

Quality Control Processes for Business Valuation Professionals

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Introductions



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DISCLAIMER:

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Quality Control Processes for Business Valuation Professionals



Goals of this session

1. What exactly do we mean by a “quality control” process?
2. Valuation standards
3. Practice inspection
4. What is happening out there?
5. What does a robust QC process include?

Introduction

Why are we here?



- Practice Inspection findings support need for a QC process
- Valuation standards generally require or encourage a QC process, in the public interest
- Growing stakeholder expectations



What does a QC process mean to you?

ChatGPT



QUALITY CONTROL PROCESS FOR A BUSINESS VALUER



STEP 2: THE "SHOULD WE EVEN BE DOING THIS? TEST" TET

Check for conflicts of interest,
Ask yourself; Do I actually know
how to value this, or am I just
really confident with Excel?

STEP 1: PLANNING (A.K.A. PROCRASTINATING WITH STRUCTURE)

Define the scope, (Hint:
"Figure out what this
business is worth" is not
detailed enough)



STEP 3: DATA DIVING

Collect financials, market info,
and possibly the client's soul.
Make wild assumptions, then
justify them with graphs

STEP 4: INTERNAL REVIEW (A.K.A. PEER JUDGMENT HOUR)

Let a colleague find your typos
and logic gaps. Hope they
don't find that spreadsheet tab
named "LOL..REDO...THIS"



STEP 6: THE SENIOR VALUER REVIEW (A.K.A. QUALITY CONTROL BOSS BATTLE)

Senior valuer reads everything
and sighs a lot
They fix what you "totally meant
to double-check later."



STEP 7: CLIENT DELIVERY

Email the report and pray they
don't ask, "What does EBITDA
mean again?"

File everything like you'll never need
it—Until someone asks 3 years later

What does QC mean to you?

Practitioner responses



“Making sure our work product clearly communicates a well supported and reasonable conclusion”

“A process to provide the firm with reasonable assurance that its personnel comply with applicable professional standards and the firm's standards of quality.”

“An opportunity to catch obvious gaps and outlier elements of my work-product. As a 1-person firm, I have paid a well known outside CBV an hourly rate to review my draft prior to issuing my formal report.”

“1) Detail model and formula check (2) Model consistency and logic check (3) Report ticking (4) Overall concurring and industry review”



What is the profession saying?

QC is the top concern of BV firms

Top Five Most Critical Issues for Business Valuation Firms Over the Next Three Years					
	Critical	Very Important	Important	Somewhat Important	Not Important
Quality control for BV reports	31%	38%	20%	8%	3%
Finding and keeping good professional staff	38%	27%	13%	5%	16%
Keeping up with business valuation standards	27%	36%	26%	9%	2%
Training existing staff	21%	38%	16%	9%	16%
Firm/practice differentiation (tied for fifth place)	17%	37%	24%	11%	12%
BV process systemization/automation (tied for fifth place)	17%	37%	27%	13%	7%

Business Valuation Resources (BVR) survey results (2024)

Valuation Standards and QC



International Valuation Standards (IVS 100):

- There must be valuation process quality controls
- The controls help ensure that valuations are performed objectively, transparently, without bias and in compliance with IVS.
- The extent of the controls should be determined having regard to the intended use, intended user, the asset and/or liability being valued and the complexity of the valuation.
- The controls should assess the judgements made during the valuation including their reasonableness and freedom from bias in determining the value.
- The controls should be documented.

CBV Institute – Draft new Valuation Practice Standards

- A quality review process must be applied to ensure that the valuation has been performed in accordance with the Practice Standards and the Code of Ethics (PS 120).



Practice Inspection and QC

Findings of Practice Inspections show that QC is critical

Many findings show that practitioners could benefit from an internal quality assurance process to catch some deficiencies/issues in business valuation reports:

- **Example 1:** No documented conflict check process
- **Example 2:** An Estimate Valuation Report had in fact been done as a Calculation Valuation Report (pursuant to a revised engagement letter), yet the report issued to the client was labelled as an Estimate Valuation Report
- **Example 3:** An Estimate Valuation Report was “light” on the analysis and relied heavily on management inputs and representations.



Practice Inspection and QC

Findings of Practice Inspections show that QC is critical

To warrant reliance as part of a CBV Institute Practice Inspection, the firm's internal compliance review process must be:

- documented;
- have been operational throughout the Inspection Period;
- cover all of the required (bolded) elements of the Practice Standards as well as the Code of Ethics; and
- completed by a CBV not involved with the engagement.

What is happening in practice?



Polling Question #1: Do you/your firm have a QC process in place for your valuation work?

A. Yes

B. No

What is happening in practice?



Polling Question #2: If you answered “Yes” – is your QC process documented ?

A. Yes

B. No



What is happening in practice?

Polling Question #3: At what stage of the valuation is the QC performed?

- A. Before beginning work on the report
- B. Before the draft report is issued externally
- C. Before the final report is issued externally
- D. All of the above

What is happening in practice?

Results of CBV Institute survey on Quality Control practices



We asked members “What does their QC process include?”

Reasonability of overall conclusion	96%
Appropriateness of approaches & methodologies selected	96%
Proofreading of the report	93%
Review of key assumptions (for reasonability, etc)	93%
Appropriateness of the scope of work	91%

Conflict check	78%
Sufficiency of underlying financial data	76%
Draft report disclaimers	69%
Signed representation letter	64%

What is happening in practice?

Insights from CBV Institute survey on Quality Control practices



42% Percent of practitioners did not have “sign off” by the QC reviewer

$\frac{1}{4}$ portion of respondents who did not have their QC process documented

The majority of respondents indicated that their QC process applies to “all” engagements (a few said “risk” and “purpose” determine)

58% Percent of respondents said the QC reviewer is not part of the engagement team

Percent of respondents who were sole practitioners **26%**



Elements of a robust QC process

BEFORE:

1. Engagement Acceptance and Continuance
2. Planning and Scoping (EL)

DURING:

3. Sufficient evidence

- A. Methodology Selection and Execution
- B. Support for key inputs and assumptions (forecasts, discount rate & specific items - knowledge of the business)
- C. Key judgments
- D. Reasonability of conclusion range



Elements of a robust QC process

DURING

Sufficient evidence (con't)

- E. Step-back assessment – sanity check (last round of financing, industry outlook, comps, reasonability of implied goodwill/intangible value, other value indicators, company-specific factors)
- F. Calculations – math & logic check
- G. Report disclosure, draft disclaimers, file documentation

AFTER

4. Rep letters

See also: Guidance in the 2023 PI Annual Report

Some hallmarks of a robust QC process



- Detailed QC policy
- Conflict check process in place
- A planning and risk memorandum on all engagements
- Engagement review process – independent partner(s)
- QC sign-off

(Sample) Checklist items from a larger firm:

- Criteria for guideline companies selection, documented
- Basis for exclusion of guideline companies documented
- Basis for valuation multiples
- Terminal year assumptions supported and documented
- Discount rate researched and documented
- Discounts or premiums considered and documented



Special considerations for sole practitioners



- the process can be tailored to your practice (type of files, file size, # of CBVs)
- no rules/guidance
- a checklist could be used
- a form of self-review
- focus on the most significant areas of the conclusion (key inputs/assumptions)
- Practice Inspection checklists available on CBV Institute website

Thank you

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