considered necessary in the circumstances).</p>
Agreed upon (or 'selected') procedures (Verification)	<p>No evaluation of the findings is made. No conclusion is expressed by the assurance practitioner.</p> <p>A description of the engagement is provided together with details of procedures undertaken.</p> <p>Factual findings as a result of the procedures performed are reported.</p>	No assurance is provided. Based on the factual findings, the intended user forms their own conclusion about the risk of material misstatement.	<p>Procedures of an assurance nature (i.e. the same or similar to those performed in an assurance engagement) to which the engaging party and intended users have agreed.</p> <p>The auditor does not assess materiality or engagement risk and therefore does not seek enough appropriate evidence on which to base a conclusion.</p>

It is expected that in many cases an audit will be needed that provides a combination of reasonable and limited assurance.

A cost estimate involves forward-looking information. Representations and assumptions by the responsible person or company about costs will in many cases be speculative in nature rather than supported by facts and based on management judgement. The auditor in turn can only use judgement to assess their reasonableness. As such, the auditor provides:

- only limited assurance that the representations and assumptions provide a reasonable basis for preparing the estimate
- reasonable assurance that the cost estimate is prepared based on these representations and assumptions and is presented fairly in accordance with this guideline
- limited assurance on the reasonableness of the overall cost estimate.

Limited (or lower) assurance indicates that the procedures the auditor performs may differ and are narrower in scope than for reasonable assurance.

The auditor will have regard to auditing standards when deciding the level of assurance and types of procedures to be performed for the independent assessment. Relevant standards are:

- ASAE 3000 Assurance Engagements other than Audits or Reviews of Historical Financial Information
- ASAE 3450 Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information
- ASRS 4400 Agreed-upon Procedures Engagements to Report Factual Findings
- ASQC 1 Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance Engagements.

Table A5.2 indicates the scope of the different kinds of independent assessments.

Table A5.2 Engagements under this guideline

Key feature	Description
Legislation or guidance	<p><i>Protection of the Environment Operations Act 1997</i> section 300(2)</p> <p><i>Radiation Control Act 1990</i> section 28E(2)</p> <p><i>Contaminated Land Management Act 1997</i> section 42D(2)</p> <p><i>Plastic Reduction and Circular Economy Act 2021</i> section 27(3)</p> <p>Guideline on Independent Assessment of Costs (this guideline)</p> <p>Relevant standards:</p> <ul style="list-style-type: none"> • ASAE 3000 Assurance Engagements other than Audits or Reviews of Historical Financial Information • ASAE 3450 Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information • ASRS 4400 Agreed-upon Procedures Engagements to Report Factual Findings • ASQC 1 Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance Engagements

Nature of engagement	Audit (reasonable assurance and limited assurance regarding assumptions) or verification initiated by the responsible person or company at the EPA's direction, in accordance with this guideline and ASAE 3000, ASAE 3450 or ASRS 4400.
Assurance practitioner	Registered company auditor
Subject matter	Cost estimate prepared by a responsible person or company. Estimate of the total cost of carrying out the actions pursuant to POEO Act section 300(2), RC Act section 28E(2), CLM Act section 42D(2) or PRCE Act s 27(3).

Table A5.3 Indicative engagement scope

Audit	Verification
<p>The scope is determined by the level of assurance specified and procedures aimed at supporting a relevant conclusion whether, in all material respects:</p> <p>Reasonable assurance – the estimate of costs has been prepared in accordance with the POEO Act section 300(2), RC Act section 28E(2), CLM Act section 42D(2), PRCE Act s 27(3) and this guideline, and is presented fairly.</p> <p>Limited assurance</p> <p>The estimate of costs of the actions is:</p> <ul style="list-style-type: none"> based on the responsible person or company's representations and assumptions which provide a reasonable basis for preparing the estimate of costs, and calculated on the basis of the responsible person or company's representations, assumptions and any historical data that is stated fairly, and reasonable. <p>The engagement is conducted in accordance with this guideline and ASAE 3000 and ASAE 3450.</p>	<p>The scope and procedures agreed on by the EPA, responsible person or company and auditor, which are expected to include, but not be limited to, procedures upon:</p> <ul style="list-style-type: none"> the calculation tool used to prepare the cost estimate, and that includes relevant cost items (and income items if applicable) and is applied correctly cost inputs (and income inputs if applicable) including units and unit rates can be substantiated to technical/engineering reports, contractor or supplier quotes, customer contracts or other relevant documentation representations and assumptions can be substantiated by management or to published sources and are applied correctly in the calculation tool. <p>The engagement is conducted in accordance with this Guideline and ASRS 4400.</p>

Expectations for auditors

Quality control

Auditors are expected to show that they maintain a comprehensive system of quality control with documented policies and procedures for carrying out their work, including preparing, planning, performing and reporting on an engagement to undertake an independent assessment.

The person leading the assurance engagement is expected to ensure that the system of quality control applied to the engagement addresses the requirement to maintain independence and supports provision of the independence declaration.

Auditing and assurance standards

Auditors are expected to adhere to relevant auditing and assurance standards issued by the Auditing and Assurance Standards Board.

Applying judgement

The auditor is also expected to apply judgement when conducting an assurance engagement.² Judgement will be required in many aspects of the work of the engagement. For example, when:

- assessing the nature and extent of actions required, or scope for the actions prepared by another technical specialist, as the case may be
- considering completeness and appropriateness of cost components of the actions
- assessing any representations made by the responsible person or company's management.

While the auditor will exercise judgement as to the procedures required, when assessing the reasonableness of a responsible person or company's assumptions, the auditor would normally consider:

- the availability of reliable data from external or published sources
- the extent to which estimates are based on observable or unobservable inputs
- the extent to which subject matter experts are involved in the estimation and the qualifications and experience of those experts
- whether sensitivity analysis is performed to determine the effect on the cost estimate of changes in assumptions
- the reliability of past cost estimates and their relevance for forecasting the future, particularly where actions are underway and preceding years' actual costs are available.

Further, the auditor would normally review the formulae, logic and calculations of any cost estimate model to establish that it can provide a reliable and transparent calculation method for the cost estimate.

² Judgement will not be relevant to verification (agreed upon procedures) engagements.

Appendix F: Independence and conflict of interest declaration template

This Appendix contains a template for the auditors to confirm that the persons performing the independent assessment is independent of and free of conflicts of interest with the responsible person or company, as required by Section 3 of this guideline.

The following template provides a recommended format for the declaration. It is not mandatory to follow this template, but declaration is needed in respect of both requirements within the EPA's guideline and relevant professional requirements.

Auditor's independence

I declare that, to the best of my knowledge and belief, in relation to the independent assessment of the cost estimate of [responsible person or company] as at [date of cost estimate] there have been:

- no contraventions of independence as set out in the Environment Protection Authority's Guideline on Independent Assessment of Costs in relation to this independent assessment; and
- no contraventions of any applicable code of professional conduct in relation to the independent assessment.

OR

I declare that, to the best of my knowledge and belief, the only contraventions of:

- independence as set out in the Environment Protection Authority's guideline on Independent Assessment of Costs in relation to this independent assessment; and
- any applicable code of professional conduct in relation to the audit/review are set out below:
 - [insert contraventions].

The risk to independence as a result of these contraventions has been managed by:

- [insert risk management measures].

[Name of Auditor]

[Location]

[Name of firm]

[Date]

Appendix G: Independent assessment reporting templates

This Appendix contains reporting templates for the two types of independent assessments considered by this guideline, including:

- audit report
- verification report.

The reporting templates provide a recommended format for the relevant engagement report. It is not mandatory to follow these templates. Tailoring for the circumstances of the engagement and to ensure compliance with all relevant professional standards is expected, including to report qualified conclusions, for example.

Text provided in squared brackets, for example [Insert a summary...] is instructional only.

All other text included in brackets, for example [responsible person or company], should be adapted in line with the suggested text.

Template 1: Audit report

Part A – Auditor’s report

[To Directors of responsible person or company/EPA]

Scope

We have conducted an audit of [responsible person or company]’s estimate of the costs to [brief description of actions], to conclude whether the estimate of costs:

- has been prepared in accordance with the [*Plastic Reduction and Circular Economy Act 2021* section 27(3)], [*Protection of the Environment Operations Act 1997* section 300(2)], [*Radiation Control Act 1990* section 28E(2)], [*Contaminated Land Management Act 1997* section 42D(2)] and Guideline on Independent Assessment of Costs, and
- is presented fairly.

We have conducted an audit to conclude whether:

- [responsible person or company]’s estimate of the costs of the [brief description of actions] is:
 - based on the [responsible person or company]’s representations and assumptions which provide a reasonable basis for preparing the estimate of costs, and
 - calculated based on the [responsible person or company]’s representations and assumptions and any historical data that is stated fairly, and
 - reasonable.

Responsibility of [responsible person or company]’s management

The management of [responsible person or company] is responsible for the preparation and fair presentation of the estimate of costs in accordance with the [*Plastic Reduction and Circular Economy Act 2021* section 27(3)], [*Protection of the Environment Operations Act 1997* section 300(2)], [*Radiation Control Act 1990* section 28E(2)], [*Contaminated Land Management Act 1997* section 42D(2)] and Guideline on Independent Assessment of Costs.

This responsibility includes:

- establishing and maintaining adequate records and internal controls for the preparation and presentation of the estimate of costs to ensure that it is free from material misstatement, whether due to fraud or error
- selecting and applying measurement methods to prepare and present the data, and
- making representations and assumptions that are reasonable in the circumstances.

Our independence and quality control

We have complied with the independence and other relevant ethical requirements relating to assurance engagements. This includes requirements of Accounting Professional and Ethical Standard APES 110 *Code of Ethics for Professional Accountants*.

We have also complied with Auditing Standard ASQC 1 Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance Engagements and Related Services Engagements, and maintain a comprehensive system of quality control, including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Our responsibility

Our responsibility is to express a conclusion as to whether the estimate of costs has been prepared, in all material aspects, in compliance with the requirements of the [*Plastic Reduction and Circular Economy Act 2021* section 27(3)], [*Protection of the Environment Operations Act 1997*

section 300(2)] [*Radiation Control Act 1990* section 28E(2)] [*Contaminated Land Management Act 1997* section 42D(2)] and Guideline on Independent Assessment of Costs.

Our audit engagement has been planned and performed in accordance with the Australian Standard on Assurance Engagements *ASAE 3000 Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* (ASAE 3000) [and, if applicable, relevant national and international standards, as listed below]. The relevant Auditing and Assurance Standards Board standards require that we comply with relevant ethical requirements and plan and perform the assurance engagement to obtain reasonable assurance as to whether the subject matter is free from material misstatement.

[If applicable, list any audit standard used in undertaking the engagement.]

Our procedures were designed to obtain a reasonable and, for the basis on which to prepare the estimate of costs to [brief description of the actions], limited level of assurance on which to base our conclusion. An audit involves performing procedures to obtain evidence about the matter being audited.

The procedures selected depend on the audit team leader's judgement, including the assessment of the risks of material misstatement or material non-compliance of the matter being audited, whether due to fraud or error. While we considered the effectiveness of [responsible person or company]'s internal controls when determining the nature and extent of our procedures, our engagement was not designed to provide assurance on internal controls.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our audit conclusion.

Summary of procedures undertaken

Our procedures included the following:

[Insert a summary of procedures undertaken. The list must be comprehensive but where more detail is required this can be included in Part B of the audit report.]

Further guidance on prospective information, can be found in ASAE 3450. For all other matters, ASAE 3000 provides appropriate guidance.]

Use of our audit report

This report is intended solely for the use of [responsible person or company] and the EPA for the purpose of reporting on [responsible person or company]'s estimate of the costs to [brief description of actions]. Accordingly, we expressly disclaim and do not accept any responsibility or liability to any party other than [responsible person or company] and the EPA for any consequences of reliance on this report for any purpose.

We have assumed and relied on representations from [responsible person or company]'s management that all material information concerning the estimate of costs to [brief description of actions] has been disclosed to us and that the information provided to us for the purpose of our work is true, complete and accurate in all material respects. We have no reason to believe that those representations are false.

Inherent limitations

There are inherent limitations in performing an audit—for example, audits are based on selective testing of the information being examined. It is possible that fraud, error or non-compliance might occur and not be detected. An audit is not designed to detect all instances of non-compliance with the [*Plastic Reduction and Circular Economy Act 2021* section 27(3)], [*Protection of the Environment Operations Act 1997* section 300(2)] [*Radiation Control Act 1990* section 28E(2)] [*Contaminated Land Management Act 1997* section 42D(2)] and Guideline on Independent Assessment of Costs, because the procedures performed in respect of compliance with these criteria are undertaken on a test basis.

There are additional inherent risks associated with [responsible person or company]'s management's representations and assumptions on which the estimate of costs is based. These may relate to future events and/or transactions that management expect to occur, and actions management expect to take, and are also subject to uncertainties and contingencies which are often outside the control of [responsible person or company].

Evidence may be available to support management's representations and assumptions. However, such evidence may be future-oriented and speculative in nature. We are therefore not in a position to obtain the level of audit necessary to express a reasonable assurance conclusion on those representations and assumptions, and accordingly provide a lesser level of assurance on the reasonableness of management's representations and assumptions.

The conclusion expressed in this report has been formed on the above basis.

[Include if conclusion is modified] Basis for [qualified/adverse/disclaimer] conclusion

[Insert basis for modification to the auditor's report.]

Our conclusion

[Insert conclusion as appropriate]

In our opinion, in all material respects:

- the estimate of the costs to [brief description of actions] has been prepared in accordance with the [*Plastic Reduction and Circular Economy Act 2021* section 27(3)], [*Protection of the Environment Operations Act 1997* section 300(2)], [*Radiation Control Act 1990* section 28E(2)], [*Contaminated Land Management Act 1997* section 42D(2)] and Guideline on Independent Assessment of Costs, and
- the estimate of costs has been presented fairly.

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that, in all material respects:

- [responsible person or company]'s representations and assumptions do not provide a reasonable basis for preparing the estimate of costs, and
- the estimate of costs is not calculated based on the [responsible person or company]'s representations and assumptions and any historical data that is stated fairly, and
- the estimate of the costs to [brief description of actions] is not reasonable.

[Signature—of audit team leader]

[Name—of audit team leader]

[Firm]

[Location]

[Date]

Part B—Detailed findings

[This part contains the detailed findings of the audit, including any matters that may require a revision to the estimate of costs to undertake the actions.]

The auditor must provide sufficient details in Part B that will give the EPA confidence that the risks identified have been assessed appropriately. This does not need to be a repeat of working papers but should provide a clear outline of the testing undertaken and conclusion made, so as to inform the EPA's determination of the amount of financial assurance the EPA may require to secure or guarantee funding towards the responsible person or company's environmental obligations.]

Issues requiring particular attention

[Provide details of the items or issues that required particular attention during the assurance engagement, for example:

- key risks identified before or during the audit engagement
- areas of non-compliance with *Plastic Reduction and Circular Economy Act 2021* section 27(3), *Protection of the Environment Operations Act 1997* section 300(2), *Radiation Control Act 1990* section 28E(2) or *Contaminated Land Management Act 1997* section 42D(2) and Guideline on Independent Assessment of Costs
- recommendations for changes to the estimate of costs (further details can be provided in the Audit findings and conclusions Part below).]

Aspects impacting on the assurance engagement

[Include details of any matter that particularly impacted on the carrying out of the assurance engagement. This may include issues such as key resources including technical experts, access to information or personnel, etc.]

Other matters

[Include any other matter that the audit team leader believes should be mentioned in the assurance engagement report.]

Audit findings and conclusions

[Include details of:

- testing conducted in response to a specific issue, risk or scope item. This must include what information was examined and how it links to the issue, risk or scope item.
- findings deemed relevant to the testing conducted. This may include a summary of the cost element audited (e.g. the calculation tool, inputs to the tool, representations, assumptions, etc) and whether any material misstatement was identified.
- conclusions and recommendations against the issue, risk or scope item. This must include any suggested changes to the element of the cost estimate necessary to provide a reasonable estimate of the total likely costs and expenses that may be incurred in carrying out the actions. The sensitivity of the overall estimate of costs to the recommended changes must also be indicated in percentage and dollar terms, both individually for the cost element and in aggregate for the cost estimate as a whole.

The above information may be presented in table format where appropriate.

A copy of the responsible person or company's estimate of costs to undertake the actions must be provided as an attachment to the audit report.]

[Signature—of audit team leader]

[Name—of audit team leader]

[Firm]

[Location]

[Date]

Template 2: Verification report

To [Directors of responsible person or company/ EPA]

Report on [brief description of engagement]

We have performed the procedures agreed with you, detailed in the written instructions of [date] and described below, with respect to the cost estimate in respect of [brief description of actions] [and reference any attachments if applicable].

[Directors/EPA]'s responsibility for the procedures agreed

The responsibility for determining the adequacy or otherwise of the procedures agreed to be performed is that of the [Directors/EPA]. You are responsible for determining whether the factual findings provided by us, in combination with any other information obtained, provide a reasonable basis for any conclusions which you wish to draw on the subject matter.

Our responsibility

Our responsibility is to report factual findings obtained from conducting the agreed procedures. Our engagement was undertaken in accordance with the Australian Standard on Related Services ASRS 4400 Agreed-upon Procedures Engagements to Report Factual Findings, Guideline on Independent Assessment of Costs and our signed letter of engagement, dated [date]. We have complied with the independence and other relevant ethical requirements relating to other assurance engagements as defined in Auditing Standard ASA 102 Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements and Accounting Professional and Ethical Standard APES 110 Code of Ethics for Professional Accountants.

Because the agreed procedures do not constitute either a reasonable or limited assurance engagement in accordance with relevant national and international standards, we do not express any conclusion and provide no assurance on the estimate of costs to [brief description of actions]. Had we performed additional procedures, or had we performed a reasonable or limited assurance engagement, other matters might have come to our attention that would have been reported to you.

Factual findings

We have performed only the procedures detailed in the written instructions of [date]. The procedures were performed solely to assist you in meeting the requirements as outlined in our signed letter of engagement, dated [date], which is to assess the reasonableness of [responsible person or company]'s estimate of the costs of [brief description of actions] for the purposes of informing the EPA's determination of the amount of financial assurance the EPA may require to secure or guarantee funding towards [responsible person or company]'s environmental obligations.

Findings

The procedures performed and the factual findings obtained are as follows:

[Provide a listing of the specific procedures performed (including the nature, timing and extent of each procedure) and the factual findings (including any errors or exceptions identified).]

Where errors or exceptions are identified, the findings must detail the changes to the element of the cost estimate necessary to provide a reasonable estimate of the total likely costs and expenses that may be incurred in carrying out the actions. The sensitivity of the overall estimate of costs to the changes must also be indicated in percentage and dollar terms, both individually for the cost element and in aggregate for the cost estimate as a whole.]

Procedures performed	Factual findings	Errors or exceptions identified
1. [Insert procedure]	[Insert findings]	[None/detail the errors or exceptions]
2. [Insert procedure]	[Insert findings]	[None/detail the errors or exceptions]

[Provide any specific procedures in the written instructions which could not be performed and why that has arisen]

[A copy of the responsible person or company's estimate of costs to undertake the actions must be provided as an attachment to the engagement report.]

Other matters to be reported

We report the following matters:

[If no entry is needed under a subheading, indicate that it is not applicable].

Aspects impacting on agreed-upon procedures engagement

[Include details of any matter that particularly impacted on carrying out the engagement. This may include issues such as key resources such as technical experts, access to information or personnel, etc.]

Other matters

[Include any other matter that the engagement team leader believes should be mentioned in the engagement report.]

Restriction on use of report

This report is intended solely for the use of [responsible person or company] and the EPA for the purpose set forth in the first paragraph of this report. As the intended users of our report, it is for you to assess both the procedures and our factual findings to determine whether they provide, in combination with any other information you have obtained, a reasonable basis for any conclusions which you wish to draw on the subject matter. Use of this report is restricted to those parties that have agreed on the procedures to be performed with us. Accordingly, we expressly disclaim and do not accept any responsibility or liability to any party other than [regulated party] and the EPA for any consequences of reliance on this report for any purpose.

Yours faithfully

[Signature—of engagement team leader]

[Name—of engagement team leader]

[Firm]

[Location]

[Date]