



DAY 2 – 12th October 2013

Workshop on Valuation

conducted by the

**Western India Region of
The Institute of Chartered
Accountants of India**

Facilitated by CA. Aseem Mankodi





**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

Purpose

- To enable every participant to understand the **basic documentation** required at each stage of a valuation engagement

Period

- 45 minutes (including time for questions, if any)

Payoff

- **Every participant** will be able to **confidently and successfully** ensure basic documentation required at each stage of a valuation engagement



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

Purpose

- To enable every participant to understand the **art and importance of information review** at each stage of a valuation engagement

Period

- 45 minutes (including time for questions, if any)

Payoff

- **Every participant will be able to confidently and successfully** review information at each stage of a valuation engagement



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**
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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



Takeaway

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

