DAY 2 – 12th October 2013 Workshop on Valuation conducted by the Western India Region of The Institute of Chartered Accountants of India

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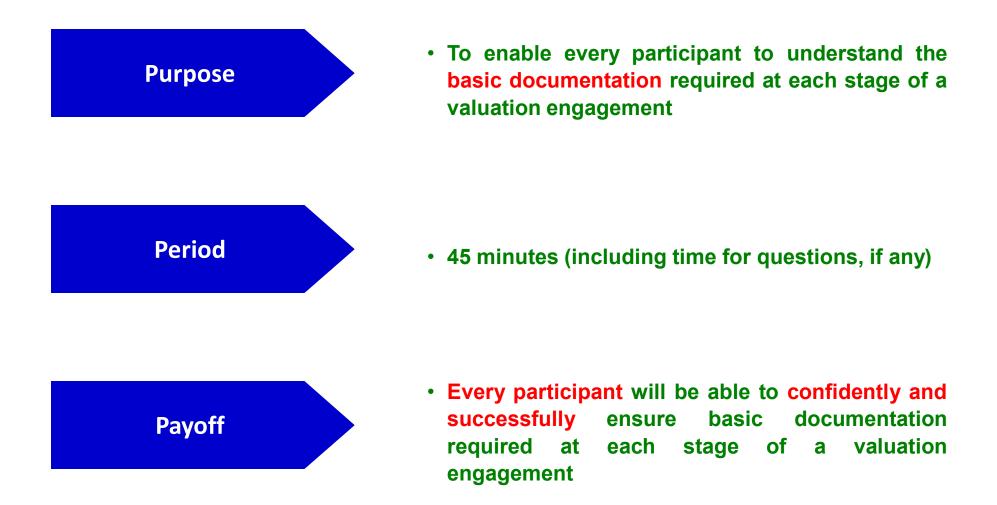
INFORMATION REVIEW & & DOCUMENTATION

Points to consider

- Information Review and Documentation is the backbone of a valuation engagement because the subjectivity involved and reliance on assumptions is higher
- Non Glamorous area of a valuation engagement
- Most often ignored area of a valuation engagement
- Ignoring this area creates anxieties at the most inopportune moment
- Better the documentation, lesser the subjectivity
- Better the quality of the information review, more reasonable the judgment
- Prevention is better than cure

DOCUMENTATION

Course Objectives – The 3 P's



DOCUMENTATION

CLIENT ACCEPTANCE / PRE ENGAGEMENT STAGE

Pre Engagement Stage – Documentation

Documentation at this stage should include:

- > Checks for independence
 - Listed securities
 - Provision of services to parties related whether personally or otherwise
 - Provision of attest services

Checks for conflicts

- Provision of services to competitors
- Provision of services to "other" party viz. acquirer / target

Signed Engagement Letter comprising

- Purpose of valuation, valuation date and standard of value
- Scope of Services and Valuation Methodologies to be employed
- Deliverables, Time and Fees
- Conditions on Scope Limitations, Confidentiality, Limitation on Liability, Indemnity, Intellectual Property, Ownership of work product, etc.

DOCUMENTATION

EXECUTION / ENGAGEMENT STAGE

Engagement Stage – Documentation

Documentation at this stage should include:

Correspondence

- Information Request List sent to client
- Queries & Clarifications sent to client
- All replies received from client

Records

- Synopsis of meetings / calls with client
- Record of Plant / Site Visits

Information

- > All information available in the public domain viz. documentation of research
- Incorporation Documents viz. Memorandum and Articles of Association, Partnership Deed, etc.
- Latest Shareholding Pattern and data on recent exchange of shares, if any
- Last Audited Financials and Latest Provisional Financials
- Future Projections (profit & loss, balance sheet, cash flows)

DOCUMENTATION

COMPLETION STAGE

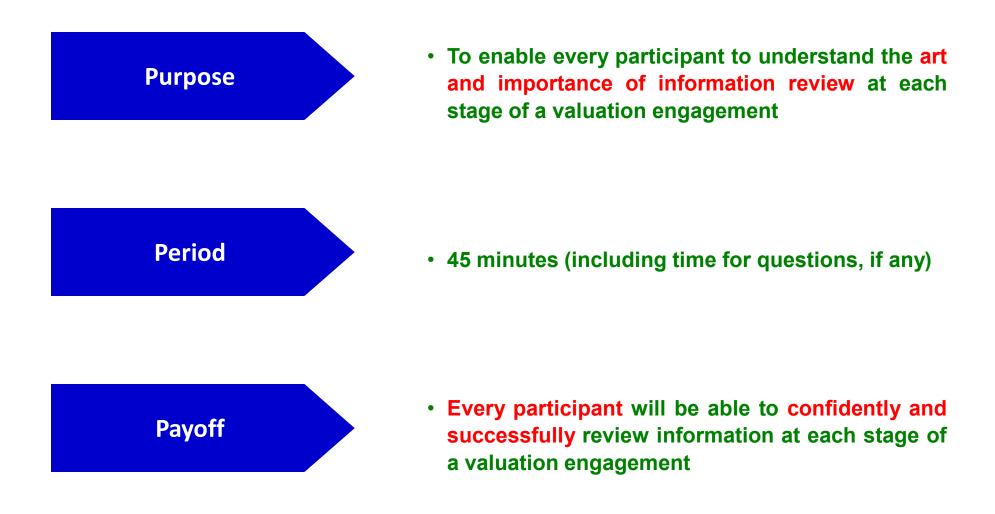
Completion Stage – Documentation

Documentation at this stage should include:

- Workings
 - Draft Model
 - Basis for all valuation assumptions
 - Independent Review Points / Quality Assurance Review Points
 - Mathematical Accuracy Check
 - Final Model
- Report
 - Draft Report
 - Signed Management Representations
 - Changes suggested by client
 - Basis for changes suggested by client
 - Final Report

INFORMATION REVIEW

Course Objectives – The 3 P's



INFORMATION REVIEW

CLIENT ACCEPTANCE / PRE ENGAGEMENT STAGE

Pre Engagement Stage – Points to Remember

- From the valuer's perspective, this is the most important stage for information review
- It is also the most difficult stage to obtain and have access to information
- A quick review at this stage can help determine the scope of services, need to involve other experts, time and fee estimation, etc.
- Diligence at this stage can help mitigate reputation risk, bad press risk, non recovery of fees, etc.
- Better to ask for more information and be sure than regret it later
- Balance to be achieved between client expectations and risk of losing the client

Pre Engagement Stage – Information Review

Background Checks

- > On the client
- On the promoters
- On the management

Perception Risks

- Listing Status
- Conflict of Interest and Independence
- Publicity related to client and industry

Determination of Fees

- Scope what to value, level of detail, etc.
- Methodology how to value, use of one or more methodology, etc.
- Capabilities team strength and experience, involvement of experts, industry knowledge, etc.

INFORMATION REVIEW

EXECUTION / ENGAGEMENT STAGE

Execution Stage – Points to Remember

- Avoid asking information already available with you or in the public domain
- Information flow is generally slow at this stage so use the time for research on industry, business, etc.
- Work on information as and when received to ensure continuous interaction with the client and to avoid last minute surprises
- Professional skepticism is a must. Relate client replies with available information
- Read, make notes, relate information with internal / external research and facts

Execution Stage – Information Review

Financial Information

- Financial statements audited, provisional, etc.
- Future Projections (profit & loss, balance sheet, cash flows)

> Analysis

- Profitability and Growth Analysis
- Analysis of Past Results and Future Projections
- New business lines, discontinuation, etc.

Regulatory Information

- Agreements Share Purchase Agreements, Royalty Agreements, etc.
- Industry Regulations

Other information

- Recent happenings in the industry
- Tax MAT, Deferred Tax, Benefits, Holidays, etc
- Contingent Liabilities, Investments, Non operating assets, etc.

INFORMATION REVIEW

COMPLETION STAGE

Completion Stage – Points to Remember

- Client is the most helpful at this stage
- Pressure of timeline can compromise the information review
- Ensure all the requested information has been received
- Garbage In Garbage Out
- Collect all Management Representations
- > Allocate sufficient time for change / updation in numbers
- Allocate sufficient time for quality assurance review points

Completion Stage – Information Review

> Workings

- Changes in valuation model
- Management Representations
- Independent Review / Quality Assurance Review
- Mathematical Accuracy Check

> Report

- Changes in the period between the final report and the last draft
- Language

Report Contents

- Purpose of valuation, valuation date and standard of value
- Scope of Services and Valuation Methodologies employed
- Valuation Opinion
- Scope Limitations
- Information Received from client
- Annexures



In most cases, the onus is on the valuation professional to prove that he / she was not negligent in carrying out his / her duties