

AGENDA PAPER

Item Number: 3

Date of Meeting: 24 August 2023

Subject: Proposed revised APES 225 *Valuation Services*

Action required **For discussion** **For noting** **For information**

Purpose

To seek the Board's approval, subject to the Board's review comments and editorials, to issue a revised APES 225 *Valuation Services* (APES 225).

Background

APES 225 was originally issued in July 2008 (effective 1 January 2009), setting out mandatory requirements and guidance for Members who provide valuation services, including independence, professional competence, confidentiality, professional engagement, reporting and documentation. APES 225 was revised in:

- May 2012 to clarify different types of Valuation Engagements and to incorporate additional examples;
- December 2015 to address amendments made to *APES 110 Code of Ethics for Professional Accountants* (2013) (APES 110);
- March 2018 to address the disclosure of the standard of value used in the Valuation and its definition in the Valuation Report and a new example on the Valuation of intellectual property; and
- July 2019 to incorporate changes required due to the restructured APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (APES 110).

In March 2020, the Board approved a [project plan](#) to consider the applicability of APESB's current ethical and professional standards to Artificial Intelligence (AI) and Digital Technologies and whether additional professional and ethical obligations or guidance are required. In June 2021, the Board agreed the project's initial focus should be on APES 225 and APES 215 *Forensic Accounting Services* (refer to [Agenda Item 6](#) of the June 2021 meeting).

In March 2022, the Board approved a [project plan](#) to revise certain APESB pronouncements, including APES 225, for quality management-related conforming amendments resulting from the reissue of APES 320 *Quality Control for Firms* as APES 320 *Quality Management for Firms*

that provide Non-Assurance Services and new quality management standards issued by the Auditing and Assurance Standards Board (AUASB).

At the May 2023 Board Meeting ([Agenda Item 5](#)), the Board approved the release of [ED 02/23](#), which proposed revisions to APES 225 to incorporate quality management-related conforming amendments, technology-related revisions and to address matters on the APESB Issues Register. The exposure draft included requests for specific comments on how artificial intelligence (AI) and digital technologies are used by accountants in valuation services and whether any additional professional obligations or guidance are required to be addressed in APES 225.

The comment period for the exposure draft closed on 21 July 2023.

Matters for Consideration

APESB received four submissions on [ED 02/23](#) from three professional accounting bodies and an accounting firm, who generally supported the proposed amendments. The Respondents' comments are tabulated in General and Specific Comment Tables at Agenda Items 3(a) and 3(b).

In relation to the requests for specific comments, two respondents provided responses (set out in the Specific Comments Table at items 1 - 7) which covered the following topics:

Authenticity and originality of using AI output

Both respondents believed that the results produced by AI or digital tools must be valid and reliable and critically evaluated before reaching any conclusion.

- One respondent suggested including in the valuation report the specific information on which accountants have relied and the extent to which it has been reviewed. This is to provide sufficient details to allow readers to understand how conclusions have been reached. It was also reiterated the importance of not relying on AI to determine the initial assessment (refer to specific comment 1).
- The other respondent thought that proposed paragraph 4.6 of APES 225, which requires accountants to gather sufficient and appropriate evidence, could be applied when using AI or a digital tool. If it was impossible to gather appropriate evidence, then AI or digital tools should not be used in the Valuation engagement (refer to specific comment 7).

Confidentiality and privacy of data inputs

One respondent expressed concerns regarding using data inputs owned by third parties. They stressed the importance of managing confidentiality and privacy in accordance with APES 110 and relevant laws and regulations. Furthermore, for non-proprietary AI software, there are concerns about the storage, access, distribution and utilisation of data inputs (refer to specific comment 1).

Technical Staff note that these matters will be addressed by the technology revisions to APES 110 in due course.

References to technology-related revisions to APES 110

One respondent suggested that APES 225 should include amendments to ensure it accommodates technology-related revisions to the IESBA Code, including references to APES 110 to remind members of their ethical obligations when using AI and digital technologies (refer to specific comment 3).

Technical Staff agree that the [IESBA's Technology-related revisions](#) are relevant to Valuation Services and APES 225. The proposed revisions to APES 110 to align with IESBA's Technology-related revision will be discussed at this Board Meeting (refer to Agenda Item 9).

Technical Staff note that APES 225 already includes references through to APES 110 in the following paragraphs::

- Para 3.1 requires Members to comply with Part 1 of APES 110, which includes Section 120;
- Paras 3.6 and 3.10 require Members to comply with Subsections 113 and 114 of APES 110;
- Para 4.3 requires Members in Public Practice to comply with Sections 300 and 320 of APES 110; and
- Para 4.4 requires Members in Business to comply with Sections 200 and 220 of APES 110.

Technical Staff believe that the proposed Technology-related revisions will address the key concerns raised by respondents to APES 110. Once the revisions are finalised, Technical Staff will review APESB pronouncements, including APES 225, to determine if any conforming amendments are required. As such, Technical Staff do not propose any further amendments to the proposed APES 225.

Non-authoritative materials

One respondent encouraged APESB to issue non-authoritative materials focusing on new technology or Valuation methods to support accountants consistently applying the standard (refer to specific comment 3).

Technical Staff will consider this request as part of its current project on AI and digital technologies.

Small and Medium Practices (SMPs)

Technical Staff believe that as the proposed revisions to APES 225 relate to quality-management conforming amendments and to align the standard and update cross-references to APES 110, these changes will have minimal impact on SMPs.

Proposed Revised APES 225

Technical Staff do not propose any further amendments to APES 225 due to the exposure draft due process.

As no other changes are proposed to the standard as presented in the initial exposure draft, the revised standard has not been reproduced in this board paper. The [exposure draft](#) was considered at Agenda Item 5 of the May 2023 Board Meeting.

Technical Staff seek the Board's approval to issue the proposed revised APES 225.

Staff Recommendation

That the Board approve, subject to the Board's review comments and editorials, the issue of a revised APES 225 *Valuation Services*.

Materials presented

Agenda Item 3(a) General Comments Table ED 02/23

Agenda Item 3(b) Specific Comments Table ED 02/23

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