

APES GN 20 Scope and Extent of Work for Valuation Services

Prepared and issued by
Accounting Professional & Ethical Standards Board Limited

ISSUED: [DATE]

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Contents

	Paragraphs
Scope and application	1
Definitions	2
Fundamental responsibilities	3
Scope and extent of work for Valuation Services.....	4
Context of a Valuation Service	5
Reporting and disclosure obligations for Valuation Services	6
Documentation.....	7

Conformity with International Pronouncements

Acknowledgement of the Canadian Institute of Chartered Business Valuers

1. Scope and application

- 1.1 Accounting Professional & Ethical Standards Board Limited (APESB) issues APES GN 20 *Scope and Extent of Work for Valuation Services* (the Guidance Note).
- 1.2 APES GN 20 provides guidance or suggestions to assist Members on the application of APES 225 Valuation Services in determining the scope and extent of review, analysis and corroboration supporting evidence that is appropriate for the applicable Valuation Service. APES GN 20 should be read in conjunction with APES 225 Valuation Services. This Guidance Note does not prescribe or create any new professional requirements. The term “should” used throughout this Guidance Note is to be read in this context.
- 1.3 Members working in Australia should follow the guidance in APES GN 20 when they provide Valuation Services to their Client or Employer.
- 1.4 Members working outside of Australia should follow the guidance in APES GN 20 to the extent to which they are not prevented from so doing by specific requirements of local laws and/or regulations.
- 1.5 The Guidance Note is not intended to detract or add to any requirements which are imposed by APES 225 *Valuation Services*, applicable Professional Standards, relevant legislation or regulation.
- 1.6 Examples are provided in the Guidance Note only to illustrate the scope and extent of work typically needed for the different types of Valuation Services and are not intended to be prescriptive of what needs to be undertaken in a particular circumstance.
- 1.7 All references to Professional Standards and guidance notes are references to those provisions as amended from time to time.
- 1.8 Members need to be familiar with relevant Professional Standards and guidance notes when providing Professional Services. All Members should comply with the fundamental principles outlined in the Code.
- 1.9 In applying the guidance outlined in APES GN 20, Members should be guided not merely by the words but also by the spirit of this Guidance Note, the Code and APES 225 *Valuation Services*.
- 1.10 This proposed Guidance Note does not apply to Valuation Engagements performed in respect of Australian Accounting Standards Board (AASB) pronouncements: AASB 141 *Agriculture*, AASB 102 *Inventories*, AASB 116 *Property, Plant and Equipment*, or AASB 119 *Employee Benefits*.

2. Definitions

For the purpose of this Guidance Note consistent with APES 225 *Valuation Services*:

Assignment means an instruction, whether written or otherwise, by an Employer to a Member in Business relating to the provision of services by a Member in Business. However, consultations with the Employer prior to such instruction are not part of an Assignment.

Calculated Value means an estimate of value of a business, business ownership interest, security or intangible asset that results from a Calculation Engagement. A Calculated Value may either be a single amount or a range.

Calculation Engagement means an Engagement or Assignment to perform a Valuation and provide a Valuation Report where the Member and the Client or Employer agree on the Valuation Approaches, Valuation Methods and Valuation Procedures the Member will employ. A Calculation Engagement generally does not include all of the Valuation Procedures required for a Valuation Engagement or a Limited Scope Valuation Engagement.

Client means an individual, Firm, entity or organisation to whom or to which Valuation Services are provided by a Member in Public Practice in respect of Engagements of either a recurring or demand nature.

Code means APES 110 *Code of Ethics for Professional Accountants*.

Conclusion of Value means an estimate of value of a business, business ownership interest, security or intangible asset that results from a Valuation Engagement or a Limited Scope Valuation Engagement. A Conclusion of Value may either be a single amount or a range.

Employer means an entity or person that employs, engages or contracts a Member in Business.

Engagement means an agreement, whether written or otherwise, between a Member in Public Practice and a Client relating to the provision of Professional Services by a Member in Public Practice. However, consultations with a prospective Client prior to such agreement are not part of an Engagement.

Firm means

- (a) a sole practitioner, partnership, corporation or other entity of professional accountants;
- (b) an entity that controls such parties, through ownership, management or other means;
- (c) an entity controlled by such parties, through ownership, management or other means; or
- (d) an Auditor-General's office or department.

Limited Scope Valuation Engagement means an Engagement or Assignment to perform a Valuation and provide a Valuation Report where the scope of work is limited or restricted. The scope of work is limited or restricted where the Member is not free, as the Member would be but for the limitation or restriction, to employ the Valuation Approaches, Valuation Methods and Valuation Procedures that a reasonable and informed third party would perform taking into consideration all the specific facts and circumstances of the Engagement or Assignment available to the Member at that time, and it is reasonable to expect that the effect of the limitation or restriction on the estimate of value is material. A limitation or restriction may be imposed by the Client or Employer or it may arise from other sources or circumstances. A limitation or restriction may be present and known at the outset of the Engagement or Assignment or may arise or become known during the course of a Valuation Engagement. A Limited Scope Valuation Engagement may also be referred to as a "restricted-scope valuation engagement" or an "indicative valuation engagement".

Member means a member of a professional body that has adopted this Standard as applicable to their membership, as defined by that professional body.

Member in Business means a Member employed or engaged in an executive or non-executive capacity in such areas as commerce, industry, service, the public sector, education, the not for profit sector, regulatory bodies or professional bodies, or a Member contracted by such entities.

Member in Public Practice means a Member, irrespective of functional classification (e.g. audit, tax or consulting) in a Firm that provides Professional Services. The term is also used to refer to a Firm of Members in Public Practice and means a practice entity as defined by the applicable professional body.

Professional Services means services requiring accountancy or related skills performed by a professional accountant including accounting, auditing, taxation, management consulting and financial management services.

Terms of Engagement means the terms and conditions that are agreed between the Client and the Member in Public Practice for the Engagement.

Valuation means the act or process of determining an estimate of value of a business, business ownership interest, security or intangible asset by applying Valuation Approaches, Valuation Methods and Valuation Procedures. A Valuation does not involve the verification of information in respect of the business, business ownership interest, security or intangible asset being valued.

Valuation Approach(es) means a general way(s) of determining an estimate of value of a business, business ownership interest, security, or intangible asset using one or more Valuation Methods.

Valuation Engagement means an Engagement or Assignment to perform a Valuation and provide a Valuation Report where the Member is free to employ the Valuation Approaches, Valuation Methods, and Valuation Procedures that a reasonable and informed third party would perform taking into consideration all the specific facts and circumstances of the Engagement or Assignment available to the Member at that time. Where a Member has entered into a Valuation Engagement but during the course of performing the Valuation Engagement the Member becomes aware of a limitation or restriction that, if it had been known at the time the Engagement or Assignment was entered into, would have made the Engagement or Assignment a Limited Scope Valuation Engagement then the Valuation Engagement will become a Limited Scope Valuation Engagement.

Valuation Method(s) means, within Valuation Approaches, a specific way(s) to determine an estimate of value of a business, business ownership interest, security or intangible asset.

Valuation Procedures means the act, manner and technique of performing the steps of a Valuation Method.

Valuation Report means any written or oral communication by the Member containing a Conclusion of Value or a Calculated Value.

Valuation Service means a service provided by a Member to a Client or Employer in performance of a Valuation Engagement, Limited Scope Valuation Engagement or a Calculation Engagement.

3. Fundamental responsibilities of Members

3.1 Members should refer to *Fundamental Responsibilities of Members* in APES 225 *Valuation Services* when providing Valuation Services to a Client or Employer as that standard imposes mandatory professional obligations on Members who provide Valuation Services.

3.2 *Fundamental Responsibilities of Members* in APES 225 *Valuation Services* specifies professional obligations of Members in accordance with the following sections of the Code:

- Section 100 – Introduction and Fundamental Principles;
- Section 130 – Professional Competence and Due Care;
- Section 140 – Confidentiality;
- Section 220 – Conflict of Interest; and
- Section 280 – Objectivity – All Services.

4. Scope and extent of work for Valuation Services

- 4.1 Members should refer to *Professional Engagement and Other Matters* in APES 225 *Valuation Services* when providing Valuation Services to a Client or Employer.
- 4.2 Where a Member is determining the type of Valuation Service required in a particular circumstance, the Member should consider and agree with the Client or Employer the purpose for which the Valuation Service is to be performed, the availability of information on which to base a conclusion, and the Client's or Employer's needs.
- 4.3 A Member should consider whether the Valuation Service is sufficient and appropriate for the purpose intended. The appropriateness of a Valuation Service for a particular purpose is dependent on the nature and sufficiency of the work performed in connection with the conclusions expressed. Members should view with caution constraints such as fees, availability of information and time when considering the acceptance or continuance of an Engagement or Assignment. A Member should consider whether or not to accept an Engagement or Assignment if the scope of work is not appropriate for the purpose for which the Valuation Service is undertaken.
- 4.4 When planning the scope of work for a Valuation Service a Member should consider the extent to which Valuation Approaches, Valuation Methods and Valuation Procedures are applied to the review and analysis of significant information and of the evidence obtained in respect of a Valuation Service. The extent of work done and supporting evidence obtained is a matter for the professional judgement of the Member. To assist the Member exercise that judgment, a summary table is provided below:

Type of Valuation Service	Extent of Valuation Approaches, Valuation Methods and Valuation Procedures applied in the review and analysis of significant information	Extent of evidence obtained
Valuation Engagement	Comprehensive use of Valuation Approaches, Valuation Methods and Valuation Procedures applied to the review and analysis of business and industry and all other significant information and factors.	Evidence obtained for significant information and factors.
Limited Scope Valuation Engagement	Limited use of Valuation Approaches, Valuation Methods and Valuation Procedures applied in the review and analysis of significant information.	Limited evidence obtained for significant information.
Calculation Engagement	Minimal use of Valuation Approaches, Valuation Methods and Valuation Procedures applied to the review and analysis of significant information.	Little or no evidence obtained for significant information.

Extent of review and analysis

4.5 To assist a Member exercise the Member's professional judgement in respect of the extent and breadth of review and analysis, a Member may find it helpful to consider the following five areas when performing a Valuation Service:

- (i) The economic environment and industry in which the business operates;
- (ii) Company-specific non-financial information (e.g. company operating structure and lifecycle stage);
- (iii) Company-specific financial information (e.g. historical and future orientated financial statements);
- (iv) Valuation context (e.g. precedent Valuations and transactions for the subject business/interest, comparable transactions, and public market prices of comparable companies); and
- (v) Valuation assessments (e.g. performing Valuation calculations using various Valuation Approaches or Valuation Methods).

4.6 In determining the extent of review and analysis to be undertaken in each of these five areas, Members should use their expertise and professional judgement. The following table provides guidance to Members on the extent of work that might be undertaken in each of the five areas, depending on the type of Valuation Service.

Type of Valuation Service	External	Internal		Valuation Approaches, Valuation Methods & Valuation Procedures	
	Economic Environment and Industry Context	Company Specific Non-Financial Information	Company Specific Financial Information	Valuation Context	Valuation Assessments
Valuation Engagement	Comprehensive	Comprehensive	Comprehensive	Comprehensive	Comprehensive
Limited Scope Valuation Engagement	Limited	Limited	Limited	Limited to Comprehensive	Limited to Comprehensive
Calculation Engagement	Minimal	Minimal	Minimal	Minimal to Limited	Minimal to Limited

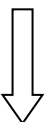
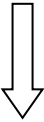
Extent of supporting evidence obtained

4.7 Where a Member is performing a Valuation Engagement, the Member should (using appropriate and reasonable efforts), review, analyse and consider information and factors that could have a significant impact on the Conclusion of Value. Further, the Member should obtain reasonable evidence that significant information is appropriate to use for the purpose of forming the Conclusion of Value.

4.8 Where a Member is performing a Limited Scope Valuation Engagement, the Member is likely to obtain limited supporting evidence in respect of information and factors used in arriving at the conclusions inherent in that Engagement. The Member should consider disclosing the supporting evidence obtained in order that the users of such Valuation Reports can adequately assess:

- (i) the extent of work performed,
- (ii) the extent of reliance that may be placed on the Valuation Report and
- (iii) the risk of a variation in the conclusions of the Valuation Report arising in the event that further supporting evidence was gathered.

- 4.9 Where a Member is performing a Calculation Engagement, the extent of review and analysis, as well as supporting evidence gathered in respect of economic, industry and company-specific information and factors is often very limited or non-existent. In these circumstances, Members may not be aware of information or factors that could materially affect the Calculated Value, in these circumstances the member should disclose the extent of limitations and the impact those limitations have on the reliability of the conclusions drawn.
- 4.10 The following table provides examples of the continuum of extent of supporting evidence that might be obtained in respect of cash flow projections and guideline company analysis. This continuum goes from the highest extent of supporting evidence of information and factors to that which entails the lowest extent of supporting evidence, with the highest extent being appropriate for Valuation Engagements and the lowest to Calculation Engagements.

Information	Extent of Evidence Obtained	Examples of Supporting Evidence
Cash flow projections	Highest  Lowest	In-depth comparison of assumptions, interviews of management, comparison of supporting documentation and industry benchmarks. Reliance on representations or assumptions without in-depth analysis, review, and/or assessment.
Guideline company analysis	Highest  Lowest	In-depth analysis of selected information including business mix, financial performance, normalisation adjustments with comparison back to primary source documents. Use of high level comparisons without review from data aggregators (e.g. Bloomberg or Capital IQ).

5. Context of a Valuation Service

- 5.1 Where a Member in Public Practice is agreeing with a Client the type of Valuation Service that the Client wishes to use to satisfy their needs in a particular circumstance, the Member should discuss with the Client the context for which the Valuation Report is to be prepared, the circumstances of the Client, the extent of reliance that the users are likely to place on the conclusions expressed by the Member, and that the Client is ultimately responsible for the selection of the type of Valuation Service.

- 5.2 The following table provides examples that may be relevant to consider in assessing the appropriateness and reasonableness of a Valuation Service within each of these contexts. The ultimate choice of the type of Valuation Service is a and the responsibility of the Client; having regard to the circumstances under which the Valuation Service is commissioned.

Context	Type of Valuation Service		
	Valuation	Limited Scope Valuation	Calculation
Evidence in dispute or litigation	Suitable	May be suitable	Likely not suitable
Assessment of litigation	Suitable	May be suitable	May be suitable
Tax purposes (outside of litigation)	Suitable	May be suitable	Likely not suitable
Shareholder agreement	Suitable	May be suitable	May be suitable
Estate succession planning	Suitable	May be suitable	May be suitable
Market transaction	Suitable	May be suitable	Likely not suitable
Financial reporting	Suitable	May be suitable	May be suitable
Independent Expert's Report	Suitable	Likely not suitable	Likely not suitable

Impact of availability of information on the type of Valuation Service

- 5.3 A Member should consider the availability of information when determining the type of Valuation Service that is to be performed to base a conclusion. Information that the Member might wish to consider in some detail in performing a Valuation Engagement might not be viewed as necessary and proper for a Limited Scope Valuation Engagement or a Calculation Engagement. A lack of particular information may lead the Member to determine that it is not possible to perform a Valuation Service of one type but that the Member could still perform a Valuation Service of a more limited type.
- 5.4 In the circumstances referred to paragraph 5.3, the Member should consider whether a Valuation Report of a more comprehensive Valuation Service that expresses a conclusion which is qualified by a scope limitation best serves the users of the Valuation Report.
- 5.5 Determining the impact of unavailable and/or missing information on the type of Valuation Report to be issued by a Member is a matter of professional judgement. This judgement should take into account all relevant facts and circumstances including the purpose of the Valuation Service, the scope of work agreed with the Client or Employer, and the importance of that information to the conclusion.

6. Reporting and disclosure obligations for Valuation Services

- 6.1 Members should refer to the mandatory reporting obligations set out in *Reporting of APES 225 Valuation Services* when they provide a Valuation Service to a Client or Employer.
- 6.2 In determining the content and disclosures within the Valuation Report, Members should consider the users of the Valuation Report who may include parties other than the Client or Employer. Members should consider whether the Valuation Report discloses sufficient information to allow such a party, who may not have a direct or detailed knowledge of the subject matter of the Valuation Service, to understand, amongst other things, the subject matter, the rationale for the Valuation Methods employed and the basis of selection of assumptions or inputs in applying the Valuation Methods.

7. Documentation

- 7.1 Members should refer to the mandatory documentation obligations set out in *Documentation of APES 225 Valuation Services* when they provide a Valuation Service to a Client or Employer.
- 7.2 Depending on the type of Valuation Service, Members in Public Practice should consider the necessity of obtaining representations, preferably in writing, from management or other representatives of the relevant entity to obtain appropriate corroboration. Such representations may be in letter format, and may include a general representation that the Client:
- is aware of the material assumptions applied in the Valuation Service and the basis for those assumptions;
 - is aware of the specific information on which the Member has relied and the extent to which it has been reviewed;
 - has reviewed a draft of the Valuation Report;
 - is satisfied with the Valuation Approaches and Valuation Methods adopted; and
 - does not have any information or knowledge which would reasonably be expected to materially affect the Conclusion of Value or Calculated Value noted in the Valuation Report.
- 7.3 A Member in Business who undertakes a Valuation Service should prepare working papers that appropriately document the work performed and take into consideration the guidance of paragraph 7.2 of this Guidance Note as appropriate and to the extent practicable.

Conformity with International Pronouncements

The International Ethics Standard Board for Accountants (IESBA) has not issued a pronouncement equivalent to APES GN 20.

Acknowledgement of the Canadian Institute of Chartered Business Valuators

APESB gratefully acknowledges the publication of the Canadian Institute of Chartered Business Valuators (CICBV) listed below which provided the basis for the development of this Guidance Note. Components of the CICBV publication have been reproduced with the kind permission of the CICBV with variations made to suit the Australian context and APES 225 *Valuation Services*.

Practice Bulletin Number 3: Guidance on Types of Valuation Reports
Canadian Institute of Chartered Business Valuators, September 2012