

APES 225 VALUATION SERVICES

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1. Scope and application

- 1.1 Accounting Professional & Ethical Standards Board Limited (APESB) issues professional standard APES 225 Valuation Services (**the Standard**), which is effective for Valuation Engagements or Assignments commencing on or after 01 January 2009. Earlier adoption of this Standard is permitted.
- 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.

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 specific Valuation Approaches and Methods that the Member will use and the extent of Valuation Procedures the Member 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.

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*.

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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.

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 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 and provide a Valuation Report where 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".

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.

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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.

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 determines an estimate of value of a business, business ownership interest, security or intangible asset by performing appropriate Valuation Procedures and where the Member is free to apply the Valuation Approaches and Valuation Methods that the Member considers appropriate in the circumstances.

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 A Member providing a Valuation Service shall comply with Section 100 *Introduction and Fundamental Principles* of the Code and relevant law.
- 3.2 Members in Public Practice shall comply with Section 220 *Conflict of Interest* and Section 280 *Objectivity – All Services* in the Code

Public interest

- 3.3 In accordance with Section 100 *Introduction and Fundamental Principles* of the Code, a Member shall observe and comply with the Member's public interest obligations when providing a Valuation Service.

Professional Independence

- 3.4 When engaged to perform a Valuation Service which requires Independence or purports to be independent, the Member in Public Practice shall comply with Independence as defined in this Standard.
- 3.5 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

- 3.6 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.
- 3.7 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 disclose in any Valuation Report or other relevant communications the extent of the reliance upon the advice of such a third party.
- 3.8 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.
- 3.9 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

- 3.10 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.
- 3.11 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.
- 3.12 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 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.
- 3.13 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 practicable, 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.
- 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.

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 a Member may issue a Valuation Report orally where instructed to do so by the Member's Client or where there are circumstances that would justify issuing a Valuation Report orally rather than in writing.
- 5.2 Where a Member in Public Practice prepares a written Valuation Report in respect of a Valuation Service, the Valuation Report shall clearly communicate:
- (a) The name of the party engaging the Member;
 - (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 acting independently or not;
 - (j) The Valuation Approaches adopted in determining the estimate of value and a description of how they were applied;
 - (k) The specific information on which the Member 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;

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- (q) Where a Member has prepared a Valuation Report that requires Independence or purports to be independent, a statement that the compensation to be paid to the Member 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 *Documentation* of APES 320 Quality Control for Firms.
- 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 Approaches or Valuation Methods 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 taking into consideration the requirements and guidance of paragraphs 5.1 to 5.4 of this Standard, as appropriate, and to the extent practicable.
- 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.
- 7.2 Members are encouraged to use as far as 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

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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.

Appendix 1: Examples of what constitutes a Valuation Service

This Appendix analyses some examples to assist determine whether a particular service is a Valuation Service for the purposes of APES 225. Members are cautioned that the determination of whether a particular service is a Valuation Service under this Standard 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 applying the Standard to the particular circumstances to determine whether the Member is providing a Valuation Service. In all of the examples presented below it is assumed that there are no unmentioned facts which would be relevant to the consideration as to whether the service provided is a Valuation Service.

Example 1

A Member in Public Practice is engaged to perform a Valuation of the issued share capital of a company for the purpose of capital gains tax and to provide a written report to the Client.

This is a Valuation Service. The Member has been engaged to perform a Valuation and to provide a Valuation Report, which together constitute a Valuation Engagement and, therefore, a Valuation Service.

Example 2

A Member in Business is assigned by the Member's Employer to perform a Valuation of the intangible assets of a company acquired by the Employer for the purpose of tax consolidation and to provide a written report to the Employer.

This is a Valuation Service. The Member has been engaged to perform a Valuation and to provide a Valuation Report, which together constitute a Valuation Engagement and, therefore, a Valuation Service.

Example 3

A Member in Public Practice is engaged to provide mergers and acquisitions advice to a Client contemplating a potential acquisition of a business. Part of the instructions includes performing an indicative Valuation of the target business and providing an oral Valuation Report.

This is a Valuation Service to the extent of the indicative Valuation. The Member has been engaged to perform an indicative Valuation and to provide a Valuation Report, which together constitute a Limited Scope Valuation Engagement and, therefore, a Valuation Service.

Example 4

A Member in Public Practice is engaged to provide advice and assistance with respect to the sale of a company. As part of the sale process the Member is asked to provide an estimate of the price that might be obtained, or whether an offer should be accepted.

This is not a Valuation Service. Even if some Valuation Procedures are conducted the Member has not been engaged to perform a Valuation nor to provide a Valuation Report.

Example 5

A Member in Business is assigned by the Member's Employer to perform an indicative Valuation of a business owned by the Employer for the purpose of its potential sale and to provide an oral report to the Employer.

This is a Valuation Service. The Member has been assigned to perform a Limited Scope Valuation and to provide a Valuation Report to the Member's Employer, which together constitute a Limited Scope Valuation Engagement and, therefore, a Valuation Service.

Example 6

A Member in Public Practice is engaged by a Client who is the target of a takeover offer to prepare an independent expert report on whether the takeover offer is “fair and reasonable”. As noted in paragraph RG 111.10 of ASIC’s Regulatory Guide 111 “Content of Expert Reports”, an offer is “fair” if “the value of the offer price or consideration is equal to or greater than the value of the securities the subject of the offer”. The Member will perform a Valuation of the securities for the purpose of assessing if the offer is “fair”. In accordance with section 640 of the Corporations Act 2001, the independent expert’s report will accompany the target’s statement that will be sent to the shareholders of the Client.

This is a Valuation Service to the extent of performing the Valuation of the securities and providing the Valuation Report. Although the Member has been engaged to express an opinion on whether the takeover offer is “fair and reasonable”, the accepted meaning of “fair” (as stated in ASIC’s Regulatory Guide 111) clearly implies that a Valuation is to be performed. Thus the Member has been engaged, in part, to perform a Valuation and to provide a Valuation Report, which together constitute a Valuation Engagement and, therefore, a Valuation Service.

Example 7

A Member in Public Practice is engaged by a Client who is the target of a friendly takeover to be achieved by way of a scheme of arrangement, to prepare an expert’s report on whether a scheme of arrangement is “in the best interests of the members of the company” in accordance with clause 8303 of Schedule 8 of the Corporations Regulations 2001. As noted in paragraph RG 111.16 of ASIC’s Regulatory Guide 111 “Content of Expert Reports”, in such a case the expert is expected to provide an opinion as to whether the proposal is “fair and reasonable” as that phrase is understood for the purpose of section 640 of the Corporations Act 2001. The Member will perform a Valuation of the securities for the purpose of assessing if the offer is “fair”. The expert’s report will, if the court directs, accompany the explanatory statement and notice of meeting sent to shareholders of the company.

This is a Valuation Service to the extent of performing the Valuation of the securities and providing the Valuation Report. Although the Member has been engaged to express an opinion on whether the proposal is “in the best interests of the members of the company”, accepted practice (as stated in ASIC’s Regulatory Guide 111) implies that a Valuation is to be performed. Thus the Member has been engaged, in part, to perform a Valuation and to provide a Valuation Report, which together constitute a Valuation Engagement and, therefore, a Valuation Service.

Example 8

A Member in Public Practice is engaged by a Client who has acquired 90% of the securities of a particular class of a company and wishes to issue a notice to acquire compulsorily the balance of the securities. The Member is engaged to provide an expert’s report under section 667A of the Corporations Act 2001 on whether the “the terms proposed in the notice give a fair value for the securities concerned”. In accordance with section 664C, a copy of the expert’s report will be sent to each holder of securities.

This is a Valuation Service. The Member has been engaged to perform a Valuation and to provide a Valuation Report, which together constitute a Valuation Engagement and, therefore, a Valuation Service.

Example 9

A Member in Public Practice is engaged to perform an audit. The Member will perform procedures to test the valuation assertions (as defined in Australian Auditing Standard ASA 500 *Audit Evidence*) of the financial statement balances as part of the audit Engagement. The results of these procedures will be documented in the Member’s working papers and will not be communicated to the Client.

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This is not a Valuation Service. The Member has not been engaged to perform a Valuation and to provide a Valuation Report. The Member has been engaged to perform an audit and the procedures to test the valuation assertions (as defined in the Auditing Standards) are performed only as part of the audit Engagement.

Example 10

A Member in Public Practice is engaged to perform an audit. The Member will audit/review the valuation models or calculations prepared by the Client to test assets (including goodwill) for impairment as part of the Member's audit procedures to test the valuation assertion (as defined in the Auditing Standards). The procedures performed will be documented in the Member's working papers and will not be communicated to the Client.

This is not a Valuation Service. The Member has not been engaged to perform a Valuation and to provide a Valuation Report. The Member has been engaged to perform an audit and the procedures to test impairment are performed only as part of the audit Engagement.

Example 11

A Member in Business is assigned to perform an indicative Valuation of the business of the Employer as part of the Employer's procedures in respect of testing assets (including goodwill) for impairment for financial reporting purposes.

This is a Valuation Service. The Member has been assigned to perform a limited scope Valuation and to provide a Valuation Report which together constitute a Limited Scope Valuation Engagement and, therefore, a Valuation Service.

Example 12

A Member in Public Practice is engaged to provide estate planning advice. As a required input to providing that advice, the Member performs an indicative Valuation of a business and in giving the Member's advice provides an oral Valuation Report to the Client.

This is a Valuation Service to the extent of performing the indicative Valuation of the business and providing the Valuation Report. The Member has been engaged, in part, to perform a limited scope Valuation and to provide a Valuation Report which together constitute a Limited Scope Valuation Engagement and, therefore, a Valuation Service.

Example 13

A Member in Public Practice is engaged by a secured creditor as a receiver and manager of the assets and undertaking of a company. In reporting to the Client the Member expresses an opinion on the amount that might be realised from the sale of the company's business.

This is not a Valuation Service. Even if some Valuation Procedures are conducted the Member does not perform a Valuation and is not engaged to provide a Valuation Report. The Member has been engaged to perform an insolvency service and the opinion was expressed as part of performing that service.

Example 14

A Member in Public Practice is engaged to act as an expert witness in litigation and to express an opinion on the quantum of damages suffered by the plaintiff as a result of an alleged wrong-doing by the defendant. The Member is instructed that the damages are to be determined by reference to lost profits and that the court must award damages as a once-off lump sum. In performing this task, the Member:

- (a) will calculate the lost profits caused by the alleged wrong-doing by comparing the profits that the plaintiff would have earned but for the alleged wrong-doing with the profits that the plaintiff will earn given the alleged wrong-doing; and
- (b) will calculate the present value of those lost profits.

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The Member will provide a written report and may later give oral evidence at the court hearing. This is not a Valuation Service because the Member has not been engaged to perform a Valuation (i.e. the Member has not been engaged to determine an estimate of value of a business, business ownership interest, security or intangible asset).

Example 15

A Member in Public Practice is engaged to act as an expert witness in litigation and to express an opinion on the quantum of damages suffered by the plaintiff as a result of an alleged breach of contract by the defendant. The Member is instructed that the damages are to be determined by reference to the value of the plaintiff's business before the alleged breach of contract and the Member is instructed to express an opinion on that value. The Member will provide a written report and may later give oral evidence at the court hearing.

This is a Valuation Service because the Member has been engaged to perform a Valuation and to provide a Valuation Report which together constitute a Valuation Engagement and, therefore, a Valuation Service. The Member has been engaged to perform a Valuation because the Member has been engaged to determine an estimate of value of a business by applying Valuation Approaches, Valuation Methods and Valuation Procedures.