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# APES 225 Valuation Services<sup>1</sup>

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### *Conformity with International Pronouncements*

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## 1. Scope and application

- 1.1 Accounting Professional & Ethical Standards Board Limited (APESB) issues professional standard APES 225 *Business Valuation (the Standard)*, which is effective for Valuation Reports issued on or after 01 January 2009. Early adoption of this Standard is permitted.<sup>1</sup>
- 1.2 APES 225 sets the standards for Members in the provision of quality and ethical Valuation Services. The mandatory requirements of this Standard are in **bold** type, preceded or followed by discussion or explanations in grey type. APES 225 should be read in conjunction with other professional duties of Members, and any legal obligations that may apply.
- 1.3 **Members in Australia shall follow the mandatory requirements of APES 225 when they provide Valuation Services.**
- 1.4 **Members outside of Australia shall follow the mandatory requirements of APES 225 when they provide Valuation Services, to the extent to which they are not prevented from so doing by specific requirements of local laws and/or regulations.**
- 1.5 **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.**
- 1.6 The Standard is not intended to detract from any responsibilities which may be imposed by law or regulation.
- 1.7 All references to professional standards and guidance notes are references to those provisions as amended from time to time.
- 1.8 In applying APES 225 Members should be guided not merely by the words but also by the spirit of the Standard and the Code.

## 2. Definitions

For the purpose of this Standard:

**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.<sup>2</sup>

**Calculated Value** means an estimate of the value of a business, business ownership interest, security or intangible asset that results from a Calculation Engagement.

**Calculation Engagement** means an Engagement or Assignment to perform a Valuation<sup>2</sup> where the Member<sup>3</sup> and the Client or Employer agree on the specific Valuation Approaches and Methods that the Member<sup>3</sup> will use and the extent of Valuation Procedures the Member<sup>3</sup> will perform to estimate the value of a business, business ownership interest, security or intangible asset. A Calculation Engagement generally does not include all of the Valuation Procedures required for a Valuation Engagement. The Member<sup>3</sup> expresses the result of the Calculation Engagement as a Calculated Value, which may either be a single amount or a range.

**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.

**Contingent Fee** means a fee calculated on a predetermined basis relating to the outcome or result of a transaction or the result of the work performed. A fee that is established by a court or other public authority is not a Contingent Fee.

**Employer** within the context of this Standard 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;  
(c) an entity controlled by such parties; or  
(d) an Auditor-General's office or department.

**Independence means**

- (a) Independence of mind - the state of mind that permits the provision of an opinion without being affected by influences that compromise professional judgment, allowing an individual to act with integrity, and exercise objectivity and professional scepticism; and
- (b) Independence in appearance - the avoidance of facts and circumstances that are so significant a reasonable and informed third party, having knowledge of all relevant information, including any safeguards applied, would reasonably conclude a Firm's, or a member of the Engagement team's, integrity, objectivity or professional scepticism had been compromised.

**Limited Scope Valuation Engagement** means an Engagement or Assignment to perform a Valuation<sup>2</sup> in circumstances in which the scope of work is limited or restricted. For example, in valuing a business the scope of the work performed by the Member might involve only a limited or restricted review and analysis of the business and the industry in which it operates. A Limited Scope Valuation Engagement may also be referred to as a "restricted-scope valuation engagement" or an "indicative valuation engagement". The Member<sup>3</sup> expresses the results of a Limited Scope Valuation Engagement as a Conclusion of Value, which may either be a single amount or a range.

**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 the value of a business, business ownership interest, security or intangible asset by applying Valuation Approaches, Valuation Methods and Valuation Procedures.<sup>2</sup>

**Valuation Approach** means a general way of determining an estimate of value of a business, business ownership interest, security, or intangible asset using one or more Valuation Methods.<sup>2</sup>

**Valuation Engagement** means an Engagement or Assignment to perform a Valuation<sup>2</sup> where the Member<sup>3</sup> determines an estimate of value of a business, business ownership interest, security or intangible asset by performing appropriate Valuation Procedures and where the Member<sup>3</sup> is free to apply the Valuation Approaches and Methods that the Member<sup>3</sup> considers appropriate in the circumstances. The Member<sup>3</sup>

expresses the results of a Valuation Engagement as a Conclusion of Value, which may either be a single amount or a range.

**Valuation Method** means, within Valuation Approaches, a specific way to determine an estimate of value of a business, business ownership interest, security or intangible asset.<sup>2</sup>

**Valuation Procedures** means the act, manner and technique of performing the steps of a Valuation Method.<sup>2</sup>

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

**Valuation Service** means a services 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 A Member providing a Valuation Services shall comply with Section 100 *Introduction and Fundamental Principles* of the Code and relevant law.**

#### **Public interest**

**3.2 In accordance with Section 100.1 of the Code, a Member shall observe and comply with the Member's public interest obligations when providing a Valuation Services.**

#### **Professional Independence**

**3.3 When engaged to perform a Valuation Service which requires Independence or purports to be independent, the Member in Public Practice shall comply with Section 220 *Conflict of Interest*, Section 280 *Objectivity - All Services*<sup>7</sup> and Independence in the Code.**

**3.4 A Member in Public Practice shall not act as an advocate in respect of a Valuation Service which requires Independence or purports to be Independent.**

#### **Professional competence and due care**

**3.5 A Member providing a Valuation Service shall maintain professional competence and take due care in the performance of the Member's work in accordance with Section 130 *Professional Competence and Due Care* of the Code.**

**3.6 Where a Valuation Service requires the consideration of matters that are outside a Member's professional expertise, the Member shall seek expert assistance or advice from a suitably qualified third party on those matters outside of the Member's professional expertise or decline the Valuation Service. The Member shall<sup>T</sup> disclose in any Report or other relevant communications the extent of the reliance upon the advice of such a third party.**

**3.7 When planning to use the work of a suitably qualified third party, a Member shall assess the professional competence and objectivity of that third party and the appropriateness and reasonableness of the work performed.**

**3.8 In undertaking a Valuation Service, a Member should consider the contents of any guidance in respect of Valuation matters issued by the professional accounting bodies and appropriate regulatory authorities.**

## Confidentiality

- 3.9** In accordance with Section 140 *Confidentiality* of the Code, a Member who acquires confidential information in the course of professional work for a Client or Employer shall not use that information for any purpose other than the proper performance of professional work for that Client or Employer.
- 3.10** Unless the Member has a legal obligation of disclosure, a Member shall not convey any information relating to a Client's or Employer's affairs to a third party without the Client's or Employer's permission.
- 3.11 Where a Client has given a Member in Public Practice permission to disclose confidential information to a third party, it is preferable that this permission is in writing. Where oral<sup>9</sup> permission is obtained, a contemporaneous note should be made and kept on file by the Member recording the relevant details of the Client's approval.
- 3.12** Where a Member provides confidential information in accordance with a legal obligation of disclosure, the Member shall notify the Client, Employer or relevant third party as soon as practical, provided that there is no legal prohibition against such notification.

## 4. Professional Engagement and other matters

- 4.1** A Member in Public Practice shall document and communicate the Terms of Engagement to provide the Valuation Service in accordance with APES 305 *Terms of Engagement*.
- 4.2** A Member in Public Practice who is approached by a potential Client to undertake a Valuation Service shall comply with the requirements of Section 210 *Professional Appointment* of the Code.
- 4.3** A Member in Public Practice who has utilised the services of a suitably qualified third party in connection with the performance of a Valuation Service, such as a valuer of property, plant and equipment, shall not disclose the opinion or the name of that third party without the prior consent of that party unless the Member has a legal obligation of disclosure<sup>10</sup>.
- 4.4** A Member shall gather sufficient and appropriate evidence by such means as inspection, inquiry, computation and analysis to ensure that the Valuation Report and the conclusions therein are properly supported. When determining the extent and quality of evidence necessary the Member shall exercise professional judgement, considering the nature of the Valuation, the type of Valuation Service and the use to which the Valuation Report will be put.<sup>11</sup>

<sup>12</sup>

## 5. Reporting

- 5.1 Generally when a Member in Public Practice provides a Valuation Service, the Member should prepare a written Valuation Report. However, this Standard recognises that in limited circumstances the Member in Public Practice may issue a Valuation Report orally.<sup>TF</sup>

[Provide guidance on limited circumstance?]

- 5.2 Where a Member in Public Practice prepares a written Valuation Report in respect of a Valuation Service<sup>2</sup>, the Valuation Report shall clearly communicate:

- (a) The name of the party engaging the Member in Public Practice;
- (b) A description of the business, business ownership interest, security or intangible asset being valued;
- (c) The date at which the value has been determined;
- (d) The date on which the Valuation Report has been issued;
- (e) The purpose for which the Valuation Report has been prepared;
- (f) The name and qualifications of the Member(s) responsible for the Valuation;
- (g) The scope of the Valuation, including any limitations or restrictions;
- (h) The basis of the Valuation;
- (i) A statement whether the Valuation was undertaken by the Member in Public Practice acting independently or not (if applicable);
- (j) The Valuation Approach(es) adopted in determining the estimate of value and a description of how they were applied;
- (k) The specific information on which the Member in Public Practice has relied and the extent to which it has been reviewed;
- (l) A description of the material assumptions applied in the Valuation and the basis for those assumptions;
- (m) A Conclusion of Value for a Valuation Engagement or a Limited Scope Valuation Engagement, or a Calculated Value for a Calculation Engagement;
- (n) All qualifications that materially affect the Conclusion of Value or Calculated Value;
- (o) For a Limited Scope Valuation Engagement, a statement that if a Valuation Engagement had been performed the results may have been different;
- (p) For a Calculation Engagement, a statement that if a Valuation Engagement had been performed the results may have been different;
- (q) Where<sup>13</sup> a Member in Public Practice has prepared a Valuation Report that requires Independence or purports to be independent, a statement that the compensation to be paid to the Member in Public Practice is not contingent on the conclusion, content or future use of the Valuation Report; and
- (r) A statement that the Valuation Service was conducted in accordance with this Standard.

- 5.3 Where a Member in Public Practice communicates the Valuation Report orally, the Member shall communicate the elements noted in paragraph 5.2, as appropriate in the circumstances, and document the oral communication, the reasons for issuing an oral report and the work performed in accordance with this Standard and the Firm's policies and procedures established under paragraphs 94-97 *Documentation of APES 320 Quality Control for Firms*.<sup>2, TF</sup>

**5.4 In addition to the minimum requirements of a Valuation Report set out in paragraph 5.2, the Member in Public Practice shall consider including the following information in a Valuation Report, as appropriate:**

- (a) A description of other Valuation Approach(es) or Valuation Method(s) considered and the reasons why they were not considered relevant for the Valuation;**
- (b) Sufficient details of the Valuation calculations to allow a reader to understand how the Member determined the Conclusion of Value or Calculated Value;**
- (c) A summary of relevant financial information; and**
- (d) A summary of the relevant industry.**

**5.5 A Member in Business who undertakes a Valuation Service should prepare a Valuation Report that is appropriate for the circumstance taking into consideration the requirements and guidance provided in paragraphs 5.2 and 5.4 of this Standard.**

## **6. Documentation**

**6.1 A Member shall appropriately document the work performed, including aspects of the Valuation Service that have been provided in writing in accordance with this Standard, and the basis on which, and the method by which, calculations or estimates used in the Valuation Service have been made.**

## **7. Use of a glossary of business valuation terms**

**7.1 When issuing a Valuation Report, a Member shall clearly define the Valuation terms used.**<sup>17,18</sup>

**7.2 Members are encouraged to use as far a practicable terms that are in general use for Valuation Services. Members are referred to the *International Glossary of Business Valuation Terms* which are included in the valuation standards of the American Institute of Certified Public Accountants and the Canadian Institute of Chartered Business Valuators.**

## **8. Professional Fees**

**8.1 A Member in Public Practice providing Valuation Services shall be remunerated for such services by way of professional fees computed in accordance with Section 240 *Fees and other Types of Remuneration* of the Code.**

**8.2 A Member in Public Practice shall not enter into a Contingent Fee arrangement or receive a Contingent Fee for a Valuation Service which requires Independence or purports to be independent.**

### ***Conformity with International Pronouncements***

The International Ethics Standard Board for Accountants (IESBA) has not issued a pronouncement equivalent to APES 225.