

Mandatory Practice Inspection

POLICY

The By-laws state that each Member and Registered Student shall be subject to inspection of his/her business valuation practice and related activities by the Institute (“Practice Inspection”) in accordance with the policies established by the Board of Directors. This Policy sets out the guidelines of the Practice Inspection program (the “Program”) in association with the guidelines set out in the By-laws.

For purposes of this Policy:

1. Members and Registered Students are referred to as Practitioners.
2. Professional Standards refers to the Institute’s Practice Standards and Code of Ethics.
3. Inspector refers to an employee or agent of the Institute responsible for conducting Practice Inspections from time to time.
4. Director refers to the employee or agent of the Institute responsible for implementing and overseeing the Program.

Objectives

The objectives of the Program are to ensure ongoing observance of the Institute’s Professional Standards, to protect the public interest, to enhance the confidence that the public and regulatory bodies have in the Institute, its Members and Registered Students and the business valuation profession generally and to support the Institute operating as a self-regulating body. These objectives are accomplished by:

- a) Enabling the Institute to assess compliance with Professional Standards on a spot audit basis;
- b) Enabling the Institute to conduct a disciplinary review in instances of non-compliance with Professional Standards;
- c) Enabling the Institute to order remedial action in instances of non-compliance with Professional Standards, including but not limited to supplementary education;
- d) Assisting all Practitioners improve adherence to Professional Standards.

The intent of the Program is to ensure that the work of a Practitioner is in accordance with the applicable Professional Standards, and entails review and consideration of completed work (including final work products and engagement-related working files) to determine if:

- a) applicable Professional Standards have been complied with; and

- b) the technical aspects of the analysis in support of a conclusion is consistent with the nature of the engagement and the expected practice of a competent Practitioner.

The primary purpose of the Program is to highlight areas where a Practitioner's practices may be below the standard of that expected by a Member, so that feedback that is constructive or educational in nature can be provided to the Practitioner. The emphasis is on highlighting areas for improvement so that corrective actions can be taken by the Practitioner.

Work Product subject to Practice Inspection

Any work product which is subject to Practice Standards issued on or after January 1, 2018 is subject to Practice Inspection ("Work Product"). Only Work Product issued during the four previous calendar years is subject to inspection (the "Inspection Period").

Work Product is not necessarily limited to a valuation report, and is broadly defined to include:

- written communications as to a Practitioner's conclusion of value including schedules containing valuations where a valuation conclusion is expressed for which a Practitioner took responsibility by virtue of providing them to an external user;
- written communications as to a Practitioner's conclusion of financial gain/loss or of a financial nature;
- comments on conclusions of value, of financial gain/loss, or of a financial nature.

The following are not subject to Practice Inspection:

1. Non-written communications, such as verbal valuation advice.
2. Work prepared solely for internal use by the Practitioner's employer or firm (such as work product utilized in audit support or investment decisions).
3. Communications constituting general advice.

A Practitioner is subject to Practice Inspection on all Work Product, irrespective of any similar obligation to another professional organization.

For additional guidance on whether a particular communication is subject to the Practice Standards, including whether a conclusion has been expressed, reference should be made to the Practice Bulletin No. 5, Guidance As To When Communications Are Not Valuation, Advisory, Expert or Limited Critique Reports. For additional guidance on draft reports, reference should be made to Practice Bulletin No. 7, Guidance on Use of Draft Reports. Draft Work Product that has been distributed and is in compliance with Practice Bulletin No. 7 will not be subject to Practice Inspection.

Individuals subject to Practice Inspection

Any Practitioner who signs or otherwise takes responsibility for a Work Product is subject to Practice Inspection in respect of that Work Product. Where more than one Practitioner is involved with a Work Product, it will only be the Practitioner who signs (or signs off on, in the case of a Work Product that is issued under the signature of a firm), a Work Product who will be subject to Practice Inspection for that Work Product. Where more than one Practitioner has signed a Work Product, every Practitioner who has signed a Work Product will be considered a report issuer and any one of them may be subject to Practice Inspection with respect to that Work Product.

Practitioners who have confirmed in their Declaration to have been responsible for Work Products during the Inspection Period may be randomly selected for Practice Inspection from a list of all such Practitioners.

Reliance on internal compliance review processes

In circumstances where a Practitioner is an employee, member or partner of an organization, government department, corporation or firm that has a documented internal compliance review process that covers substantially all aspects of the Program, the Inspector and/or Director may choose to review such internal review process, such that, if warranted, such internal review process may be relied upon to reduce, but not eliminate, the extent of Work Product subject to a Practice Inspection. The extent of reliance on an internal review process is subject to testing of the process and is at the discretion of the Director. In order to warrant reliance, the internal review process must establish the nature of the review, the timing of reviews, and that the reviews are conducted or supervised by a CBV who was not part of the engagement team.

Exemption for Work Product where access is restricted

Where access to certain Work Product is restricted by law, government, administrative or regulatory restrictions or order of a court of competent jurisdiction, the Practitioner shall include such restricted Work Product in the list of Work Product issued during the Inspection Period. If any such Work Product is selected by the Inspector or Director for Practice Inspection, the Practitioner shall advise the Inspector or Director of the restrictions imposed on such Work Product, and provide any relevant documentation in support thereof.

Work Product Subject to Litigation Privilege and/or the Deemed Undertaking Rule

In certain cases, Work Product may relate to ongoing litigation matters and therefore be subject to litigation privilege and/or the deemed undertaking rule.

The Practitioner shall identify in the list of Work Product issued during the Inspection Period any Work Product that may be subject to litigation privilege and/or the deemed undertaking rule. If such Work Product is selected by the Institute for inspection, the Practitioner shall advise the Director and provide such evidence as may reasonably be requested by the Director to confirm that such Work Product is subject to litigation privilege and/or the deemed undertaking rule.

Although reasonable efforts will be made by the Institute to select Work Product where litigation privilege and/or the deemed undertaking rule does not apply, the Director may, in appropriate circumstances, require that such Work Product be reviewed as part of a Practice Inspection. In those circumstances, and before disclosing the Work Product to the Institute, the Member will advise if her or his client has consented in writing and in advance to disclosure of Work Product protected by litigation privilege to the Institute for the limited purposes of a Practice Inspection. If no such consent has been previously provided, the Institute shall provide the Member with a consent form, to be executed by the Member and the client, that will permit the Institute to review such Work Product for the limited purpose of a Practice Inspection, and confirm that the disclosure to the Institute is not intended to otherwise negate or waive any privilege that may apply to the Work Product. If the Member and/or her or his client refuse to execute the consent in respect of Work Product where litigation privilege applies, or if the Work Product includes information subject to the deemed undertaking rule, the Institute may apply to a court of competent jurisdiction for a determination as to whether such Work Product must be disclosed for the limited purpose of a Practice Inspection, and any terms and conditions applying to such disclosure.

Practice Inspection Committee

The Board of Directors may from time to time establish a Practice Inspection Committee. The Practice Inspection Committee shall oversee the Program including the following:

1. Recommend guidelines and requirements for Practice Inspection, including file selection criteria.
2. Review inspection reports where deficiencies are reported to determine the significance of any deficiencies and their effect, and determine the appropriate actions including, remedial actions or sanctions for settlement with the Practitioner.
3. Monitor performance of the Program.
4. Report to the Board of Directors annually on the Program.
5. Communicate an overview of the results of the Program to all Practitioners.

Powers of the Practice Inspection Committee

The Practice Inspection Committee shall have the following specific powers:

1. Require a Practitioner to produce Work Products, reports, draft reports, working paper files, books, documents and other material in his or her possession, custody or control forthwith upon the request of the Inspector and/or Director.
2. Settle with the Practitioner on the action to be taken by the Practitioner following the Practice Inspection, if any. This includes no action, accepting the action proposed by the Practitioner, identifying a remedial action, requiring education or re-inspection within a reasonable period of time, or any other action that the Practice Inspection Committee determines in its discretion.
3. Settle with the Practitioner on sanctions to be imposed on the Practitioner, and monitor compliance with such sanctions.
4. Refer a matter arising from a Practice Inspection, as a complaint to the Conduct and Discipline Committee for investigation as professional misconduct resulting from (A) the failure of the Practitioner to comply on a timely basis with the Inspector, Director or the Practice Inspection Committee, or (B) any finding of the Practice Inspection.

The process which will be undertaken by the Practice Inspection Committee upon receipt of an inspection report from the Director will be as follows:

- a) if the deficiencies are trivial or minor in nature, the inspection will be closed;
- b) if there are non-trivial deficiencies, then the Practice Inspection Committee may:
 - i) require further written submissions from the Practitioner on the intended course of corrective action to address any identified deficiencies;
 - ii) require the Practitioner to take certain remedial action to address the identified deficiencies; or
 - iii) order a further inspection within a reasonable period of time.

If the deficiencies identified are such that remedial action or re-inspection is not judged as sufficient or where there is a continuing history of deficiencies, a complaint may be made by the Chair of the Practice Inspection Committee to the Conduct and Discipline Committee for its separate and independent consideration.

Composition of the Practice Inspection Committee

The Practice Inspection Committee shall comprise three to five members at the discretion of the Board of Directors.

The Practice Inspection Committee will be comprised of Members appointed by the Board of Directors, with an objective that their professional experience be representative of the breadth of Work Products covered by the Practice Standards. The Practice Inspection Committee will be comprised of experienced CBVs who have been CBVs in good standing for greater than 10 years.

The Chair of the Practice Inspection Committee shall be appointed by the Board of Directors. The Chair of the Practice Inspection Committee may be a director of the Institute but is not required to be a director.

The Board of Directors shall appoint all additional members, none of whom shall be directors of the Institute at the date of their appointment, to serve on the Practice Inspection Committee. Members shall be appointed for an initial term of two years, with eligibility for reappointment to a three-year term followed by two possible one-year terms, to a maximum of seven years.

The quorum for meetings of the Practice Inspection Committee shall be a majority of the number of members.

Meetings of the Practice Inspection Committee may be held by its members attending in person or by conference telephone.

Decisions of the Practice Inspection Committee shall require the approval of a majority of the number of members voting at a duly held meeting, or all of its members by resolution or instrument in writing. In the case of an equality of votes, the Chair of the meeting, in addition to his/her original vote, shall have a second or casting vote.

The Chair of the Practice Inspection Committee shall report annually to the Board of Directors on the activities of the Practice Inspection Committee, including the operational aspects of the Program, such as general findings, but not on case-specific issues or results.

Powers, duties and responsibilities of the Inspector(s)

The powers, duties and responsibilities of the Inspector(s) are to perform Practice Inspections, including:

1. Review and test internal compliance review process, if any.
2. Review Work Product and work files under the protocol.
3. Issue a written report to the Director outlining the scope and result of the Practice Inspection and any noted deficiencies (the "Inspector's Report").
4. Discuss deficiencies identified in the course of the Practice Inspection with the Practitioner and note the Practitioner's comments in the Inspector's Report.

The Inspector may carry out his/her duties and responsibilities remotely (electronically) or in person, at the Institute's discretion.

Powers, duties and responsibilities of the Director

The powers, duties and responsibilities of the Director are to implement and oversee Practice Inspections, including:

1. Give notice to a Practitioner that he/she has been scheduled for a Practice Inspection, and setting out the Inspection Period and extent of inspection.
2. Select the Inspector.
3. Select Work Product files for review.
4. Review the Practitioner's information on restricted Work Product.
5. Review the Inspector's Report.
6. Determine when and whether to close a Practice Inspection.
7. Review the Inspector' Report with the Practitioner for actions the Practitioner proposes to take to address any noted deficiencies.
8. Issue a written report relating to deficiencies and actions to be taken to the Practice Inspection Committee (the "Director's Report").
9. Issue a Practice Inspection report to the Practitioner.
10. Administer the Program.

The Director may carry out his/her duties and responsibilities remotely (electronically) or in person, at the Institute's discretion.

Practice Inspection reporting

All Practitioners shall report annually to the Institute by completing a Declaration as to whether they have signed or taken responsibility for Work Products during the Inspection Period.

The Declaration shall be filed with the Institute by March 1 of every calendar year for the immediately preceding Inspection Period.

Practitioners selected for a Practice Inspection shall provide a list of all Work Product issued during the Inspection Period to the Director within 30 days of the request. This list shall include the date of the Work Product, a summary of the purpose for which it was prepared, and any other information requested by the Institute.

All Practitioners shall maintain, for purposes of the Program, detailed records in support of their Work Product for five calendar years following the date of the Work Product.

It is a Practitioner's responsibility to ensure access to work files that is necessary for the completion of the Practice Inspection. Such access shall be provided forthwith upon the request of the Inspector or Director, within a maximum of 30 days of the request.

Conflicts of interest

For purposes of this section, a "Conflict" shall mean any matter in which the person is aware or becomes aware of any reason that would disqualify him or her from involvement with a particular Practice Inspection by reason of:

- (i) intimate acquaintance with the Practitioner;
- (ii) being a partner, associate or employee of the firm or an associated firm in which the Practitioner was a partner, associate or employee at the time of the Practice Inspection or during the Inspection Period;

- (iii) being employed by the same corporation or governmental or regulatory department or agency which employed the Practitioner at the time of the Practice Inspection or during the Inspection Period;
- (iv) any involvement with the Work Product selected, the assets or business that are the subject of the Work Product or the parties relevant to such Work Product; or
- (v) any other matter that would give rise to a reasonable belief that that individual might be biased in any way, either in favour or against the Practitioner.

A member of the Practice Inspection Committee shall absent themselves from any discussions at any meeting of the Committee in respect of any Conflict, and shall not participate in voting or any decisions of the Practice Inspection Committee for that Practitioner.

The Director shall not take part in any matter which is a Conflict, and in such event, the duties of the Director shall be assumed by the Chair of the Practice Inspection Committee.

No individual shall serve as an Inspector in any matter which is a Conflict.

Failure to report

Practitioners who fail to file a Declaration or provide lists of Work Products in accordance with the Practice Inspection requirements may be suspended and/or terminated as a Member or Registered Student in accordance with the By-laws.

False Declarations

The Institute and the Practice Inspection Committee will rely on the truthfulness of disclosures in Declarations filed by Practitioners, unless there is some indication to the contrary. If there is an indication that an untruthful material disclosure has willfully been made, the matter may be referred by the Chair of the Practice Inspection Committee as a complaint against the Practitioner to the Conduct and Discipline Committee.

Exemptions from Practice Inspection requirements

A retired Member who had retired status with the Institute during an entire calendar year forming part of the Inspection Period shall be exempt from Practice Inspection for any calendar year in which they had retired status with the Institute.

A Member who has retired status shall be required to complete and file annual Declarations.

Exemption from the Practice Inspection requirements relating to an Inspection Period or a portion thereof may be granted for other extenuating circumstances at the discretion of the Director.

Confidentiality

It is recommended that Practitioners who sign or otherwise take responsibility for a Work Product advise clients that their work may be subject to selection for Practice Inspection and that they may be required to provide Inspectors and/or the Director access to the Work Product and supporting files. It is recommended that this ability to disclose be a precondition of accepting an engagement.

The provision of confidential client information to the Institute shall not be considered to be a breach of confidentiality under the Code of Ethics.

Work Product received by the Institute as part of a Practice Inspection will be used only for a Practice Inspection, and for no other purpose.

The Institute shall store and transfer Practitioner Work Product and files during a Practice Inspection, as well as any reports related to Practice Inspections, confidentially and securely.

Copies of any information or documents provided to the Inspector and/or Director by or on behalf of the Practitioner in the course of a Practice Inspection shall be destroyed in a secure manner immediately after the results of the Practice Inspection have been finalized.

Administration and Publication

Practice Inspections will normally be carried out electronically through a secure file-sharing platform, or at the office of the Practitioner.

The cost of the Practice Inspection Program will be an Institute expense, except that costs associated with any re-inspection or intensification of a Practice Inspection ordered by the Practice Inspection Committee in response to deficiencies shall be paid in full by the Practitioner so affected.

Current versions of Practice Inspection checklists being used by Inspectors shall be available to Practitioners on the Institute's website.

To encourage self-assessment and improve the quality of practice, the Practice Inspection Committee may publish a summary of areas where it finds that adherence to Professional Standards might be improved. Such publications will not include any firm, individual, or file-specific details.

Board of Directors
February 28, 2019