

# Professional Standards on Valuation Services and Forensic Accounting Services

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# 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

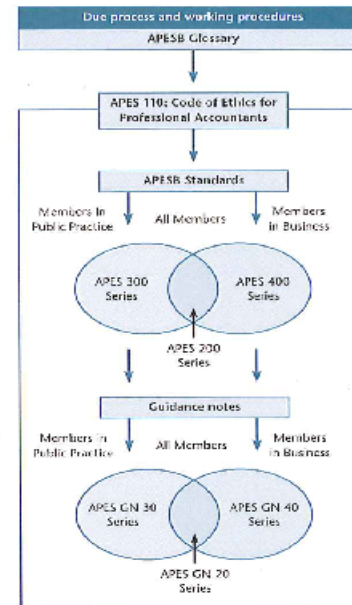
Appendix

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## 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*

# 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
- 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* 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
- Guidance for Members in Business
- 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 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

- 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

# Examples of what constitutes 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

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## *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
- Definitions
- Fundamental responsibilities of Members
- Professional Engagement matters
- Expert Witness Services
- 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

# 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
- 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

# Professional Engagements and other matters

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

# Expert Witness Services

- Evaluation of prior relationships
  - Member in Public Practice
  - Member in Business
  - Member in Business who is employed by a government agency
- A Member shall comply with Expert Witness Codes
- 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 as appropriate 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

[www.apesb.org.au](http://www.apesb.org.au)

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