

# **The Valuers Reliance on Information**

## **Project Brief**

The International Valuation Standards Council (IVSC) is an independent, not-for-profit, private sector organisation that has a remit to serve the public interest. The IVSC's objective is to build confidence and public trust in the valuation process by creating a framework for the delivery of credible valuation opinions by suitably trained valuation professionals acting in an ethical manner.

The IVSC achieves this objective by:

- (a) creating and maintaining the International Valuation Standards (IVSs);
- (b) issuing technical guidance for professional valuers; and
- (c) promoting the development of the valuation profession and ethical practices globally.

The IVSC Standards Board has identified the possible need for the International Valuation Standards to more specifically address the appropriate procedures and reporting disclosures when a valuer relies on information provided by another party in the course of a valuation assignment.

This paper describes the reasons for the project and identifies matters that Board believes need to be addressed.

The Board appointed Frank Bollmann to lead this project, with assistance from Thomas Boyle and Cindy Ma.

## THE ISSUE

1. It is common for a valuer to be expected to use information provided by either the client or a third party in developing a valuation opinion. One of the fundamental principles underlying the International Valuation Standards (IVSs) is to provide sufficient transparency to users of the valuation in order to avoid either misunderstanding or misapplication of the valuation figure. The IVSs currently require that all information relied upon and its source should be recorded in the scope of work and disclosed in the report.
2. In IVSs 101 and 103 there are no restrictions or conditions indicated as to what a valuer can rely on or what should be verified by their own knowledge or enquiry. This flexibility was deliberate in order to allow the IVS to be applicable to the widest possible range of valuation assignments
3. However, the Board's attention has been drawn to some practices that arguably could be undertaken in accordance with the current standards but that could lead to inappropriate reliance being placed on the resulting valuation opinion. This could arise where the commissioning party and valuer agree a scope of work that requires them to accept inputs provided by others and limits the valuers duty to investigate those inputs. While these limits or conditions may be recorded in the scope of work settled between the valuer and the commissioning party, and may be disclosed in the report a third party investor or other user relying on the valuation may not fully appreciate the implications for the resulting valuation and may place undue reliance on it as a result.
4. IVS 102 *Implementation* does state:

*“Sufficient evidence shall be assembled by means such as inspection, enquiry, computation and analysis to ensure that a valuation is properly supported”*

It goes on to provide that if in the course of an assignment it becomes clear that the investigations included in the scope of work will not result in a credible valuation, or if information provided by third parties is inadequate, the scope of work shall be amended.
5. While the principles in IVS 102 are sound and place a duty on the valuer to ensure that both their own investigations and information provided by third parties are adequate the Board wishes to investigate whether the standards should include more explicit requirements on the steps that should be taken before a valuer relies on information that he is under no explicit duty to investigate under the terms of the assignment, either generally or for specific valuation purposes.
6. In addition, or as an alternative, to changing the existing standards the Board also wishes to investigate whether guidance on implementing the principles in IVS 102 should be developed.
7. The IVSs are concerned with procedures and processes that should be undertaken in the course of a valuation assignment. It is commonly held that any professional has responsibility to exercise professional scepticism. This involves making reasonable enquiries to establish that supplied information is reliable and then refusing to rely on it if they have reason to believe that it is not.

8. The Code of Ethical Principles for Professional Valuers published in 2011 does not expressly contain a requirement that a professional valuer should exercise professional scepticism, but under the heading of “Professional Behaviour” includes a statement that while the client’s needs are normally paramount, a professional valuer should avoid knowingly accepting any instruction that appears to be prejudicial to the interests of the wider public, and which could discredit their own reputation and that of the profession generally. This would include accepting an instruction to use information that they had reason to believe was untrue or unreliable.
9. Although the Code of Ethical Principles requires professional valuers to exercise integrity, objectivity, competence, confidentiality and professional behaviour, any guidance on this subject may need to specifically refer to the principles of the Code. This will require consultation with the IVSC Professional Board.
10. The auditing standard ISA 620 *Using the Work of an Auditor’s Expert* may have some relevance to this project. Although an auditor’s role is very distinct from that of a valuer, especially as regards the duties of investigation and verification, the approach it takes to some common problems may be helpful in considering the IVSC pronouncements that are appropriate.

#### **PROCESS**

11. The Working Group together with the Technical Director will develop initial recommendations on any changes required to the IVSs and a outline of any proposed guidance for the Board meeting on 25 October.
12. Since the probable outcome of the project will primarily involve the clarification or extension of principles already covered in the standards the Board does not consider that a Discussion Paper will be required but that otherwise the project will follow the IVSC Due Process.
13. If approved in principle an Exposure Daft will be prepared with a view to publication in Q1 2013