PRACTICE INSPECTION PROGRAM

SUMMARY REPORT

2021

March 31, 2022

We are pleased to share this report with Members and Registered Students. This report provides a summary of findings of practice inspections completed during 2021 (the third year of practice inspections for CBV Institute), which covered work products issued during the three-year period of January 1, 2018 to December 31, 2020.

BACKGROUND

CBVs take immense pride in their designation and profession. The CBV profession is self-regulated, with cornerstones of professional excellence and the protection of the public interest. Adherence to professional standards is of utmost importance. The purpose of this Summary Report is to share key practice inspection findings with practitioners in a transparent manner, to fulfill the CBV Institute's obligation to ensure that its high standards of practice are being upheld.

Objectives of the Program

The objectives of the Practice Inspection Program (the "Program") are to ensure ongoing compliance with the CBV Institute's professional standards (Practice Standards and Code of Ethics); to protect the public interest; and to enhance the confidence the public and regulatory bodies have in the CBV Institute, its Members and Registered Students, and the business valuation profession in general. The Program is governed by the CBV Institute's Mandatory Practice Inspection Policy (the "Policy")[1] and overseen by the Practice Inspection Committee.

2021 Declarations and Inspections

The Program commenced in 2019 and covered work products completed in 2018. In this third year of the Program, CBV Institute conducted practice inspections of work products completed by Members and Registered Students during the period of January 1, 2018 to December 31, 2020 (the "Inspection Period").

In general, the operational timing of the Program is as follows:

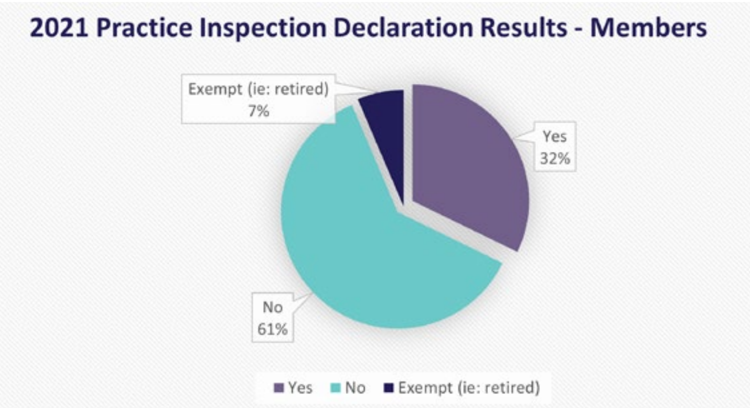
- March 1: practice inspection declarations are due from Members and Registered Students wherein they declare whether or not they have completed work product that is covered by the Program;
- March-April: CBV Institute issues Notices of Proposed Suspension of Membership to Members who have failed to submit practice inspection declarations;
- May – December: practitioners to be inspected are randomly selected and notified. Practice inspections are conducted;
- January – March: results of the year's inspections are summarized and reported.

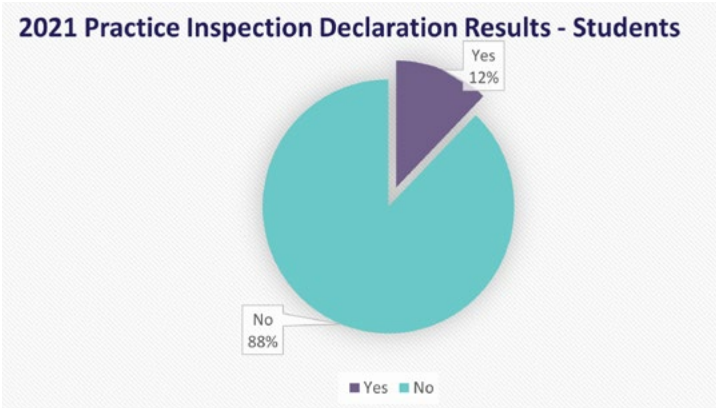
In this third year of the Program, as expected, further operational aspects continued to be refined and streamlined. Due to limitations arising from the COVID-19 pandemic, all practice inspections were conducted virtually in 2021.

Below is a summary of the results of the 2021 practice inspection declarations made by CBV Institute Members and Registered Students, from which the inspections were sampled.

1 Mandatory Practice Inspection Policy **available here.**

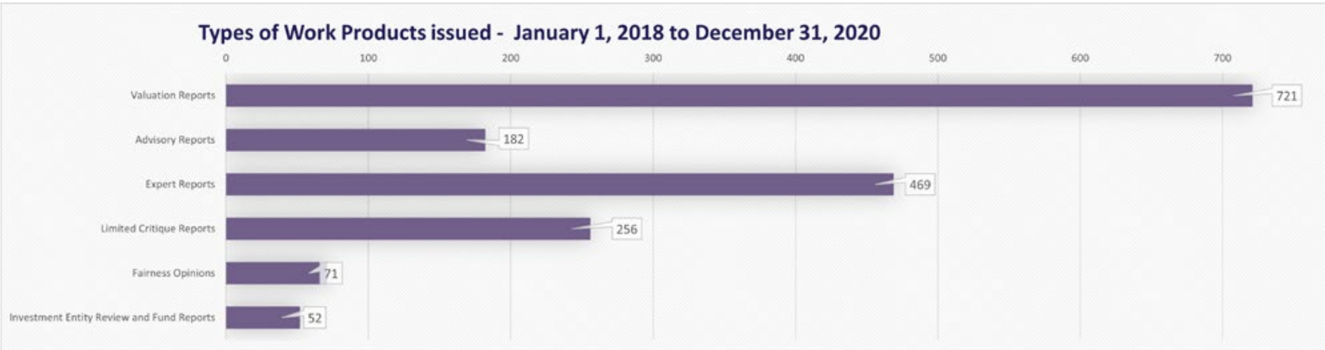
The annual practice inspection declaration asks all Members and Registered Students whether they have signed or otherwise taken responsibility for work product(s) which are subject to CBV Institute Practice Standards during the relevant period. A "Yes" response means that the individual signed or otherwise took responsibility for a work product which is subject to the Practice Standards during the three-year inspection period of January 1, 2018 to December 31, 2020, and is therefore eligible for inspection. Only practitioners who sign the final issued work product, and not their staff, are subject to practice inspection. "No" responses would include those individuals who may regularly undertake a variety of business valuation, damage quantification or other work that is subject to the Practice Standards, but who are not the ones who ultimately sign or sign-off on issued work products, generally because a more senior person in their organization signs or takes responsibility. Practitioners who declare "No" are not included in the pool from which selection for inspection in made.





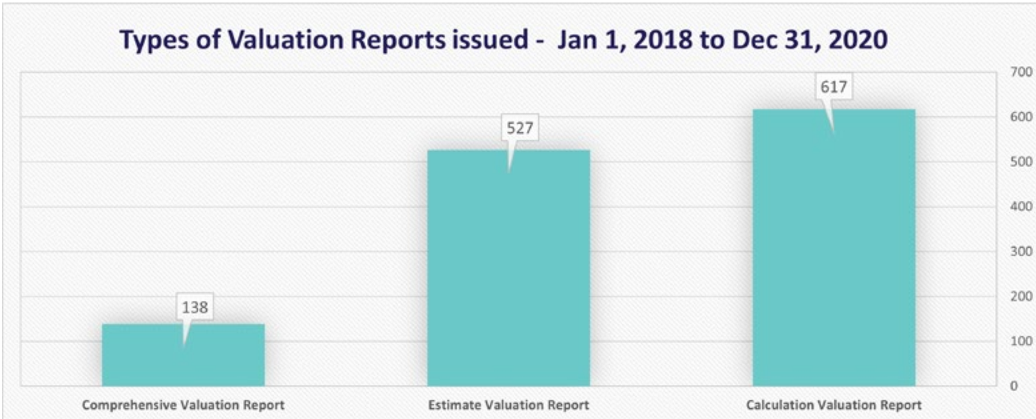
Approximately 32% of Members (763 individuals) and 12%[2] of Registered Students (86 individuals) declared that they issued work products subject to the Practice Standards during the Inspection Period, and were therefore eligible for inspection. On a blended basis, 29% of all Members and Registered Students issued work products subject to practice inspection during the years 2018 to 2020.

Of those individuals who responded "Yes" to the practice inspection declaration, the breakdown by individuals who indicated they issued a certain type of work product at least once during the Inspection Period has been presented below:



2 This percentage is calculated as the number of Registered Students who responded Yes to the practice inspection declaration in 2021 divided by the total number of Registered Students who were actively enrolled in a course (not terminated), as at December 31, 2021.

Of those individuals above who issued valuation reports, the breakdown by type of valuation report issued during the Inspection Period is presented below.[3] Note that this data represents the number of individuals who issued a particular report type, not the number of reports issued. For example, 617 practitioners indicated that they issued Calculation Valuation Reports at least once during the three-year inspection period.



WORK PRODUCT SUBJECT TO INSPECTION

When do the Practice Standards apply?

The Program applies to work products which are subject to the Institute's Practice Standards and is premised on Members' and Registered Students' annual self-declaration regarding their issuance of such work products.

Given the breadth of services which business valuation professionals provide, practitioners are often asked to assist, advise or consult on matters for which the applicability of the Practice Standards may not always be clear. During this round of practice inspections, several questions arose during the annual Mandatory Practice Inspection Declaration process about whether CBV Institute's Practice Standards apply in certain situations, and if so, which Practice Standards apply.

In general, Practice Standards are applicable if an engagement:

1. Requires the application of professional judgment,
2. Results in a written work product or communication where a conclusion is expressed[4], and
3. The communication is not strictly internal to the practitioner's own organization or firm.

Practitioners are advised to consult with CBV Institute staff to discuss the applicability of the Practice Standards to a specific engagement. Guidance can also be found in Practice Bulletin No. 5 *Guidance as to when Communications are not Valuation, Advisory, Expert or Limited Critique Reports*.

3 Respondents are able to select more than one report type from Comprehensive, Estimate, and Calculation.
4 This may be a conclusion of value, of financial gain/loss or of a financial nature in the context of litigation.

Schedules

There are situations where practitioners may need to provide their clients (or their legal counsel or other advisors) with a preliminary indication of value or to preliminarily or illustratively calculate losses or income available for support, often as a first step towards determining whether a "full" valuation or expert report is required. In many cases practitioners provide this indication verbally, without invoking the applicability of the reporting practice standards. In other cases, if written schedules are provided, this work product may constitute a conclusion to which the reporting practice standards apply.

A work product consisting of schedules only may or may not contain a conclusion of value, of financial gain/loss or a conclusion of a financial nature. Such a work product may or may not meet the requirements of a "draft" under the standards. Such a work product may or may not be accompanied by or be a part of a full valuation or expert report which complies with the standards. The facts and circumstances of each situation are unique, making it difficult to provide general guidance. However, practitioners must exercise caution and care if opting to distribute schedules to their clients, particularly if the schedules contain conclusions to which the practice standards would apply.

Practitioners are strongly encouraged to consult with Institute staff regarding their specific circumstance before distributing schedules to clients.

Transaction Advisory Work

CBVs are often asked to provide valuation analysis by clients who are contemplating selling their businesses or may have even received an offer for their business. Similarly, in the context of a potential M&A transaction, CBVs may be engaged to provide pricing analyses for a prospective client. There is a grey area in practice between what constitutes analysis and what constitutes a conclusion of value. Depending on the work product and the way in which the work product is communicated, the reporting standards may apply. It is difficult to outline exactly the situations when the work of a CBV may not express a conclusion, so practitioners are encouraged to look to the guidance in Practice Bulletin No. 5 and to consult with Institute staff on their specific circumstance.

Client Consent for Practice Inspections

Confidentiality of client information is of utmost importance to the CBV profession, and therefore the Program is carried out with highest attention to confidentiality. Before any file inspection can take place, clients must provide explicit consent to the practitioner before the Institute will proceed with the practice inspection.

To comply with their obligations, practitioners who sign or otherwise take responsibility for work products must advise clients in advance, and in writing, that their work product may be subject to practice inspection. Practitioners should obtain express client consent that the practitioner may disclose the work product and related file information to the Institute for the purpose of complying with their professional obligations. This consent should be obtained at the engagement acceptance stage, ideally as part of the engagement letter.

While clients must be appropriately advised about practice inspections, the language that each practitioner or firm will use in these communications may differ. It is important that the consent language used by each practitioner be clear and explicit. To help practitioners comply in this regard, CBV Institute has published sample consent language for engagement letters on the practice inspection webpage[5]. To ensure that all practitioners are seeking and obtaining appropriate and sufficient consent for practice inspection at the start of an engagement, practitioners are advised to consult with CBV Institute staff.

5 Available at: https://cbvinstitute.com/practice-inspection/

For several of the 2021 inspections, the engagement letters inspected did not contain specific, informed client consent for practice inspections as required by the Policy. The Institute reminds all practitioners who issue work products subject to the Practice Standards:

1. that engagement letters are a best practice and should be obtained to protect all parties; and
2. to include consent language specific to practice inspection in their engagement letters.

The Institute will continue to assess this area actively in inspections and consider any appropriate actions.

FINDINGS OF INSPECTIONS

Practitioners and the work products inspected were selected randomly. The practitioners selected during 2021 included sole practitioners, practitioners from smaller or local accounting firms, practitioners from mid-size professional services firms, and practitioners from national professional services and consulting firms. A sampling of Students were also included in inspections.

All (100%) of the 2021 inspections were conducted virtually, with documents being submitted electronically to CBV Institute using CBV Institute's secure cloud-based platform. Inspectors did not rely on or test the internal compliance/quality control processes of any firm in 2021. The ability to rely on internal compliance review is expected to become increasingly important with every subsequent year of the Practice Inspection Program, as the Institute increases the number of work products inspected per practitioner. Reliance (and testing of) internal compliance processes of the respective firm of the selected practitioner would reduce the number of work products inspected by the Institute.

Work products inspected during 2021 included Calculation Valuation Reports, Estimate Valuation Reports and Expert Reports. **Overall, the 2021 inspection results were positive; however, there were areas where compliance with applicable professional standards can be improved.**

The sample size of practitioners selected for inspection continues to increase annually, and varies based on Institute resources. The number of work products inspected per practitioner in 2021 was, on average, two (2) work products. Institute inspectors acknowledged the challenges and disruptions to many practitioners caused by the COVID-19 pandemic and adopted a flexible approach to the timing of inspections.

Approximately 80% of inspections resulted in non-trivial findings. The findings range in severity from less significant documentation deficiencies or process issues to more significant scope of work and reporting deficiencies. A summary of results of the findings are as follows:

- In approximately 70% of the inspections, the Practice Inspection Committee accepted the action(s) proposed by the practitioner to address the noted findings, and no further action was required.
- In approximately 10% of the inspections, the Practice Inspection Committee accepted the action(s) proposed by the practitioner to address the noted deficiencies, but also required additional action by the practitioner in order to deem the inspection complete, such as providing evidence of implementation.
- In approximately 20% of the inspections, the Practice Inspection Committee requested reinspection. A reinspection is requested when there are multiple findings or when the Practice Inspection Committee deems that the severity of the findings is higher. The purpose of a reinspection is to reassess the practitioner's practices using more recent engagements.

- No inspections findings were significant enough to warrant referral to CBV Institute's Conduct and Discipline Committee.

Due to the relatively limited sample size and the design of the Program, results of inspections do not indicate trends in the profession. Furthermore, as this third year of inspection findings were based on a limited sample size, these percentages are not necessarily representative of practice trends in the overall population of practitioners issuing reports.

In determining the appropriate outcome for an inspection, the Practice Inspection Committee gave consideration to comments and responses from the practitioner and whether the:

- Findings and deficiencies were trivial – in which case the inspection was closed;
- Findings and deficiencies were less significant – in which case the inspection was closed with comments and proposed actions by the practitioner (noting both deficiencies and areas for improvement);
- Deficiencies were significant – in which case other actions may be required of the practitioner, such as remedial actions, evidence of implementation, re-inspections, or sanctions.

The following are summaries of some of the key findings of the 2021 practice inspections.

Engagement Letters

Inspectors continue to find that some practitioners are not consistently issuing engagement letters to their clients. For several of the selected engagements, both expert reports and valuation reports, there were no engagement letters in the files. Although instruction letters or emails are often retained by practitioners, engagement letters should be obtained and signed as a professional best practice – regardless of the size of the practice or the size of the engagement. Engagement letters, although not specifically set out as a mandatory requirement within the practice standards at this time, are important to help document any confidentiality provisions (including the requirements of practice inspection) and the mutual understanding of the type of engagement, type of information expected to be available, the scope of work and the use of the report.

As revisions to the practice standards are developed by the Institute's Professional Practice and Standards Committee ("PPSC") this year, it is expected that engagement letters will become a mandatory professional requirement.

Independence and Conflict of Interest for Smaller Firms

Inspectors continue to have findings for some smaller valuation and professional services firms around independence and conflict of interest. Several smaller firms did not have a formal independence and conflict check process in place prior to accepting an engagement, although inspectors noted more informal processes such as maintaining client lists. While the Institute does not publish a checklist related to independence and conflict of interest, practitioners are expected to be in compliance with Code of Ethics requirements and be able to demonstrate that compliance through an appropriate process. Regardless of the size of their practice, practitioners must give thought to and document their process for ensuring they are free of conflicts. This documentation is requested in every engagement file selected for inspection.

The Code of Ethics requires that "a Member providing independent professional services shall, in respect of the particular engagement, be and remain free of any influence, interest or relationship which, in respect of the engagement, impairs the professional judgement or objectivity of the Member or which, in the view of a reasonable observer, would impair the professional judgement or objectivity of the Member.” Such influences, interests or relationships, which are all common threats to independence, can include:

- Direct or indirect financial interests or contingent or referral fees,
- Loans to a client (which may require consideration of large outstanding fee balances),
- Close business relationships with a client,
- Family and personal relationships with a client,
- Making management decisions or performing management functions for a client,
- Providing professional services to a new client whose interests may conflict with the interests of a former or existing client (such as for example being hired by one spouse in a matrimonial dispute after having been retained and providing services on a joint retainer basis to both spouses).

The above is not a complete list of relevant considerations. Practitioners are encouraged to implement a formal conflict check process for all engagement team members, and to document this process. Inspectors will continue to review such processes as part of inspections. Practitioners can refer to section 400 of the Code of Ethics and should consult with Institute staff regarding their specific circumstance.

Sufficient Evidence and Professional Judgment – Practice Standard No. 120

Inspectors continue to have findings related to Practice Standard No. 120 for many valuation reports, be they calculation valuation conclusions or estimate valuation conclusions.

The standards fundamentally require valuators to obtain “sufficient evidence”, gathered by such means as inspection, inquiry, computation and analysis, to ensure that every valuation report and the conclusion contained therein are properly supported (par 3(D), Practice Standard No. 120). Additionally, the report itself is required to disclose “sufficient information“ to allow the reader to understand how the valuator arrived at the value conclusion (par 13.1, Practice Standard No. 110). But what is sufficient? Sufficiency, both in terms of the practitioner’s work file and report detail, is an area of professional judgment.

The application of professional judgment is a key aspect of business valuation, and the practice standards include numerous references to the areas where valuators must rely on professional judgment, including and especially in determining the scope of work and scope of review that is appropriate for each engagement.

Based on the practice inspection findings, below are some examples from estimate level valuation engagements where some practitioners appeared to fall short of these requirements, in the judgment of the inspectors:

- insufficient cash flow analysis to identify business trends or cash flow normalizing adjustments that may have been appropriate;
- support for the assumption that undepreciated capital cost (UCC) of the assets of the business represent fair market value;
- reliance solely on management representation that there is no market for the particular type of business;
- reliance, without independent corroboration, on optimistic cash flow forecasts supplied by management.

For estimate level valuations, reliance on representations from the client for key valuation inputs is likely insufficient. It is difficult to support a valuation conclusion at an estimate-level if the valuation relies heavily on client representations, without the practitioner demonstrating the application of their own independent inquiry, analysis and/or corroboration. For several of the above examples, inspectors questioned whether the valuation should actually have been issued as a calculation valuation rather than an estimate valuation.

By definition, estimate valuation reports call for some degree of corroboration. But what should be corroborated? And what does corroborate mean? Corroboration refers to the practitioner's scope of work which seeks to assess whether significant inputs or assumptions provided by management, the business owners and/or others can be relied upon, such as by confirming the reasonableness of the information with another source (whether internal or external). Along with review, inquiry and analysis, corroboration is one of the key tools that a valuator uses when applying professional skepticism in order to render a credible and properly supported valuation conclusion.

When assessing the sufficiency of the valuator's work for a particular level of valuation report, inspectors gave consideration to whether the area represents a "key input" to the value conclusion, based on the purpose and intended use of the report. In assessing this, inspectors generally focus on the types of key valuation components and assumptions listed within the standards[6], such as:

- normalizing adjustments;
- capitalization rates;
- income tax issues;
- redundancies;
- minority and other discounts.

The above is not a complete list. Inspectors generally consider the specific valuation engagement, its intended users and the purpose for which the valuation is issued, along with:

- Is the input relevant?
- Is the input significant? In other words, whether the particular valuation input is likely to have a significant impact on the conclusion expressed.

Inspectors also consider Practice Bulletin No. 3 *Guidance on Types of Valuation Reports*.

The Practice Inspection Committee's role is not to question professional judgment. However, where a practitioner is using professional judgment, the expectation is to document the rationale and data sources considered (via additional documentation and support in the engagement file) and to highlight areas of significant judgment so the reader can understand. Files with deficiencies in this area were those where there was little or no explanation of how the practitioner applied their professional judgment. The Practice Inspection Committee believes it is important to give insight into what factors were considered by the practitioner, and how they were considered. This documentation should not be boilerplate. Practitioners should explain areas of significant judgment within the valuation report itself, making the work product clearer and more understandable to a user. File memos can also serve to document the practitioner's thought process in areas of significant professional judgment.

6 Refer to par 4.1(c) of Practice Standard No. 120.

Calculation Valuation Reports

By definition, calculation valuation reports contain a valuation conclusion, and as such they must be supported and credible, albeit with a comparatively lower level of due diligence as compared to estimate or comprehensive valuation reports.

For example, in one calculation valuation report concluding on the fair market value of a business for purposes of a family law dispute, the inspector identified the following shortfalls in the documentation and support to meet the “sufficient evidence” requirement of Practice Standard No. 120 (par 3D), all of which were considered to be key valuation components:

- the approach used and reasons for its use. It was unclear why the capitalized earnings approach was the only one considered and relied upon. Additional documentation and consideration of an asset-based approach would have been useful;
- the range of multiples applied, their determination and reasonability/support. The multiples applied were determined using broad rules of thumb, without support. Citing the general areas considered such as internal and external risk factors, management experience, reputation, tangible asset backing, competition, etc., is only useful if there is specific analysis of each of these items. Documentation could include market data or other industry information or metrics to support or benchmark the multiples used[7];
- the reasonability of the conclusion of resulting goodwill. Consideration should be given, at a minimum, to documenting the sources of information to support the conclusion on the fair market value of goodwill;
- excess cash. The assumption around excess cash was based on representations made by management of the company. Consideration should be given to, at a minimum, documenting the reasonability of this significant assumption provided by management, even for a calculation valuation report.

The above findings illustrate the difficulty in delineating the specific differences in the required scope of work for the three different types of valuation conclusions and reports within the practice standards. The scope of work that is appropriate for every engagement must be fit-for-purpose, and can only be assessed in light of the specific fact pattern of the engagement, based on its intended use.

As a best practice, all valuation reports should outline the approaches and methods considered, not just those used. Inspectors will pose questions when an otherwise “generally accepted” valuation approach [8] that would appear to be relevant for the subject business has not been used or has not been considered.

Disclosure issues were also found in some calculation valuation reports. The general requirement under Practice Standard No 110 (par 13.1) is that the valuation report must provide sufficient information to allow the reader to understand how the valuator arrived at the conclusion expressed. Inspectors have raised file-specific disclosure deficiencies such as the capital structure of the company vis-à-vis its industry, competitive conditions in the industry, the factors supporting the existence and transferability of goodwill, etc.

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7 Inspectors acknowledge that obtaining meaningful industry data or directly comparable transactions involving small owner managed businesses is challenging.

8 A “generally accepted” valuation approach is one that is referenced in authoritative valuation textbooks, CBV Institute Program of Studies, or within other standards such as the International Valuation Standards, as one that is generally considered appropriate in certain circumstances.

Limitations on Scope of Work

The practice standards require a valuator to assess when access to essential information is denied by the client or some other party, or is otherwise unavailable to them, and in those cases, to qualify the valuation conclusion expressed and to clearly set out the scope of work limitation in the valuation report. There were several cases of where inspectors believed that a scope limitation would have been appropriate in the circumstances of the engagement, but where there was no explicit scope limitation noted in the valuation report.

Examples of such situations identified by inspectors include:

- Corporate litigation or environmental issues whose outcome was unknown;
- Impacts of COVID-19 on a business around the start of the COVID-19 pandemic;
- Missing key financial information (missing valuation date balance sheet, missing details of business expenses at the date of marriage, etc).

In all of the above situations, the impact could have been material to the valuation conclusion.

Similarly for expert reports, Practice Standard No. 320 states that "when access to essential information is denied by the client or some other party or is otherwise unavailable to the Expert, any conclusion expressed by the Expert in the Expert Report shall be qualified and the limitation(s) on the scope of work clearly set out in the Expert Report." Inspectors found instances of reports disclosing that certain documents requested that may have been relevant to the preparation of the report were not made available to the practitioner, without noting any scope limitations or qualifications. In these instances, inspectors would expect the conclusion expressed to be qualified and would expect that the limitations on the scope of work would be clearly set out in the report.

For one inspected engagement, the practitioner had limited financial information available (i.e., no balance sheet, no listing of assets, no financial information by operating entity), and an inability to communicate with management. Despite this, an estimate valuation report was issued. The Practice Inspection Committee's view was that with such limitations in the possible scope of work, the conclusion should have been issued as a calculation valuation report.

Draft Reports

Inspectors continue to find opportunities for improvement in the use of draft reports. While draft reports distributed to clients in all files inspected were marked "Draft", the reports or the accompanying communication often failed to explicitly communicate the valid conditions outlined in Practice Standard No. 110 and 310 under which a draft is permitted to be distributed: that the draft work product be issued only for the purpose of obtaining comment, instruction, confirmation or other information required to complete the report.

Draft reports are by their nature work product that is in the process of being completed, and any conclusions contained in such in-process work product are potentially subject to changes that could be material. However, many distributed drafts could appear to clients to be conclusions which can be relied upon. In other cases, even if the conditions for a valid draft are adequately communicated to the practitioner's client or their legal counsel, such drafts can still be inappropriately distributed, and even used by disputing parties as part of negotiations or settlement discussions.

To avoid the inadvertent reliance and use of a draft work product, practitioners should communicate clearly with their clients when issuing draft reports. As a best practice, the draft report itself should explicitly disclose:

- that the work product is a draft, subject to change, and should not be relied upon (some practitioners also use this disclaimer in their engagement letters);
- the limited purpose for which the draft report is being issued, namely to obtain comments, instruction and confirmation; and
- explicit restrictions from sharing the draft report with any third parties.

What should practitioners do if they find out their draft is being used for a purpose other than as contemplated? For instance, if a draft work product is being used for negotiation or settlement discussions. What is the CBV's responsibility if they become aware of misuse of a draft work product? Since CBVs cannot ascertain other, non-authorized uses, of draft work products, this is often a challenging matter. Some guidance is available in Practice Bulletin No. 7, which states that when draft reports are distributed, reasonable steps should be undertaken to prevent reliance on them or use for any purpose other than to obtain comments in respect of errors, omissions, misinterpretations or other factors. Such "reasonable steps" might include appropriate warnings, such as informing the party that engaged the CBV that it is not appropriate to rely on the draft report. Practitioners should also consider including in their engagement letter, in correspondence circulated with draft reports, and in the draft report itself, appropriate warnings that the draft report is a draft and is subject to: (i) comments regarding the accuracy and completeness of certain information, (ii) subsequent analysis, and (iii) amendment and correction, and that such subsequent analysis, amendment or correction could have a material effect on any conclusions contained in the draft report. It is also appropriate to state that the draft report is not complete and that the intended purpose of the draft report is to obtain comments in respect of errors, omissions, misinterpretations or other factors, that such matters could have a material effect on the conclusions contained in the draft report, that the draft report is not suitable for any other purpose and may not be relied upon, and that it may not be disclosed to third parties. There is an implied obligation on practitioners to make efforts to ensure that no reliance is placed by their clients on draft reports, and keep documentation of these efforts.

OTHER GUIDANCE

Fit-for-Purpose Valuation Conclusions – Calculation Valuation Reports

The Practice Inspection declarations indicate that calculation valuation reports are the leading report type issued in practice by many CBVs. A recent Member survey on the topic of calculation valuation reports conducted in December 2020 uncovered a variety of issues with this report type. A majority of Members indicated a general lack of clarity around usage and reliability, a lack of consensus in the profession as to the intended differences in scope of work for each report type and the arbitrary nature of the labels "Calculation", "Estimate" and "Comprehensive". The survey also indicated a general consensus among respondents that the diversity in practice between practitioners at the calculation-level may be harmful to the profession overall. Against this backdrop and the popularity of calculation valuation reports, the Practice Inspection Committee has decided to continue focusing on this type of work product for the 2022 inspections, and to assess whether they are being suitably used and executed. CBV Institute's Professional Practice and Standards Committee is also evaluating revisions to the 100-series standards to address this matter (see below on Revisions to the Practice Standards).

Practice Standard No. 110 states:

> "The type of Valuation Report required is a matter to be discussed and agreed on by the Valuator and the client, and then reflected in the terms of engagement. In arriving at this agreement, the Valuator and the client should consider the purpose for which the Valuation Report is being prepared, the availability of information on which to a base a conclusion, and the client's need for assurance. The Valuator should also consider whether the type of Valuation Report will be credible for the purpose intended …"

Practice Bulletin No. 3 *Guidance on Types of Valuation Reports* provides guidance on how practitioners and their clients can determine whether a particular type of report will be suitable for its purpose. The bulletin indicates that in making such assessments, fee and time constraints related to an engagement should be viewed with caution, and that suitability for purpose should be the main driver behind the use of a particular report type. The bulletin outlines some considerations that might be relevant in assessing the suitability of a particular type of valuation report, as follows:

- Extent of reliance,
- Significance of the matter to the user,
- Preliminary nature of the matter,
- Number of users of the report,
- Public availability,
- Contentious nature of the matter (or potential for being contentious), and
- Regulations or agreements.

Practice Bulletin No. 3 is also referred to by inspectors when assessing whether a practitioner has undertaken an appropriate level of work for the particular engagement. The Practice Inspection Committee will look to this bulletin for application guidance to assess whether the extent of review, analysis and corroboration of significant relevant information was "sufficient" and met the standard. For example, the bulletin advises a less extensive scope of work at the calculation-level for company-specific financial information, company-specific non-financial information, industry context and economic environment. While professional judgment is required to be applied in every engagement, the Practice Inspection Committee reminds practitioners that the bulletin can help to illustrate and contrast the suitability of various report types.

Reinspections

In accordance with the Policy, the cost of the Program is an Institute expense, except for costs associated with any reinspection 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.

Over the last two years, the Institute has applied a grace period on reinspection costs, bearing all of the costs of reinspections thus far. Starting on January 1, 2023, the costs of any reinspection requested by the Practice Inspection Committee shall be borne directly by the practitioner. Costs associated with any such reinspection will be subject to reimbursement by the practitioner to CBV Institute (refer to the Practice Inspection Program's Frequently Asked Questions for further details).

Revisions to the Practice Standards

On June 3, 2021, the Institute issued an Exposure Draft with proposed revisions to the 100-series Practice Standards for valuation conclusions and valuation reports. During the three-month comment period, a number of member responses were received, which were considered and discussed by the Professional Practice and Standards Committee. The PPSC is presently revising Practice Standards No. 110, 120 and 130 to reflect the areas where there was strong consensus for revisions, including a number of topics discussed in this report. More information and a further exposure draft is expected in due course.

CONCLUSION AND NEXT STEPS

We are pleased with the progress achieved in the third year of the Program, which continues to evolve and grow. While the challenges of COVID-19 and remote work persisted during 2021, the Program continued to be seamlessly operational, striving towards its objective.

CBV Institute remains committed to protecting the public interest and helping its Members and Registered Students maintain a leading reputation in the marketplace by ensuing ongoing observance of Professional Standards to enhance the confidence that the public has in the business valuation profession generally. On behalf of the Practice Inspection Committee, we wish to thank Institute staff for their efforts, and the inspected practitioners for their cooperation throughout this new process.

We recognize that the Policy and the practice inspection process overall will continue to be refined as we proceed through the first four-year cycle of the Program. The results of the 2021 inspections showcase the benefits of the Program to the profession, and the unique learning opportunities it provides all practitioners to maintain or improve the quality of services provided. In future years we will continue to share the results of practice inspections, our observations, and suggestions for improvement, for the benefit of the CBV profession and those who rely on it.

ON BEHALF OF THE PRACTICE INSPECTION COMMITTEE,

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Chair, Practice Inspection Committee
CBV Institute

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