

14 January 2020

APESB issues revised APES GN 20 *Scope and Extent of Work for Valuation Services*

Accounting Professional & Ethical Standards Board Limited (APESB) today announced the issue of the revised APES GN 20 *Scope and Extent of Work for Valuation Services* (APES GN 20) to replace the existing APES GN 20 (Issued December 2013).

The key changes in the revised APES GN 20 consist of:

- Revisions to reflect the restructured APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code), issued in November 2018;
- Updating the guidance to reflect the clarification of the scope of APES 225 *Valuation Services*; and
- Amendments to the Scope and Application section to align with other APESB pronouncements.

Please refer to Appendix 1 of this technical update for details of all the revisions. The revised APES GN 20 will be effective as at the date of issue.

APESB has incorporated the following interactive PDF features within the revised APES GN 20:

- Bookmark tab section for contents page;
- Dynamic links to sections and paragraphs;
- Pop-up definitions upon mouse rollover for defined terms; and
- Links to external websites.

The revised Guidance Note is available from APESB's website: www.apesb.org.au

– ENDS –

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Appendix 1

Revision to APES GN 20 (Issued December 2013)

Accounting Professional & Ethical Standards Board Limited (APESB) has approved the following revisions to APES GN 20 *Scope and Extent of Work for Valuation Services* which was originally issued in December 2013.

Paragraph Reference	Revisions
1.1	Accounting Professional & Ethical Standards Board Limited (APESB) issues <u>The objective of APES GN 20 Scope and Extent of Work for Valuation Services (the Guidance Note)</u>. APES GN 20 provides is to provide guidance to assist Members on the application of APES 225 <u>Valuation Services (APES 225)</u> 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. This Guidance Note does not prescribe or create any mandatory requirements.
<u>1.2</u>	<u>Accounting Professional & Ethical Standards Board Limited (APESB) has revised professional guidance note APES GN 20 <i>Scope and Extent of Work for Valuation Services</i> (the Guidance Note), which is effective from the date of issue and supersedes APES GN 20 issued in December 2013.</u>
<u>1.3</u>	<u>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.</u>
<u>1.42</u>	Members using this Guidance Note should refer to: <ul style="list-style-type: none"> <u>(a) APESB's <i>Due process and working procedures for the development and review of APESB pronouncements</i>. (APESB's Due Process document);</u> <u>(b) APES 225 for the mandatory requirements when Members provide Valuation Services; and</u> <u>(c) APES GN 21 <i>Valuation Services for Financial Reporting</i> (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.</u> <p><u>The APESB's Due Process document provides the meaning of the term 'should' used in this Guidance Note.¹</u></p>
<u>Footnote 1</u>	<u>Refer to APESB's Due Process document, Section 5, Paragraph 5.2(e).</u>
<u>1.5</u>	<u>Members working in Australia should follow the guidance in APES GN 20 when they provide Professional Activities.</u>
<u>1.6</u>	<u>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.</u>
<u>1.7</u>	<u>The Guidance Note is not intended to detract from any responsibilities which may be imposed by law or regulation.</u>
<u>1.8</u>	<u>All references to Professional Standards, guidance notes and legislation</u>

Paragraph Reference	Revisions
	<u>are references to those provisions as amended from time to time.</u>
1.9	<u>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.</u>
1.10	<u>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.</u>
1.11	<u>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.</u>
2.	<u>For the purpose of this Guidance Note, all definitions are consistent with APES 225 Valuation Services.</u> <u>Defined terms, including terms defined in APES 225, are shown in the body of the Guidance Note in title case.</u>
3.2	A Valuation under APES 225 may be of a business, business ownership interest, security, or <u>intangible asset, or other asset or liability.</u> For convenience, the guidance in this section is based on the assumption that the Valuation <u>Valuation</u> 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) <u>The external environment in which the entity operates;</u> (b) <u>Entity-specific, non-financial information (e.g. for example, entity's operating structure and lifecycle stage);</u> (c) <u>Entity-specific, financial information (e.g. for example, historical and future orientated financial statements); and</u> (d) <u>Valuation context and assessments (e.g. for example, selection and application of Valuation Approaches, Valuation Methods and Valuation Procedures).</u>
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 <u>the</u> Client or Employer. The table is only provided to illustrate a typical continuum of <u>the</u> 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 the <u>Appendix 1 on</u>

Paragraph Reference	Revisions
	<p><u>determining the extent of work to be undertaken.</u></p> <p><i>[The table in paragraph 3.4 of the extant Guidance Note remains unchanged.]</i></p>
3.5	<p>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 Eengagement.</p>
3.6	<p>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 Eengagement 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 Eengagement or availability of information.</p>
3.7	<p>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 Eengagements.</p>
4.2	<p>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 Eengagement ceasing to be a Limited Scope Valuation Engagement, if the nature and extent of the limitations were changed.</p>
4.4	<p>Depending on the circumstances, the principal costs and risks to a Client or Employer of a limited scope of work might include:</p> <ul style="list-style-type: none"> (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 Valuation Conclusion of <u>Value or Calculated Value</u> might have been different; and (c) the costs that might arise if either of the above mentioned risks were to materialise.

Paragraph Reference	Revisions
4.5	<p>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:</p> <p>(a) <i>Extent of reliance</i> – 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.</p> <p>(b) <i>Significance of the matter to the Client or Employer</i> – 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.</p> <p>(c) <i>Preliminary nature of the matter</i> – 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.</p> <p>(d) <i>Number of users of the Valuation Report</i> – 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.</p> <p>(e) <i>Public availability</i> – 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.</p>
Appendix 1	Illustrative Examples – amended (minor editorials and footnotes added)
Appendix 2	Summary of revisions to the previous APES GN 20 (Issued in December 2013) – added