

Proposed Guidance Note: APES GN 20 Scope and Extent of Work for Valuation Services

Prepared and issued by
Accounting Professional & Ethical Standards Board Limited

EXPOSURE DRAFT **04/12**
ISSUED: (XXXX 2012)

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Commenting on this Exposure Draft

This Exposure Draft, APES GN 20 *Scope and Extent of Work for Valuation Services* was developed and approved by the Accounting Professional & Ethical Standards Board Limited (APESB).

The proposals in this Exposure Draft may be modified in light of comments received before being issued in final form. **Comments are requested by 30 November 2012.**

Comments should be addressed to:

The Chairman
Accounting Professional & Ethical Standards Board Limited
Level 7, 600 Bourke Street
MELBOURNE VIC 3000
AUSTRALIA

APESB would prefer that respondents express a clear overall opinion on whether the proposed Guidance Note, as a whole, is supported and that this opinion be supplemented by detailed comments, whether supportive or critical, on any matter. APESB regards both critical and supportive comments as essential to a balanced view of the proposed Guidance Note.

Respondents are asked to submit their comments electronically through the APESB website, using the link www.apesb.org.au/apesb-exposure-drafts-open-for-comment.

Please submit comments in both a PDF and Word file. All comments will be considered a matter of public record and will ultimately be posted on the website www.apesb.org.au.

APESB prefers that comments are submitted via its website. However, if there are practical difficulties comments can also be sent to sub@apesb.org.au or mailed to the address noted above.

Obtaining a copy of this Exposure Draft

This Exposure Draft is available on the APESB website: www.apesb.org.au. Alternatively, any individual or organisation may obtain one printed copy of this Exposure Draft without charge until **30 November 2012** by contacting:

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Reasons for issuing Exposure Draft 04/12

APESB proposes to issue the Guidance Note APES GN 20 *Scope and Extent of Work for Valuation Services* to provide further guidance for Members on the application of APES 225 *Valuation Services*.

Key requirements and guidance in ED 04/12

The proposed APES GN 20 includes guidance in respect of the application of APES 225 *Valuation Services* in determining the scope and extent of review, analysis and corroboration that is normally appropriate for the applicable Valuation Service and contains the following sections:

- Fundamental responsibilities of Members;
- Scope and extent of work for Valuation Services;
- Context of a Valuation Service;
- Reporting and disclosure obligations for Valuation Services; and
- Documentation.

Proposed operative date

It is intended that this Guidance Note will be operative when issued.

APES GN 20 Scope and Extent of Work for Valuation Services

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ISSUED: [DATE]

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1. Scope and application

- 1.1 Accounting Professional & Ethical Standards Board Limited (APESB) issues professional guidance note APES GN 20 *Scope and Extent of Work for Valuation Services* (the Guidance Note).
- 1.2 APES GN 20 provides guidance to Members on the application of APES 225 *Valuation Services* in determining the scope and extent of review, analysis and corroboration that is appropriate for the applicable Valuation Service.
- 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 from 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.
- 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 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 and, unless marked with an asterisk (*), consistent with APES 225:

AASB* means the Australian statutory body called the Australian Accounting Standards Board that was established under section 226 of the *Australian Securities and Investments Commission Act 1989* and is continued in existence by section 261 of the *Australian Securities and Investments Commission Act 2001*.

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.

Australian Accounting Standards* means the Accounting Standards (including Australian Accounting Interpretations) promulgated by the AASB.

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 Engagements

- 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.
(from CICBV document Para. 13)
- 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.
(from CICBV document Para. 14)
- 4.4 When planning the scope of work for a Valuation Service a Member should consider the extent of review, analysis and corroboration of significant information that is indicated in APES 225 *Valuation Services* to form the basis of conclusion for each type of Valuation Service. A summary table is provided below:

Type of Valuation Service	Extent of Review and Analysis	Extent of Corroboration
Valuation Engagement	Comprehensive review and analysis of business and industry and all other relevant information and factors.	Corroboration of significant information and factors.
Limited Scope Valuation Engagement	Limited review and analysis of relevant information.	Limited corroboration of significant information.
Calculation Engagement	Minimal review and analysis of relevant information.	Little or no corroboration of significant information.

(from CICBV document Para. 4)

Extent of review and analysis

4.5 Members should consider addressing the following six categories of areas of work when performing a Valuation Service:

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

(from CICBV document Para. 5)

4.6 In determining the scope for these six categories of areas of work, Members should utilise their expertise and professional judgement. To assist Members in applying their professional judgement, example work extents and scopes from a Valuation Engagement to a Calculation Engagement is shown in the table below.

Type of Valuation Service	Economic Environment	Industry Context	Company Specific Non-Financial Information	Company Specific Financial Information	Valuation Context	Valuation Assessments
Valuation Engagement	High	High	High	High	High	High
Limited Scope Valuation Engagement	Moderate	Moderate	Moderate	Moderate	High to Moderate	High to Moderate
Calculation Engagement	Low	Low	Low	Low	Low to Moderate	Low to Moderate

(from CICBV document Para. 6)

Extent of corroboration

4.7 Where a Member is performing a Valuation Engagement, the Member should (using appropriate and reasonable efforts), review, analyse and consider all available information and factors that could have a significant impact on the Conclusion of Value. Further, 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.

(from CICBV document Para. 8)

4.8 Where a Member is performing a Limited Scope Valuation Engagement, the Member should perform a limited review, analysis and corroboration of economic, industry and company-specific information and factors giving consideration to the purpose of the Limited Scope Valuation Engagement. The Member should evaluate whether the work performed to support the Conclusion of Value of a Limited Scope Valuation Engagement addresses the critical economic, industry and company specific information and factors that could significantly impact the Conclusion of Value. In addition, the Member should clearly disclose the information that has been reviewed, analysed and corroborated to enable the users of such Valuation Reports to appropriately assess the extent of work performed.

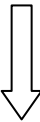
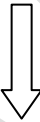
(from CICBV document Para. 9)

4.9 Where a Member is performing a Calculation Engagement, the extent of review, analysis and corroboration of economic, industry and company-specific information and factors is often very limited or non-existent. In essence these types of Engagements or Assignments require the gathering of critical valuation research, the application of

critical valuation techniques and methodologies, and the application of professional judgement that is based on information that may be very limited and that may not have been corroborated by the Member. In these circumstances Members may not be aware of information or factors that could materially affect the Calculated Value.

(from CICBV document Para. 10)

4.10 The following table provides examples of the continuum of extent of corroboration that might be undertaken in respect of cash flow projections and Guideline company analysis. This continuum goes from the highest extent of corroboration of information and factors to that which entails the lowest extent of corroboration, with the highest extent being appropriate for Valuation Engagements and the lowest to Calculation Engagements.

Information	Extent of Corroboration	Examples of Corroboration
Cash flow projections	Highest  Lowest	In-depth comparison of assumptions, interviews of management, comparison of supporting documentation and industry benchmarks. High level review of assumptions and reliance on management representations 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).

(from CICBV document Para. 11)

5. Context of a Valuation Service

5.1 Where a Member is making a determination as to the type of Valuation Service that is appropriate for a Client's or Employer's needs in a particular circumstance, the Member should take into account the context for which the Valuation Report is to be prepared and the extent of reliance that the users are likely to place on the conclusions expressed by the Member.

(from CICBV document Para. 15)

5.2 The following table provides examples to assist in assessing the appropriateness and reasonableness of a Valuation Service within various contexts.

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	Suitable	May be suitable	Likely not suitable
Shareholder agreement	Suitable	May be suitable	May be suitable
Estate planning	Suitable	May be suitable	May be suitable
Market transaction	Suitable	May be suitable	May be suitable
Financial reporting	Suitable	May be suitable	May be suitable
Independent Expert's Report	Suitable	Likely not suitable	Likely not suitable

(from CICBV document Para. 16)

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 Engagement of one type but that the Member could still perform a Valuation Service of a more limited type.

(from CICBV document Para. 18)

5.4 In the circumstances referred to paragraph 5.3, the Member should consider whether a Valuation Report of a higher type that expresses a conclusion that is qualified by a scope limitation best serves the users of the Valuation Report.

(from CICBV document Para. 19)

5.5 A determination of the impact of the availability of information on the type of Valuation Report to be issued by a Member is a matter of professional judgement that takes into account all of the relevant facts and circumstances including the purpose of the Valuation Service, the scope of work agreed to between the Client or Employer, and the importance of the unavailable and/or missing information to the conclusion.

(from CICBV document Para. 20)

Providing a more limited type of Valuation Report where another type of report could be provided based on the extent of review, analysis and corroboration

5.6 The Valuation Report issued by a Member in Public Practice is based on agreement between the Member and the Client. A Valuation Report issued by a Member in Public Practice must meet the minimum level of disclosures and the scope of work required by APES 225 *Valuation Services*. However, even if the Member has performed additional work that may be sufficient and appropriate to issue a Valuation Report which provides a higher level of comfort, the Member should not issue such a Valuation Report unless it is agreed with the Client and the Terms of Engagement are revised.

(from CICBV document Para. 22)

6. Reporting and disclosure obligations for Valuation Engagements

- 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 management 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 copy 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.

Acknowledgements

APESB gratefully acknowledges the publication listed below which provided a basis for the development of this Guidance Note.

Guidance on Types of Valuation Reports (Discussion Paper)
Canadian Institute of Chartered Business Valuators, March 2012