

APES GN 20 Scope and Extent of Work for Valuation Services

[Supersedes APES GN 20 Scope and Extent of Work for Valuation Services issued in December 2013]

REVISED: January 2020

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1. Scope and application

- 1.1 The objective of APES GN 20 *Scope and Extent of Work for Valuation Services* is to provide guidance to assist **Members** on the application of APES 225 *Valuation Services* (APES 225) in determining the scope and extent of work that, depending on the particular circumstances, may be appropriate for the three types of **Valuation Service** defined in Section 2 of APES 225.
- 1.2 Accounting Professional & Ethical Standards Board Limited (APESB) has revised professional guidance note APES GN 20 *Scope and Extent of Work for Valuation Services* (the Guidance Note), which is effective from the date of issue and supersedes APES GN 20 issued in December 2013.
- 1.3 APES GN 20 provides guidance to **Members** in understanding their professional and ethical obligations associated with determining the scope and extent of work that may be appropriate for **Valuation Services** defined in APES 225. This Guidance Note does not prescribe or create any mandatory requirements.
- 1.4 **Members** using this Guidance Note should refer to:
- (a) APESB's *Due process and working procedures for the development and review of APESB pronouncements* (APESB's Due Process document);
 - (b) APES 225 for the mandatory requirements when **Members** provide **Valuation Services**; and
 - (c) APES GN 21 *Valuation Services for Financial Reporting* (APES GN 21) for guidance on the application of APES 225 in respect of the provision of a **Valuation Service** for financial reporting to a **Client** or **Employer**, the scope of work to be performed and matters to be disclosed in a **Valuation Report**.
- The APESB's Due Process document provides the meaning of the term 'should' used in this Guidance Note.¹
- 1.5 **Members** working in Australia should follow the guidance in APES GN 20 when they provide **Professional Activities**.
- 1.6 **Members** 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.
- 1.7 The Guidance Note is not intended to detract from any responsibilities which may be imposed by law or regulation.
- 1.8 All references to **Professional Standards**, guidance notes and legislation are references to those provisions as amended from time to time.
- 1.9 **Members** are required to comply with other applicable **Professional Standards** and be familiar with relevant guidance notes when performing **Professional Activities**. All **Members** are required to comply with the fundamental principles outlined in the **Code**.
- 1.10 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 and the **Members'** professional obligation to comply with the requirements of the **Code**.
- 1.11 In this Guidance Note, unless otherwise specified, words in the singular include the plural and vice versa, words of one gender include another gender, and words referring to persons include corporations or organisations, whether incorporated or not.

1 Refer to APESB's Due Process document, Section 5, Paragraph 5.2(e).

2. Definitions

Defined terms, including terms defined in APES 225, are shown in the body of the Guidance Note in title case.

3. Scope and extent of work for Valuation Services

3.1 When performing a **Valuation Service**, a **Member** is required by paragraph 4.5 of APES 225 to gather sufficient and appropriate evidence by such means as inspection, inquiry, computation and analysis to provide reasonable grounds that a **Valuation Report** and the conclusions therein are properly supported. In determining the extent and quality of evidence, the **Member** is required to 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. The following general guidance is to assist the **Member** in exercising professional judgement in determining the extent and quality of evidence to be obtained in respect of the type of **Valuation Service** to be performed.

Type of Valuation Service	Extent of work	Extent of evidence obtained
Valuation Engagement	Limited to extensive use of Valuation Approaches , Valuation Methods and Valuation Procedures .	Evidence obtained for significant matters.
Limited Scope Valuation Engagement	Minimal to limited use of Valuation Approaches , Valuation Methods and Valuation Procedures .	Limited evidence obtained for significant matters.
Calculation Engagement	No to minimal use of Valuation Approaches , Valuation Methods and Valuation Procedures .	Little or no evidence obtained for significant matters.

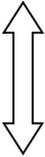
Extent of work

3.2 A **Valuation** under APES 225 may be of a business, business ownership interest, security, intangible asset, or other asset or liability. For convenience, the guidance in this section is based on the assumption that the **Valuation** is of a business, business ownership interest, or equity security.

3.3 To assist a **Member** to exercise professional judgement in respect of the extent of work for the applicable **Valuation Service**, a **Member** may find it helpful to consider the following four areas when performing the **Valuation Service**, subject to the terms of the **Engagement** or **Assignment** agreed with the **Client** or **Employer**:

- (a) The external environment in which the entity operates;
- (b) Entity-specific, non-financial information (for example, entity's operating structure and lifecycle stage);
- (c) Entity-specific, financial information (for example, historical and future orientated financial statements); and
- (d) **Valuation** context and assessments (for example, selection and application of **Valuation Approaches**, **Valuation Methods** and **Valuation Procedures**).

3.4 In determining the extent of work to be undertaken in each of these four areas, **Members** should use their expertise and professional judgement. The following table provides guidance to **Members** on the extent of work that might be undertaken in each of the four areas, depending on the type of **Valuation Service**, the availability of evidence, and subject to the terms of the **Engagement** or **Assignment** agreed with the **Client** or **Employer**. The table is only provided to illustrate a typical continuum of the scope of work for different types of **Valuation Service** and is not intended to be prescriptive of the work that needs to be undertaken in any particular **Valuation Service**. Moreover, there are situations where the work performed for a **Limited Scope Valuation Engagement** is greater than for a **Valuation Engagement** or the work performed for a **Valuation Engagement** is less in one situation than in another due to the unavailability of evidence. Refer to examples in Appendix 1 on determining the extent of work to be undertaken.

Type of Valuation Service	External environment of the entity	Entity specific non-financial information	Entity specific financial information	Valuation context & assessments
Valuation Engagement	Limited to extensive	Limited to extensive	Limited to extensive	Limited to extensive
Limited Scope Valuation Engagement	Minimal to limited	Minimal to limited	Minimal to limited	
Calculation Engagement	None to minimal	None to minimal	None to minimal	

Extent of evidence obtained

3.5 Where a **Member** is performing a **Valuation Engagement**, generally the **Member** will obtain evidence that is sufficient and appropriate to provide reasonable grounds that the **Valuation Report** and the conclusions therein are properly supported. This will include evidence on those matters that might reasonably be expected to have a significant impact on the **Conclusion of Value** for that engagement.

3.6 Where a **Member** is performing a **Limited Scope Valuation Engagement**, generally the **Member** will obtain less evidence in respect of some significant matters relevant to the **Conclusion of Value** for that engagement than for a **Valuation Engagement**, because the scope of work is limited or restricted either by the **Client** or the **Employer** or due to the circumstances of the engagement or availability of information.

3.7 Where a **Member** is performing a **Calculation Engagement**, generally the **Member** will obtain less or no evidence in some of the areas referred to in paragraph 3.3 to determine a **Calculated Value** than for a **Valuation Engagement** or a **Limited Scope Valuation Engagement**, because the **Client** or **Employer** does not require all the **Valuation Procedures** that might be required for those engagements.

4. Selecting the type of Valuation Service

4.1 The **Client** or **Employer** is responsible for determining which type of **Valuation Service** to commission. In making that determination, the **Client** or **Employer** may wish to consider the relative expected benefits, costs and risks of each type of **Valuation Service**.

- 4.2 The benefits, costs and risks of each type of **Valuation Service** might differ because, for any given set of circumstances, the scope of work of each of the three types of **Valuation Service** could vary. This might arise because in a **Valuation Engagement** the **Member** is free to apply the **Valuation Approaches**, **Valuation Methods** and **Valuation Procedures** the **Member** considers to be appropriate, while in a **Limited Scope Valuation Engagement** the **Member** is limited or restricted in that freedom, and in a **Calculation Engagement** the **Member** has no freedom and must apply the **Valuation Approaches**, **Valuation Methods** and **Valuation Procedures** that have been agreed with the **Client** or **Employer**. As a result, it is generally the case that the scope of work of a **Limited Scope Valuation Engagement** is more limited than that of a **Valuation Engagement**, and that the scope of work of a **Calculation Engagement** is more limited than that of a **Limited Scope Valuation Engagement**. Furthermore, for any particular **Limited Scope Valuation Engagement**, the scope of work might change without the engagement ceasing to be a **Limited Scope Valuation Engagement**, if the nature and extent of the limitations were changed.
- 4.3 Depending on the circumstances, the principal benefits to a **Client** or **Employer** of a limited scope of work might include:
- (a) a reduced burden to provide the **Member** with information or access to management;
 - (b) a shorter period for the completion of the **Valuation Service**; and
 - (c) lower professional fees.
- 4.4 Depending on the circumstances, the principal costs and risks to a **Client** or **Employer** of a limited scope of work might include:
- (a) the risk that a limited scope of work might be less suitable, or unsuitable, for the purpose for which the **Valuation Service** was commissioned;
 - (b) the risk that if a scope of work that was less limited or not limited had been performed the **Conclusion of Value** or **Calculated Value** might have been different; and
 - (c) the costs that might arise if either of the above mentioned risks were to materialise.
- 4.5 Where a **Client** or **Employer** is determining the type of **Valuation Service** to be commissioned and instructs or assigns the **Member** to assist the **Client** or **Employer** in better understanding the risk that a limited scope of work might be less suitable, or unsuitable, for the purpose for which the **Valuation Service** is to be commissioned, the **Member** should consider discussing the following matters with the **Client** or **Employer**:
- (a) *Extent of reliance* – Generally, the greater the extent of reliance on the **Conclusion of Value** or **Calculated Value** the more likely it is that a scope of work that is relatively less limited or not limited will be suitable. For example, in a market transaction, a **Client** may seek only a general indication of value because the market of buyers has been satisfactorily canvassed and the price of a transaction will ultimately be the result of negotiation or auction. In these circumstances a limited scope of work will generally be suitable. In contrast, if an agreement on the price for a transaction is being entered into based only on the **Conclusion of Value** or **Calculated Value**, then it will generally be suitable if the scope of work is relatively less limited or not limited.
 - (b) *Significance of the matter to the Client or Employer* – Generally, the more significant the **Conclusion of Value** or **Calculated Value** is to the **Client** or **Employer** and the higher the degree of risk that it might be challenged, the more likely it is that a scope of work that is relatively less limited or not limited will be suitable.
 - (c) *Preliminary nature of the matter* – In the course of an extended matter, a limited scope of work may be suitable for the purpose of the **Client** or **Employer** making a preliminary or interim assessment.

- (d) *Number of users of the Valuation Report* – Generally, if the [Valuation Report](#) will be provided to a high number of users and it would be reasonable to assume that some of those users may not understand the effect of any major limitations on scope, then a scope of work that is relatively less limited or not limited will be suitable.
- (e) *Public availability* – Generally, if the [Valuation Report](#) will be disclosed, or referred to, in a public document and it would be reasonable to assume that some of the intended users may not understand the effect of any major limitations on scope, then a scope of work that is relatively less limited or not limited will be suitable.

4.6 The above mentioned matters are illustrative but not exhaustive. They are not prescriptive of the type of [Valuation Service](#) that may be appropriate in any particular circumstances.

Conformity with International Pronouncements

The International Ethics Standard Board for Accountants (IESBA) has not issued a pronouncement equivalent to APES GN 20.

Acknowledgement of the Canadian Institute of Chartered Business Valuators

APESB gratefully acknowledges the publication of the Canadian Institute of Chartered Business Valuators (CICBV) listed below which provided the basis for the development of this Guidance Note. Components of the CICBV publication have been reproduced with the kind permission of the CICBV with variations made to suit the Australian context and APES 225 *Valuation Services*.

Practice Bulletin Number 3: Guidance on Types of Valuation Reports
Canadian Institute of Chartered Business Valuators, September 2012

Appendix 1

Illustrative Examples

*This Appendix contains some examples to assist **Members** determine the scope and extent of work for a **Valuation Service**.*

***Members** are cautioned that the determination of the scope of work for a **Valuation Service** in accordance with APES 225 is a matter to be judged based on the particular facts and circumstances. The examples contained in this Appendix are provided for illustrative purposes only and are not intended to be, and cannot be, all inclusive. The examples are not a substitute for reading the full text of APES 225 and APES GN 20 and applying the pronouncements to the particular circumstances. In all of the examples presented below it is assumed that there are no unmentioned facts which would be relevant to the determination of the scope and extent of work for a **Valuation Service**.*

Example 1: Valuation of a minority interest in equity for capital gains tax without access to the company

Facts: A **Member in Public Practice** is engaged by a **Client** who holds a minority interest in the issued share capital of a company to perform a **Valuation** as at today's date of that minority interest, for the purpose of capital gains tax and to provide a written report to the **Client**. There is no restriction or limitation placed on the **Member** in choosing the appropriate **Valuation Procedures** or **Valuation Approach** to use. Neither the **Client** nor the **Member** has access to the management and the books and records of the company. The **Member** has access to the annual reports, minutes of general meetings, and other documents provided by the company to the **Client** as a shareholder.

Analysis: If the **Member** did have access to the company (i.e. to its management and to its books and records) then, depending on the circumstances, the **Member** might consider:

- holding discussions with management about the nature and history of, and outlook for, the company's business;
- obtaining and reviewing any management accounts and reports and asking for details of any assumptions underlying them and the basis of their preparation;
- obtaining and reviewing any strategic or business plans;
- obtaining and reviewing any forecasts or budgets and asking for details of any assumptions underlying them;
- obtaining details of any revenues, expenses, assets, or liabilities that the **Member** considers relevant;
- obtaining details of any borrowings;
- obtaining and reviewing any crucial contracts;
- obtaining information on any revenues and expenses reported in the financial statements that management considers to be non-recurring, abnormal, or on non-commercial terms; and
- asking for any other information that the **Member** considers, in the circumstances, to be relevant to the valuation.

However, in this example this information is not available to the **Member** because the **Member** does not have access to the company. The fact that the extent and quality of the information available to the **Member** is less than would be the case if the **Member** did have access does not mean that the **Engagement** is a **Limited Scope Valuation Engagement**. That is because the **Member** remains free to employ the **Valuation Approaches**, **Valuation Methods** and **Valuation Procedures** that a reasonable and informed third party² would perform taking into consideration all the specific facts and circumstances of the **Engagement** available to the **Member** at the time – and those specific facts and circumstances include the fact that as a minority shareholder, the **Client's** ownership interest (being the subject matter of the **Valuation**) does not entitle the **Client** to the access and privileges described above.

2 The term 'reasonable and informed third party' is explained in paragraph 120.5 A4 of the **Code**.

Conclusion: This is a **Valuation Service**. The **Member** has been engaged to perform a **Valuation**, without any restriction or limitation placed on the **Member** by the **Client**, and to provide a **Valuation Report**, which constitutes a **Valuation Engagement**.

Example 2: Relationship between Conclusions of Value in a Limited Scope Valuation Engagement and in a Valuation Engagement

Facts: A **Member in Public Practice** is approached by a **Client** who wishes to obtain a **Valuation** of a portfolio of patents for financial reporting and tax purposes. The **Member's** report will be provided to the **Client's** auditors and to the Australian Taxation Office. The **Member** is not a tax agent or an auditor. The **Client** wishes to minimise the cost of the **Valuation** and to that end is willing for the **Member** to limit the amount of work that the **Member** would otherwise do and for the **Engagement** to be a **Limited Scope Valuation Engagement** instead of a **Valuation Engagement**. The **Member** explains to the **Client** that if the **Member** were instead to perform a **Valuation Engagement** then the **Conclusion of Value**, which will be in the form of a range of values, might be different. The **Client** says that it is willing to proceed with a **Limited Scope Valuation Engagement** because it understands that the range of values that the **Member** would determine in a **Limited Scope Valuation Engagement** is simply wider than that which the **Member** would determine in a **Valuation Engagement**.

Analysis: The **Client** understands that the **Conclusion of Value** might be different under a **Limited Scope Valuation Engagement** than under a **Valuation Engagement**. However, the **Client** appears to assume that the range of values that would result from a **Valuation Engagement** would fall within the range of values that would result from a **Limited Scope Valuation Engagement**. Whether this would be the case will depend on the facts and often it will not be possible to predict without performing the additional work involved in a **Valuation Engagement**. Hence, while it is possible that the range of values under a **Limited Scope Valuation Engagement** would fall within the range under a **Valuation Engagement**, it is also possible that it would not or that there would only be a partial overlap.

Conclusion: In light of the **Client's** apparent misunderstanding and assuming that the nature of the limitations on scope are such that it is not possible to predict whether the range of values that would result from a **Limited Scope Valuation Engagement** would fall within the range that would result from a **Valuation Engagement**, either fully, partially, or at all, the **Member** should inform the **Client** of that fact before an **Engagement** is entered into so that the **Client** is able to make an informed choice.

Example 3: Choosing between different types of Valuation Engagements

Facts: The facts are the same as for Example 2 except that (a) the **Client** understands that in the circumstances it is not possible to predict whether the range of values that would result from a **Limited Scope Valuation Engagement** would fall within the range that would result from a **Valuation Engagement**, either fully, partially, or at all; and (b) the **Client** asks the **Member** whether it should commission a **Limited Scope Valuation Engagement** or a **Valuation Engagement**.

Analysis: It is the **Client's** responsibility, not the **Member's**, to determine which type of **Engagement** should be commissioned. Many matters may be relevant to that determination and the **Member** may be able to assist the **Client** in understanding some of them. For example, the **Member** could assist the **Client** to understand how the two types of **Engagement** might involve different costs as well as different burdens on the **Client** from requests for information or access to management. The **Member** could also assist the **Client** to understand that because the **Conclusion of Value** in a **Limited Scope Valuation Engagement** might be different from the **Conclusion of Value** in a **Valuation Engagement**, commissioning a **Limited Scope Valuation Engagement** carries an additional degree of risk. Whether that risk is acceptable to the **Client** will depend on the circumstances, including the **Client's** tolerance for risk and how much weight the **Client** places on the perceived benefits such as lower cost and burdens. In the circumstances of this example, the determination may also depend on the attitude of the **Client's** auditors and of the Australian Taxation Office to a **Limited Scope Valuation Engagement** as well as on any relevant law or regulations.

Conclusion: The **Member** should inform the **Client** that it is the **Client's** responsibility, not the **Member's**, to determine which type of **Engagement** (i.e. **Valuation Engagement** or **Limited Scope Valuation Engagement**) should be commissioned in the circumstances. The **Member** could also inform the **Client** that the **Member** may assist the **Client** to understand some of the matters that may be relevant to that determination.

Example 4: Extent of evidence

Facts: A **Member in Public Practice** is engaged by a **Client** to perform a **Valuation** of a business, and provide a **Valuation Report**, for the purpose of the **Client's** negotiations with a third party for the sale of the business. The **Valuation Report** will not be provided to that third party. The **Client** instructs the **Member** to use the discounted cash flow method of valuation. But for that instruction, the **Member** would have used the capitalised earnings method of **Valuation**. The **Member** will need more information to perform the **Valuation** using the discounted cash flow method than the **Member** would have needed to perform the **Valuation** using the capitalised earnings method. The additional information will include, amongst other things, long-term cash flow forecasts for the business.

Analysis: The **Member** is not free to use the **Valuation Method** that the **Member** believes a reasonable and informed third party³ would use taking into consideration all the specific facts and circumstances of the **Engagement**.

Conclusion: The **Engagement** is a **Limited Scope Valuation Engagement**, notwithstanding that the **Member** will do more work than would be required for a **Valuation Engagement**. It is a **Limited Scope Valuation Engagement**, due to the restriction placed on the **Member** on the **Valuation Method** to be used.

3 The term 'reasonable and informed third party' is explained in paragraph 120.5 A4 of the **Code**.

Appendix 2

Summary of revisions to the previous APES GN 20 (Issued in December 2013)

APES GN 20 *Scope and Extent of Work for Valuation Services* was originally issued in December 2013 (extant APES GN 20). APES GN 20 has been revised by APESB in January 2020. A summary of the revisions is given in the table below.

Table of revisions*

Paragraph affected	How affected
1.1	Amended
1.2	Added
1.3	Added
1.4 – Paragraph 1.2 in extant APES GN 20 relocated	Amended
1.5	Added
1.6	Added
1.7	Added
1.8	Added
1.9	Added
1.10	Added
1.11	Added
2 – Introduction	Amended
3.2	Amended
3.3	Amended
3.4	Amended
3.5	Amended
3.6	Amended
3.7	Amended
4.2	Amended
4.4	Amended
4.5	Amended
Appendix 1	Amended

* Refer *Technical Update 2020/1*