

Findings of the Peer Review Workshop (14th February, 2020)

We thank IBBI for organizing a workshop to share the findings of Peer Review (for three Asset Classes as per Companies (Registered Valuers and Valuation) Rules, 2017) on 14th February, 2020 at ICAI Delhi. Seven RVO including IIV RVO have presented their findings during the above workshop.

Workshop gave a Bird's Eye view on the quality issues prevailing in the preparation of valuation reports across the spectrum and emphasize the need for creating quality awareness among the Valuers.

The major quality issue observed during peer review is **NEGLIGENCE** (Inadequate valuation procedures or inadequate quality control) in reporting and is being mainly contributed by the following factors

GENERAL OBSERVATIONS

- 1) Vague or un detailed scope (of work summary)
- 2) Insufficient explanation of supporting evidence
- 3) Explanation of how methodology was applied to valuation was not there
- 4) Errors in grammar, math, logic
- 5) Inconsistencies and contradictions within the report
- 6) Assumptions not clearly stated
- 7) Some important sources for land ownership not indicated. Purpose of valuation I mentioned however name of appointing authority is not mentioned
- 8) Some important dates are missing.
- 9) There is no mention of caveats, limitations and disclaimers in the valuation report.
- 10) The major factors that were taken into account during the valuation not full indicated.
- 11) Conclusion is not provided.
- 12) No mention of restrictions on use of the report, if any.
- 13) Notes to the report are identical across all asset categories.
- 14) Figures are computed based on provisional balance sheets.
- 15) The reports do not confirm having 'Considered' all three generic approaches to value and do not cite reasons for 'selection' of any particular method or for 'disregarding' any approach.
- 16) Valuation Report should mention about the liabilities also.

DISCLAIMERS AND DISCLOSURES

1. No standardization in the disclosures observed.
2. Past history of the company should be disclosed in the report to substantiate the professional judgment, especially when the Company is listed and/or is a Multinational Company.
3. In case the company is a wholly Owned Subsidiary (WOS), Valuation Report should mention the layers of shareholding to substantiate the beneficial owner and at least

minimum of one layer should be mandatorily mentioned as per Valuation Rules.

4. There should be a para of identity of Valuer and other experts (if any) involved or assisted by.
5. Definition of "Fair Value" and "Liquidation Value" should be provided in the Report.
6. Since the corporate debtor is under CIRP, the report should consider Liquidation Value on 'goingconcern' basis.
7. Disclosure/disclaimer should not mention "Validity of Report is 3 years from the date of Report", as this provision is the requirement to maintain records for 3 years and not validity of Report or validity of valuation.
8. The valuer shall not disclaim liability for his/its expertise or deny his/its duty of care, except to the extent that the assumptions are based on statements of fact provided by the company or its auditors or consultants or information available in public domain and not generated by the valuer.
9. A statement explicitly restricting the end use of the report to intended user and for intended purpose only was missing in many valuation reports.
10. Statement or disclosure on conflict of interest needs to be specifically mentioned.

VALUATION STANDARDS

- i. Most valuation reports lacked an explicit declaration regarding compliance with the Valuation Standards.
- ii. Among the RVOs only ICAI has prescribed valuation standards for the asset class Securities or Financial assets. Some reports do refer to this. However, other RVOs have prescribed International Valuation Standards mostly IVS. Many of the reports do not refer to the valuation standard so adopted.
- iii. Scope of work was not provided in detail in engagement letter or in the Valuation Report.
- iv. In a few cases, basis of valuation was not as per valuation standards.

CONCLUSION

Since valuation profession is largely self regulating and review is one of the important method by which the profession carefully guides and regulates its members, above short comings can be remedied by creating awareness on quality.

In an effort to create attentiveness on the quality of Valuation reports IIV – RVO has initiated Quality awareness discussions as a part of its CEP.

Thanks and regards.

Team IIV-RVF