



**By e-mail < [CommentLetters@ivsc.org](mailto:CommentLetters@ivsc.org) >**

14 September 2012

Our Ref.: C/AASC

IVSC  
41 Moorgate  
London EC2R 6PP  
United Kingdom

Dear Sirs,

**[IVSC Exposure Draft of a Practical Guide on \*The Role of the Professional Valuer in the Audit Process\*](#)**

The Hong Kong Institute of Certified Public Accountants ("HKICPA") is the only statutory licensing body of accountants in Hong Kong responsible for the professional training, development and regulation of the accountancy profession. The HKICPA sets auditing and assurance standards, ethical standards and financial reporting standards in Hong Kong.

We welcome the opportunity to provide you with our comments on the draft IVSC Practical Guide (the "Guide").

We support the proposed Guide which aims to explain the role of the professional valuer in the audit process. Our comments on the Exposure Draft are set out in the attachment.

We trust that our comments are of assistance to you. If you require any clarification on our comments, please do not hesitate to contact me at [simonriley@hki CPA.org.hk](mailto:simonriley@hki CPA.org.hk).

Yours faithfully,

Simon Riley  
Director, Standard Setting

SR/SH/ah

Encl.



**ATTACHMENT**

**HONG KONG INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS' COMMENTS ON THE  
IVSC EXPOSURE DRAFT OF A PRACTIAL GUIDE ON  
THE ROLE OF THE PROFESSIONAL VALUER IN THE AUDIT PROCESS**

**Questions for Respondents**

1. **The Board has identified two principal areas where professional valuers may need guidance on the role or the auditor and the audit process. The first is when acting as an auditor's expert; the second is when acting for an entity in providing valuations that will be included in a financial statement that will be subject to audit.**

- a) ***Do you agree that these are the only two roles in respect of which valuers need guidance on audit procedures? If not please identify the additional roles of which you are aware.***

We agree that these are the two principal roles generally performed by professional valuers. Professional valuers should have an understanding of ISA 620 when acting in the capacity of an auditor's expert in relation to audited financial statements. In addition, the Board may consider providing guidance on additional roles of valuers in relation to engagements other than audit e.g. interim review or other assurance engagement.

- b) ***Do you consider that the distinction between the two roles is clearly explained?***

We consider that the distinction between the two roles is not clearly explained. It should be clearly stated in paragraph 1 of the Guide which if either of the two roles the guidance is focusing on. If the objective of the guidance is to cover both of the two roles, the contents of the guidance should be clearly differentiated. As currently drafted, the focus of the guidance appears to be on the role of valuers acting in the capacity of an auditor's expert (paragraphs 2-4, 12-37), but guidance is also provided on being management's expert (paragraphs 38-45). Besides, there are further distinctions about whether the professional valuer is an internal or external expert. That is, management's expert may be directly employed by the entity (internal) or a third party engaged by the entity (external). This situation also applies to the auditor's expert. We consider that these differences are important for a number of matters considered in the Guide, for example, the ethical and independence requirements, scope of work, and are further discussed in our response to Questions 2, 3 and 5 below.

2. **In paragraph 15 an extract from ISA 620 is provided which explains that an auditor's expert may be either internal (i.e. a partner or member of staff in the auditor's firm or of a network firm) or external. The draft Guide proposes that no distinction is necessary between these roles, and that the guidance provided is applicable to both situations.**

***Do you agree with this conclusion? If you believe that distinction can be drawn, for example that some of the guidance may not be applicable to a valuer acting as an internal expert, please identify the distinction and if you believe that additional guidance specific to each role should be provided.***

We do not agree with this conclusion as we consider there are distinctions that can be drawn; for example the following two areas:

(a) The nature of contractual arrangements

An external professional valuer may seek to limit the risks associated with an engagement to act as an auditor's expert by contractual means, including limitations on the scope of work or the reliance that may be placed on their work. Such provisions are generally not relevant for internal arrangements as they do not affect the aggregate risk exposure of the overall audit firm.

(b) The requirements of ethics and independence – paragraph 21(ii) and (iii)

A professional valuer employed by the auditor is likely to be required to adhere to the auditor's internal ethics and independence requirements as a matter of course and, as such, these may be more stringent than those an auditor may consider in evaluating the objectivity and independence of an external professional valuer. The ethics and independence requirements are identified in paragraphs 21 (ii) - (iii) and 22 of the Guide but there is no discussion on how different requirements are applied when the professional valuer is employed as an auditor's internal expert as opposed to being engaged as an auditor's external expert.

For purposes of clarity, we suggest providing examples of the services that could be provided by the auditor's expert and distinguishing between the scope of services provided by internal and external experts (e.g. differences in report deliverable, etc).

3. **In the section "Planning the Assignment" (paras 21-24) the proposed guidance recommends close liaison with the auditor and that a valuer appointed as an auditor's expert should regard themselves as a member of the auditor's team and be prepared to accept direction from the auditor. The Board is aware that some professional valuers believe that close liaison with a client, whether it be an auditor or not, may threaten their independence and objectivity. The Board does not consider this to be the case given that both the auditor and any experts the auditor appoints are required to provide an independent and objective view of the reasonableness of the valuation measurements provided by the entity's management.**

***Do you agree with the Board's view? If not please give an example of how a professional valuer's objectivity may be compromised through close cooperation with an auditor when acting as an auditor's expert.***

We agree with the Board's view. However, as mentioned in Question 2 above, we consider that the distinction between an internal auditor's expert and an external auditor's expert should be clarified in the draft Guide.

Paragraph 22 currently states that professional valuers who comply with the IVSC *Code of Ethical Principles for Professional Valuers*, or an equivalent code of conduct, are sufficiently independent and objective to act as an auditor's expert. In the case of an auditor's internal expert, as discussed in Question 2 above, the professional valuer, being part of the audit team, is also subject to the same ethical and independence requirements of the audit firm, which is usually regulated by audit oversight regulators. Paragraph A11 of ISA 620 states that "an auditor's internal expert may be a partner or staff, including temporary staff, of the auditor's firm, and therefore subject to the quality control policies and procedures of that firm in accordance with ISQC 1, or national requirements that are at least as demanding. Alternatively, an auditor's internal expert may be a partner or staff, including temporary staff, of a network firm, which may share common quality control policies and procedures with the auditor's firm."

Paragraph A12 of ISA 620 states that "an auditor's external expert is not a member of the engagement team and is not subject to quality control policies and procedures in accordance with ISQC 1. In some jurisdictions, however, law or regulation may require that an auditor's external expert be treated as a member of the engagement team, and may therefore be subject to relevant ethical requirements, including those pertaining to independence, and other professional requirements, as determined by that law or regulation."

We believe it is important that the Guide clarifies the types of working arrangements that may be agreed between auditors and professional valuers when acting as the auditor's internal or external expert, the possible effect of these arrangements on the valuer's independence, and the importance of discussing these matters with the auditor.

4. **Paragraph 25 indicates that if a professional valuer follows the IVSs and any relevant Technical Information Papers or other guidance issued by the IVSC or other organisations it assists the auditor in verifying that the work is in accordance with applicable standards. The reference to "other organisations" was included because the Board recognises that IVSC is not the exclusive provider of valuation guidance, and that guidance issued by other organisations may be accepted by consensus under certain circumstances. However, it has been argued that an unqualified reference to "other organisations" may appear to mandate the use of guidance that is inconsistent with IVSC pronouncements and seems to encourage, rather than reduce, diversity.**

***Do you agree that reference should be made to the existence of other organisations' guidance or other pronouncements in this Guide? If so do you consider that either some qualification or limitation should be provided, or a list of other organisations deemed to issue appropriate valuation guidance be included?***

We recognise that the IVSC is not the exclusive provider of valuation guidance and professional valuers may be required to comply with other organisations guidance or other pronouncements.

We would suggest that wording such as "that are authorised or recognised to promulgate valuation standards or guidance" be added after "other organisations" to clarify that compliance with other professional valuation standards and/or guidance may be accepted. The IVSC may give some examples of authorised or recognised organisations and valuation standards and/or guidance in Appendix 1 of the draft Guide.

5. **The section "Scope of Work" (paras 25-32) indicates that a valuer acting as an auditor's expert may only be required to review aspects of a valuation provided by either management or a valuer appointed by management. IVS 101 Scope of Work allows significant flexibility in defining the extent of investigation and valuation advice to be provided. If any of the report contents specified in IVS 103 are not required those excluded just need to be identified in the scope of work document.**

***Do you consider that the guidance provided in the "Scope of Work" section of this document for a valuer undertaking a limited review of a reporting entity's valuation when acting as an auditor's expert is sufficient? If not what aspects do you consider merit further attention?***

We recommend that the "Scope of Work" section be expanded to include common practices as discussed in the following paragraphs, not only with respect to the situation of a valuer undertaking a limited review of the reporting entity's valuation, but whenever the professional valuer is involved in the audit process.

(a) Defining the scope of work to be performed by the professional valuer

The draft Guide does not sufficiently consider how the auditor and the professional valuer acting as the auditor's expert should work together to define the scope of work to be performed by the professional valuer. In practice, subject to the proviso that the auditor, taking into account professional requirements and their judgment of the matter at hand, ultimately determines the procedures to be performed, the professional valuer should use their understanding of the valuation process to advise the auditor on the appropriate scope of work and how different valuation-related workstreams may be integrated. It is also important that the professional valuer work closely with the audit team where there is a portfolio of valuations to be examined, to agree appropriate sample sizes and in the selection of those items within the portfolio that merit further analysis.

(b) Differentiating between examination of a valuation prepared internally by management versus one that has been prepared externally by a third party valuer

In considering the scope of work of the professional valuer as the auditor's expert, the draft Guide does not differentiate between examination of a valuation that has been prepared internally by management and one that has been prepared externally by a third party professional valuer. Generally, we understand that valuations prepared internally by management may be of a more basic nature than an external one. This can mean that there is less information available supporting the valuation, assumptions applied may be less realistic and it can be harder to analyse how the valuation has been prepared. Consequently, in such cases the amount of work necessary to gain the required level of assurance may be greater than for an externally prepared valuation.

At a minimum, we recommend expanding paragraph 11 of the draft Guide to mention for example, that the nature and quality of the entity's valuation process (such as whether it is external or internal) should be considered in determining the scope of work for the auditor's expert and in evaluating the sufficiency and appropriateness of audit evidence.

(c) Understanding each other roles with respect to the underlying data

The draft Guide makes only brief mention of underlying data used in a valuation (paragraph 31) and does not mention it in the context of a valuation performed by management's expert. We understand that this can be a key area of focus in the course of an audit, where there may be an expectation gap between the extent of procedures a professional valuer may perform over the underlying data in the normal course of performing (as management's expert) or examining (as the auditor's expert) a valuation and the extent of procedures the auditor may require to obtain sufficient, appropriate audit evidence in respect of the valuation. This is particularly an issue for data provided by management to the professional valuer acting as management's expert.

We note that valuation reports issued by professional valuers typically state that they rely on information provided by management and it would be helpful to address this in the proposed Guide and explain the implication for valuers, management and auditors.

- (d) Differentiating between a professional valuer acting as management's expert and one acting as the auditor's expert

Appendix 4 to the draft Guide contains examples of matters to consider in developing the scope of work of a professional valuer. However, it does not differentiate between a professional valuer acting as management's expert and one acting as the auditor's expert. In practice, the scope of work may significantly differ as while the former may be commissioned to prepare a valuation, the latter is likely to be commissioned to examine a valuation provided by management (or management's expert), and/or to produce their own point estimate or range of estimates for comparative purposes with management's valuation. We recommend that the Appendix is revised to address these two separate considerations.

- (e) Differentiating between work for stand-alone financial statements or consolidated financial statements

We also note that the draft Guide does not consider whether the valuation is being prepared (and/ or examined) by the professional valuer for purposes of stand-alone financial statements of an entity or consolidated group financial statements. The valuation basis could potentially be different between the stand-alone financial statements of an entity and the consolidated group financial statements, depending on the specific accounting requirements. For example, a lease between related entities within a group may be excluded from a real estate valuation for purposes of the consolidated group financial statements but would be relevant for the entity's stand-alone financial statements.

- (f) Clarifying that the scope of work is dependent on the auditor's assessment of risk and a function of materiality

The draft Guide addresses the concept of materiality to some extent (paragraph 37(b)) but it does not clearly explain how it is used by the auditor throughout the audit process. It is important for the professional valuer to have an understanding that:

- Materiality is applied both in planning and performing the audit;
- Materiality is applied both in evaluating the effects of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements and the auditor's report; and
- The interaction between materiality and audit risk is a dynamic process as findings from performing audit procedures are evaluated as the audit progresses and those findings may impact the scope of other audit procedures, including the work of the auditor's expert.

- (g) The guidance in paragraph 29 of the draft Guide is in relation to an auditor's external expert. We would suggest including the guidance in A26 of ISA 620 when there is no written agreement between the auditor and the auditor's expert, for example in the case of an auditor's internal expert.

"A26. When there is no written agreement between the auditor and the auditor's expert, evidence of the agreement may be included in, for example:



- Planning memoranda, or related working papers such as the audit program.
  - The policies and procedures of the auditor's firm. In the case of an auditor's internal expert, the established policies and procedures to which that expert is subject may include particular policies and procedures in relation to that expert's work. The extent of documentation in the auditor's working papers depends on the nature of such policies and procedures. For example, no documentation may be required in the auditor's working papers if the auditor's firm has detailed protocols covering the circumstances in which the work of such an expert is used."
6. **Appendix 1 "Resources" contains a list of other documents that are relevant to this guidance and which provide further reading on this topic.**

***Do you consider that there are other relevant and useful documents that could be included?***

As suggested in Question 4 above, the IVSC could consider listing examples of authorised or recognised organisations and valuation standards and/or guidance which may be accepted.

7. **The proposed guidance is intended to be capable of global application across different jurisdictions. The intention is to focus on broadly applicable principles and to avoid detailed descriptions of aspects of either the role of the auditor or a valuer involved in the audit process.**

***Do you believe that the guidance contains an appropriate level of detail for a global audience? If not, please specify where you consider more or less detail is required, or any omissions that you consider to be material.***

We agree that the guidance should focus on broadly applicable principles for global application across different jurisdictions. However, we consider more detailed guidance as set out above is required.