

Constituents' Submissions – Specific Comments
Exposure Draft 04/12: APES GN 20 Scope and Extent of Work for Valuation Services

Note: General comments relating to APES GN 20 are addressed in separate tables. This table excludes minor editorial changes.

Item No.	Paragraph No. in Exposure Draft	Respondent	Respondents' Comments
1	1.2	JAB	<p>Given that this guidance note is provided on the application of APES 225 we question whether it is necessary to reiterate in it some of the content of the standard. We are of the opinion that a distinction in content and form between standards and guidance notes is highly desirable to ensure that the latter are not perceived as replacements of the former.</p> <p>The guidance note states in paragraph 1.2 that it 'provides guidance to Members on the application of APES 225 <i>Valuation Services</i> in determining the scope and extent of review, analysis and corroboration that is appropriate for the applicable Valuation Service'. We think that the guidance note should be used in addition to and not instead of the standard and therefore think that the definitions and fundamental responsibilities of members sections and certain paragraphs (such as paragraph 4.1, 6.1 and 7.1) which are not offering guidance but provide summaries or references to APES 225 should be removed.</p>
2	1.3	BDO	<p>We make two detailed comments as follows:</p> <p>1. Inconsistency of style</p> <p>Although described as a guidance note, the Draft states at Clause 1.3 that members should follow its guidance when providing valuation services and uses prescriptive language such as "should" and, in tone, purports to adopt professional standards of practice.</p> <p>By way of comparison, another guidance note issued by your Board, GN 40 Ethical Conflicts in the Workplace – Considerations for Members in Business avoids mandating specific practices but directs the reader to relevant standards where certain processes are mandated. In GN 40, at 12.6, the words "strongly advised" are used and at 12.8 the guidance is expressed in the form of "should, amongst other things, consider".</p> <p>Guidance statements prepared by the Auditing and Assurance Standards Board also provide guidance rather than mandate process. For example, GS 005 Using the Work of an Actuary uses language in the introductory paragraphs stressing that the</p>

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			<p>intention is to provide guidance and, for instance at paragraph 5, uses the phrase "The auditor ordinarily".</p> <p>We suggest that the Draft be reviewed to remove language that could be interpreted as establishing a standard of professional practice and is amended to more closely follow the tone consistent with guidance.</p>
3	1.7 1.8	Deloitte	<p>Paragraphs 1.7 and 1.8 of GN 20 refer "Guidance Notes". We note other pronouncements refer to "guidance notes".</p>
4	1.8	Deloitte	<p><u>Inconsistencies between GN 20 and APES 225 and other standards</u></p> <p>There appear to be some instances where GN 20 is not entirely consistent with APES 225 or with other APESB standards.</p> <p>For example, paragraph 1.8 of GN 20 states "<i>Members need to be familiar with relevant Professional Standards and Guidance Notes when providing Professional Services</i>". In contrast, paragraph 1.5 of APES 225 requires that "<i>Members shall be familiar with relevant professional standards and guidance notes when providing Professional Services. All Members shall comply with the fundamental principles outlined in the Code</i>". Members obligations in respect of professional standards do not vary based on the nature of the pronouncement.</p>
5	2	JAB	<p>If the definitions section is to be retained in the guidance note we suggest that its first sentence is reviewed. The section commences with the statement: 'For the purpose of this Guidance Note and, unless marked with an asterisk (*), consistent with APES 225'.</p> <p>The definitions marked with an asterisk are not inconsistent with APES 225 but rather are absent from it. We question whether the fact that there is consistency in the common definitions between the guidance note and APES 225 needs to be stated as it is implied and assumed. There are only two definitions marked with an asterisk: AASB and Australian Accounting Standards. We are of the opinion that the words "and, unless marked with an asterisk (*), consistent with APES 225" do not add any value for the reader, and urge the Board to consider their removal.</p> <p>Further, the definition of Australian Accounting Standards is offered but the term is only used in the definition of AASB. We therefore question whether the definition of Australian Accounting Standards is required in the proposed guidance note.</p>
6	4.3	Deloitte	<p>Paragraph 4.3 of GN 20 states that "<i>A Member should consider whether the Valuation Service is sufficient and appropriate for the purpose intended...</i>" Whilst we accept that this statement is in the spirit of the APESB standard, APES 225 does not appear to explicitly mandate this action. If the APESB is of the view that this is an important consideration in accepting a valuation</p>

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			engagement we believe that that it would be better placed in APES 225.
7	4.4	PP	<p>Pitcher Partners Transaction Services Pty Ltd and its affiliated offices around Australia (Pitcher Partners) have undertaken a review of APES GN20 Scope and Extent of Work for Valuation Services and have raised the following concerns:</p> <ul style="list-style-type: none"> ▪ Paragraph 4.4: <ul style="list-style-type: none"> – There is no definition for the word “corroboration” therefore making it unclear as to the level of evidence required. – Furthermore, we are concerned that depending on the definition of “corroboration” this may place upward pressure on fees.
8	4.5	Deloitte	<p><u>Scope and extent of work for Valuation Engagements</u></p> <p>We are concerned with the use of the word corroboration in GN 20, as this phrase is often used in the context of obtaining evidence to support a practitioner’s conclusion in an assurance report. Furthermore, we note that paragraph 4.5 of APES 225, states “A Member shall ...by such mean as inspection, inquiry computation and analysis to provide ... and the conclusions therein are properly supported”. In our view repeating this language in GN 20 would be more appropriate and less confusing for practitioners, than introducing new terms which are undefined and may be difficult to implement in practice.</p>
9	4.5	PP	<ul style="list-style-type: none"> ▪ Paragraph 4.5: <ul style="list-style-type: none"> – This paragraph states that members should consider addressing six areas which include the economic environment and industry in which the business operates. It suggests that there should be comprehensive review and analysis of these areas. – Whilst we do not disagree that this should be reviewed and analysed and considered in the valuation, our concern is whether this listing will become a defacto minimum standard in the legalistic world of accounting standards and we will end up having to include comprehensive but irrelevant economic analysis in our reports. – Furthermore, we are concerned that depending on the definition of “comprehensive” this may place upward pressure on fees.
10	4.6	Deloitte	<p>We are also concerned with the use of the word comprehensive in paragraph 4.6. Once again, this is an undefined term and it is unclear to us what is meant by comprehensive. Furthermore, we question whether the extent of the analysis that the practitioner needs to undertake is dictated by the nature of the engagement. As noted above, in all instances the practitioner</p>

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			<p>has to be satisfied that the conclusion is properly supported.</p> <p>Finally, it is unclear to us whether the disclosures proposed in paragraph 4.6 are consistent with the requirement in paragraph 5.2 (k) of APES 225.</p>
11	4.6	PP	<ul style="list-style-type: none"> ▪ Paragraph 4.6: <ul style="list-style-type: none"> – There is no definition for the word “comprehensive” therefore making it unclear as to what this entails.
12	4.7	PP	<ul style="list-style-type: none"> ▪ Paragraph 4.7: <ul style="list-style-type: none"> – This paragraph discusses the need for corroboration using appropriate and reasonable efforts. Although some examples are given in paragraph 4.10, it is still not clear how far one needs to go with the corroboration exercise.
13	4.7	BDO	<p>2. Assurance</p> <p>APES 225 Valuation Services (the Standard) states in the definition of Valuation that</p> <p>A Valuation does not involve the verification of information in respect of the business, business ownership interest, security or intangible asset being valued.</p> <p>Paragraph 4.7 of the Draft states “the Member should corroborate this information using reasonable efforts in order to determine whether it can be relied upon for purposes of arriving at a Conclusion of Value”.</p> <p>On our understanding, “corroborate” may mean “support with evidence or authority or make more certain or confirm”. While we accept that corroborate does not necessarily mean verify, the lack of distinction has the potential to confuse.</p> <p>The word corroborate and its derivatives is used widely through the document but is not defined and is used only rarely in Australian standards.</p> <p>The proposed corroboration of evidence may indicate an assurance assignment. For instance the Framework for Assurance Engagements (Clarity) at paragraph Aus 7.4 uses words such as “a reduction in assurance engagement risk to an acceptably low level in the circumstances of the assurance engagement as the basis for a positive form of expression of the assurance practitioner's conclusion... commonly referred to as an audit.”</p> <p>We suggest that the Draft be modified:</p>

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			<ul style="list-style-type: none"> · to clarify the meaning of corroboration · to reconcile the guidance that corroboration is required with the Standard's explicit statement that a valuation does not require verification; and · to clarify whether the guidance is that auditing standards apply to valuation reports and if not, why the requirement to provide assurance as to the information on which the report is based does not amount to an audit.
13	4.10	PP	<ul style="list-style-type: none"> ▪ Paragraph 4.10: <ul style="list-style-type: none"> ▪ We are concerned that the level of work required, particularly in undertaking a discounted cash flow analysis, will be prohibitive for many of our clients, as to satisfy this level of corroboration, which appears to require a "review of forecasts" will result in significant upward pressure on fees. Accordingly it is likely that many valuation assignments will need to be "limited scope valuation engagements".
13	5	PP	<ul style="list-style-type: none"> ▪ Section 5: <ul style="list-style-type: none"> – This section seems to be encouraging the adoption of limited scope services in the event that high levels of corroboration cannot be undertaken. – Whilst this may seem fine in theory, we are concerned that for many SME valuations who cannot afford or are unwilling to spend money on the valuer undertaking greater 'corroboration', this will mean that we will be forced to state that our opinions are limited. – We are concerned that clients and lawyers may not understand this limitation, particularly given the disclaimer that needs to be attached to limited scope valuations.
14	5.2	Deloitte	<p><u>Context of a Valuation Service</u></p> <p>Paragraph 5.2 includes a table setting out guidance as to when the various types of valuation engagements may be appropriate. In our view, it is not appropriate for APESB to provide guidance as to which type of valuation may be appropriate for several of these types of services since the appropriateness of the type of valuation for a particular purpose is subject to regulatory or other requirements.</p> <p>For example, the content of an Independent Expert's Report is regulated by ASIC Regulatory Guide 111 "Content of expert reports" and the suitability of a valuation for tax purposes will be assessed by the Australian Taxation Office by reference to its</p>

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			<p>guidance "Market valuation for tax purposes".</p> <p>If the APESB feels that the inclusion of this table is helpful to Members, we recommend that GN 20 include guidance for Members to also consider what regulatory guidance or rules or laws are relevant to the nature of the engagement being performed.</p>
15	5.6	PP	<ul style="list-style-type: none"> ▪ Paragraph 5.6: <ul style="list-style-type: none"> – We do not understand the purpose or intent of this paragraph.
16	7.2	PP	<ul style="list-style-type: none"> ▪ Paragraph 7.2: <ul style="list-style-type: none"> – We do not understand why this would be necessary. Currently most practitioners would have their reports reviewed for confirmation of factual accuracy and this is stated in the report. Furthermore, most reports will include a paragraph to state that the valuer has relied on the information provided to them and that the client has drawn attention to all matters of which they are aware which may have an impact on the valuation. In our opinion this is sufficient and removes a layer of added complexity or bureaucracy. – In many cases clients would be unaware of whether the valuation approach or methodology adopted is appropriate and in any event, this should be a matter for the valuer, not the client.
17	7.3	PP	<ul style="list-style-type: none"> ▪ Paragraph 7.3: <ul style="list-style-type: none"> – We do not consider inclusion of this paragraph appropriate. The report should clearly document the work performed therefore it is not necessary to document this in the file also.
18	7.3	JAB	<p>Paragraph 7.3 states: '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.' This paragraph says that members should take into consideration the guidance in the previous paragraph. The previous paragraph talks about obtaining representations, preferably in writing, from management. Presumably what 7.3 is suggesting is that those representations should form part of the working papers. We are of the opinion that this is obvious and does not need to be explicitly stated. Removing this guidance leaves paragraph 7.3 stating that members should appropriately document the work performed which is already a requirement set out in paragraph 6.1 of APES 225, and therefore does not need to be restated here. We therefore ask APESB to consider the removal of paragraph 7.3.</p>

Staff Instructions

- Comments of a “general” nature should be dealt with first, followed by paragraph specific comments.
- Respondents’ comments must be copied verbatim into this table.
- Comments should be dealt with in paragraph order, not respondent order.
- Use acronyms only for respondents. Update the attached table with details of additional respondents.

RESPONDENTS

1	PP	Pitcher & Partners
2	JAB	Joint Accounting Bodies
3	Deloitte	Deloitte Touche Tohmatsu
4	BDO	BDO Australia Limited