

Professional Standards on Valuation Services and Forensic Accounting Services

CPA Australia

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APESB 
Accounting Professional & Ethical Standards Board

Overview

- **APESB and its pronouncements**
- ***APES 225 Valuation Services***
- ***APES 215 Forensic Accounting Services***

APESB History

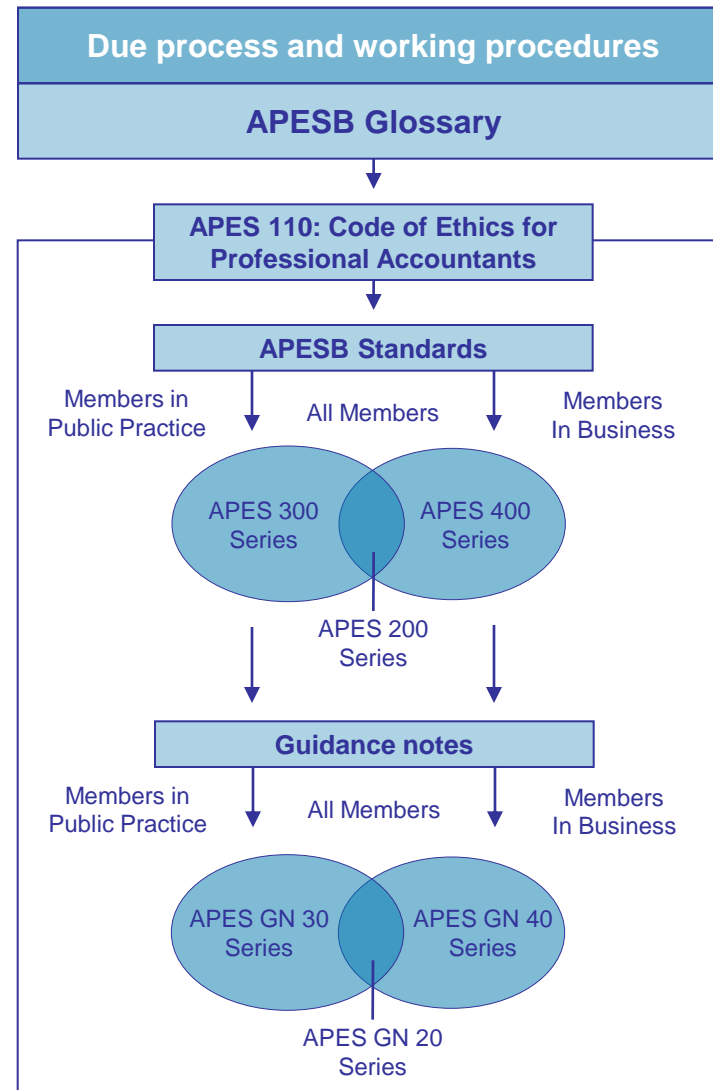
- **Established in February 2006 as an initiative of ICAA & CPA Australia**
- **NIA became a Member in December 2006**
- **Previously professional and ethical pronouncements were developed by the professional bodies**
- **Members of the three bodies are required to comply and subject to disciplinary procedures of the relevant professional body**

Structure of APESB pronouncements

- **Conceptual Framework**
 - Principles based
 - Mandatory for professional accountants

- **Standard**
 - Introduces principles
 - Mandatory requirements in black letter
 - Guidance and/or explanation in grey letter

- **Guidance notes**
 - Do not introduce new principles
 - Guidance on a specific matter on which the Principles are already stated in a Standard
 - Guidance is only in grey letter



APES 225 *Valuation Services*

Background to the development of the standard

- **BVSIG approached APESB**
- **Taskforce composition**
- **March 2007 to June 2008 → APESB Taskforce**

Australian Perspective

- **ATO**
 - Market Valuation Guidelines (2002)
- **ASIC**
 - RG 111: Contents of expert reports (Oct 2007)
 - RG 112: Independence of experts (Oct 2007)
- **APESB**
 - APES 225 *Valuation Services* (July 2008)
 - APES 110 *Code of Ethics for Professional Accountants* (June 2006)

International Perspective

- **CICBV**
 - Standards 110, 120 and 130
- **IVSC**
 - International Valuation Standards
- **ICANZ**
 - Independent Business Valuation Engagements (2001)
- **AICPA**
 - Standards for Valuation Services (June 2007)

APES 225 Valuation Services

Structure

- Scope and application
- Key definitions
- Fundamental responsibilities of Members
- Professional Engagement and other matters
- Reporting
- Documentation
- Use of glossary of business valuation terms
- Professional fees
- Examples of what constitutes a Valuation Service

Scope and Application

- Engagement → Members in Public Practice
- Assignment → Members in Business
- Mandatory for Members of the three Professional Bodies
- Effective for Valuation Engagements or Assignments commencing on or after 1 January 2009

Key Definitions

- **Valuation linked to:**
 - Valuation Approaches
 - Valuation Methods
 - Valuation Procedures
- **Three types of Valuation Services:**
 - Valuation Engagements
 - Calculation Engagements
 - Limited Scope Valuation Engagements

Key Definitions

- **Results:**
 - Valuation Engagement & Limited Scope
Valuation Engagement → Conclusion of Value
 - Calculation Engagement → Calculated Value
- **Report**

Fundamental Responsibilities of Members

- Public Interest – Comply with S. 100 *Introduction and Fundamental Principles*
- S. 220 *Conflicts of Interest* and S. 280 *Objectivity All Services of the Code*
- Professional Independence
- S. 130 *Professional Competence and Due Care* of the Code
- S. 140 *Confidentiality* of the Code

Professional Engagements and other matters

- **A Member in Public Practice shall comply with:**
 - APES 305 - document and communicate the Terms of Engagement
 - S. 210 *Professional Appointment* of the Code

Reporting

- **Mandatory for Members in Public Practice (para 5.1)**
- **Guidance for Members in Business (para 5.5)**
- **Reports can be written (para. 5.2) or oral (para. 5.3)**
- **Key report disclosures from para. 5.2 are:**
 - Usual disclosures – scope, basis, purpose limitations etc.
 - Whether acting independently or not
 - Material assumptions and basis of those assumptions
 - Valuation approaches adopted
 - All qualifications that materially affect the Conclusion of Value or Calculated Value
 - Valuation Services conducted in accordance with the Standard
- **Para. 5.4 provides additional disclosures to consider**

Documentation

- **Documentation of work performed include:**
 - Valuation Services that have been provided in writing
 - Basis, methods, calculations or estimates

Glossary of Business Valuation Terms

- When issuing a Valuation Report define the Valuation terms used
- Members are referred to the *International Glossary of Business Valuation Terms* which are included in the valuation standards of the AICPA and CICBV

Professional Fees

- Section 240 *Fees and other Types of Remuneration* of the Code
- A Member in Public Practice shall not enter into a Contingent Fee arrangement or receive a Contingent Fee for a Valuation Service requiring Independence.

Examples of what constitutes a Valuation Service

- **Examples are provided for illustrative purposes to assist the Member to determine whether a particular service is a Valuation Service for the purpose of APES 225.**
- **Examples of Valuation Services**
 - Independent Expert Reports
 - Valuation Report for tax consolidation
 - Indicative Valuation of a target business
 - Acting as an expert witness in litigation and expressing an opinion on the quantum of damages determined by reference to the value of a business
 - Performing an indicative Valuation of an employer's business as part of testing impairment of assets

Examples of what is *not* a Valuation Service

- **Examples of Services which are not Valuation Services**
 - Advice and assist in estimating the price for the sale of a company
 - Procedures to test the valuations assertions during the course of an audit engagement
 - Procedures to test impairment as part of the audit engagement
 - Performing an insolvency service
 - Acting as an expert witness in litigation and expressing an opinion on the quantum of damages determined by reference to lost profits

Questions?

APES 215

Forensic Accounting Services (FAS)

Background

- Formerly APS 11 & GN 2
- Includes mandatory requirements and guidance for Forensic Accounting Services
- Extension of scope for Members in Business
- APESB Taskforce – Aug 07 to Dec 08
- Taskforce composition

APES 215

Forensic Accounting Services

Structure

- Scope and application
- Key definitions
- Fundamental responsibilities of Members
- Professional Engagement and other matters
- Expert Witness Services (EWS)
- False or misleading information and changes in opinion
- Quality control
- Professional fees
- Use of the terms “facts”, “assumptions” and “opinions”

Scope and Application

- Operative on or after 1 July 2009
- Engagement → Members in Public Practice
- Assignment → Members in Business
- Where a Professional Service later becomes a FAS then APES 215 applies (Para 1.5)
- Where a FAS other than EWS, later becomes a EWS then section 5 of APES 215 applies (Para 1.6)

Key Definitions

- **Forensic Accounting Services:**
 - Expert Witness Services;
 - Lay Witness Services;
 - Consulting Expert Services; and
 - Investigation Services
- **Court**
- **Expert Witness**
- **Lay Witness**
- **Consulting Expert**
- **Professional Services**
- **Proceedings**
- **Contingent Fees**
- **Report**

Fundamental Responsibilities of Members

- **Public Interest**
 - Comply with S. 100 *Introduction and Fundamental Principles*, S. 110 *Integrity* and S. 120 *Objectivity* of the Code
 - Members in Public Practice shall comply with S. 220 *Conflicts of Interest* and S.280 *Objectivity* of the Code
- **If it is an Assurance Engagement comply with S. 290 *Independence* of the Code**
- **Disclose matters to the Court to assess the degree of independence**
- **Comply with S.130 *Professional Competence and Due Care* and S. 330 *Acting with Sufficient Expertise* of the Code**
- **Comply with S. 140 *Confidentiality* of the Code**
- **Laws of natural justice**

Professional Engagements and other matters

- **A Member in Public Practice shall comply with:**
 - APES 305 - document and communicate the Terms of Engagement
 - S. 210 *Professional Appointment* of the Code

Expert Witness Services

- **Evaluation of prior and/or existing relationships**
 - Member in Public Practice (para 3.8 and 5.1)
 - Member in Business (para 5.2)
 - Member in Business who is employed by a government agency (para 5.3)
- **A Member's obligations as an Expert Witness (para 5.4)**
- **The Report of an Expert Witness**
 - Relationships with any parties to the Proceedings
 - Significant assumptions
 - Explanation why a significant assumption is likely to be misleading (if any)

False or misleading information and changes in opinion

- **Shall not knowingly or recklessly make false or misleading statements**
- **A Member subsequently becoming aware that information is false or misleading**
 - Promptly inform the legal representative of the Client, Employer or the Court as appropriate
 - Consider issuing a supplementary report

Quality Control

- Member in Public Practice - shall comply with APES 320 *Quality Control for Firms*
- Member in Business – utilise a system of quality control
- Proper documentation of working papers
- Maintain chain of custody

Professional Fees

- **A Member in Public Practice**
 - Fees will be computed in accordance with S. 240 *Fees and other Types of Remuneration* of the Code
 - Not enter into a Contingent Fee arrangement for an Expert Witness Service or Engagements that require Independence
- **Member in Business**
 - Not receive contingent remuneration for an Expert Witness Service

Use of the terms “facts”, “assumptions” and “opinions”

- Examples are provided to assist Members determine whether a matter is a fact, an assumption or an opinion.
- Judged based on the particular facts and circumstances
- **Fact** – Expert Witness has applied specialised knowledge but has not applied any significant degree of judgment
- **Assumption** – ordinary meaning
- **Opinion** – Expert Witness applies a significant degree of expert judgment and draws an inference

Questions?

For more information visit:

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