IVSC Perspectives Paper – Inspections – SSC response

11 September 2024

Q1/ What are the requirements within your jurisdiction in relation to tangible asset valuation inspection and what standards or guidance do you follow? Please state your jurisdiction in your response.

Australia, Australian Property Institute (API)

In the case of real property assets, the API does not consider that a valuation has been undertaken unless the valuer has undertaken some form of physical inspection of the tangible asset to inform the Valuer's professional judgement when providing an opinion of the value of the asset as at the valuation date.

This is clearly outlined in the API Rules of Professional Conduct (effective 1 September 2024)

The 'preamble' of the API Rules states;

> "The Rules and Code aim to protect the public interest and build trust in Members of the API by maintaining public confidence in the professional conduct and ethical standards of all API Members."

In the state of Queensland, the Valuers Registration Regulations under the *Valuers Registration Act*, which establishes the Queensland Valuers Registration Board, requires valuation reports to include the inspection date (as do the API Rules) thereby indicating that if the real property asset is not inspected, by the Valuer, then the valuation outcome does not result in a valuation. The Regulations have adopted the API Rules.

The objectives of the *Valuers Registration Act* are:

- protect the public by ensuring that a person registered under the Act is competent to value land in Queensland
- maintain public confidence in the standard of services provided by registered valuers
- impose obligations on persons about the practice of land valuation and their professional conduct

The vision of the QVRB is to foster professional excellence amongst Queensland registered valuers.

Q2/ Is there enough clarity and guidance in your jurisdiction in terms of how you define an inspection? If so

> **i) who defines what an inspection is, and**
>
> **ii) who provides the definition of inspection. If not, what is lacking?**

Yes.

The API Rules of Professional Conduct, at Rule 11 *Valuation Process*, Rule 11.2 defines a physical inspection of the tangible asset by the primary Valuer as;

> "The physical inspection must be in the form of;
>
> (a) A comprehensive inspection in accordance with accepted valuation practice in Australia;
>
> (b) A limited (or partial) onsite inspection,
>
> (c) A limited (offsite) kerbside inspection."

In all scenarios the Rules require the primary Valuer to personally physically attend and inspect the real property asset that is the subject of the valuation.

<u>Comments Regarding Inspection of Market Evidence</u>

The API Rules are not clear in relation to inspection requirements of market evidence. The inspection of market evidence, utilised by the Valuer, is a critical component of the investigations that the Valuer should undertake.

The fact that the API Rules, and the IVS, are silent on the importance of inspections, as part of the investigations into market evidence, has the potential for Valuers to think that this important component of a valuation process is not required, and thereby leading to behaviours that diminish professional standards.

Although not clearly outlined in the API Rules, the API PropertyPRO Supporting Memorandum (PPSM) remedies this oversight for residential mortgage valuation reports undertaken in accordance with the PPSM, as it states at Template Section 7 – Sales Evidence & the Market;

> "The valuer has a duty to undertake a kerbside inspection of all sales evidence relied on in the Report. The valuer should undertake adequate proper analysis and adjustment of the information obtained from the eternal inspection and any other sources, to make a direct comparison with the subject property."

Q3/ Do you ever undertake a tangible asset valuation without an in-person inspection (i.e. curb side, detailed or critical)? If so,

- **i) what is the asset class being valued, and**
- **ii) what is the intended use of the valuation?**

Yes. When a client requests a valuation service without the requirement for an in-person inspection by the Valuer, this is commonly known as a desktop report.

Valuers in Australia have, for many years, been instructed to provide desktop reports and have provided suitably qualified desktop reports in accordance with their instructions. Desktops are provided for many purposes, not limited to, mortgage security, means testing, rating and taxation advice, financial reporting, pre-sale or pre-purchase advice.

API Rationale for Distinction Between a Valuation and Desktop Process

The API has provided a clear distinction between a valuation process and a desktop process to ensure confidence and transparency in the valuation profession and protect the public interest by creating a standards framework for Valuers providing credible valuation services.

Risks

There are two scenarios where Valuers providing desktop reports have the potential to misinform their client, and the public, and to undermine the professionalism of other Valuers.

1. Valuers providing desktop reports without the local knowledge gained from undertaking valuations which include inspections of the asset by the valuer.
2. Valuers mislabelling reports that are the result of a desktop process as valuation report.

Note: these two scenarios are not necessarily mutually exclusive.

This impacts the public standing and reputation of professional Valuers, thereby going against the objectives and purpose of the IVSC which is;

> "dedicated to establishing and promoting global valuation standards to serve the public interest."

By creating the distinction between a valuation process and a desktop process and creating a clearly defined standards framework, under the Rules, the API is minimising the potential for misinterpretation by clients, and the public, as to the professional services provided by API valuers.

Q4/ Do you ever undertake a tangible asset valuation with a partial in-person inspection (i.e. curb side, detailed or critical)? If so,

- **i) what is the asset class being valued, and**
- **ii) what is the intended use of the valuation?**

Yes. When a client requests a valuation service and only instructs the Valuer to undertake a partial in-person physical inspection this is known as a limited or restricted inspection report. An example of a limited inspection report where the Valuer views the real property asset from the kerbside is commonly referred to in Australia as a kerbside report, so called because this reflects what the Valuer did.

Valuers in Australia have, for many years, been instructed to provide limited or restricted inspection reports, based on limited (or partial) on-site physical inspections or limited off-site (kerbside) inspections by the Valuer of real property assets, and have provided suitably qualified restricted inspection reports for many purposes, not limited to, mortgage security, means testing, rating and taxation advice, financial reporting, pre-sale or pre-purchase advice.

<u>API Rules Clearly Define Inspection Part of Valuation Process</u>

The API considers that when a Valuer undertakes a personal physical inspection, of a real property asset, then this falls under a "valuation process". This is clearly explained in Rule 11 of the API Rules of Professional Conduct. In particular, Rule 11.4 outlines the disclosure requirements;

> "11.4 If the asset is subject to a less than comprehensive inspection by a Valuer, who is the Primary Valuer, and only subject to a limited on-site or limited off-site inspection by the Primary Valuer, in accordance with the written instructions from the client, or the client's representative, the Primary Valuer must disclose in the valuation report:
>
> (a) that the asset was subject to a less than comprehensive inspection by the Primary Valuer and only subject to a limited on-site or limited off-site inspection in accordance with the written instructions from the client or the client's representative; and
>
> (b) the effect that undertaking a less than comprehensive inspection of the asset and only carrying out a limited on-site or limited off-site inspection may have on the opinion of value contained in the valuation report."

If the requirements of the API Rules of Professional Conduct are followed/adhered to then the potential to misinform clients, and the public, with regards to the form and extent of inspection undertaken by the Valuer, are minimised.

Q5/ Does the IVS provide sufficient transparency in relation to inspection as part of 'scope of work' and 'reporting' requirements? If not, how could IVS be more transparent?

<u>Scope of Work</u>

In relation to "scope of work" IVS 101 *Scope of Work*, para 20.01 states; "The scope of work must specify the following:" and then at para 20.01 (i) it further states;

> "The nature and extent of the *valuer's* work and any limitations thereon: Any limitations or restrictions on the inspection, enquiry and/or analysis must be identified. If relevant information is not available because the conditions of the *valuation* restrict the investigation, these restrictions and any necessary assumptions or special assumptions (see IVS 102 *Bases of Value*, paras 50.01 - 50.04) made as a result of the restriction *must* be identified."

The IVS Foreword notes "IVS describes the valuation process, which may involve multiple parties (…). The *valuer* is ultimately responsible for the assertion of compliance with IVS." IVS 101, para 20.01 (i) reinforces this and is about the instructions identifying and documenting what the *valuer* does as it uses the phrase "… nature and extent of the *valuer's* work and any limitations thereon."

IVS 101, para 20.01 (i) is the only reference to "inspection" in the General Standards. In plain English this paragraph means that the instructions (agreed between the *valuer* and the *client*) must, in addition to other things, outline the form and extent of inspection by the *valuer* of the *asset* required.

<u>Reporting</u>

In relation to "reporting" requirements", IVS 106 D*ocumentation and Reporting*, section 30, *Valuation Reports* notes at para 30.03;

> "Valuation reports *should* include all information necessary to provide the *client* with a clear description of the scope of work, the work performed, *professional judgments* made and the basis for conclusions reached."

As the scope of work is required to outline the form and extent of the *valuer's* inspection (see previous comments) para 30.03 requires the *valuer* to disclose this in the valuation report as it details "…, the work performed, ...".

<u>Conclusion</u>

The 2025 edition of IVS does not include a clear statement that the IVS must be read and applied in full and individual sections, paragraph, sentences or parts of the IVS are not to be read, interpreted and/or applied in isolation.

As drafted the 2025 edition of the IVS, some individuals and corporates are misinterpreting and misusing the IVS which has the impact of diluting the Standards.

It is fair to say that the IVS General Standards do contain transparency in relation to the requirement for the scope of work to identify and document (see IVS 101, para 20.02) the form and extent of inspection required to be undertaken by the *valuer*. In addition, IVS 106, para 30.03 requires the *valuer* to disclose in the report the form and extent of their inspection.

Q6/ Would the tangible asset valuation profession benefit from an inspection classification to provide greater transparency and clarity for all stakeholders across all asset classes and purposes? If so, should this inspection classification be included within IVS, or set by the relevant authority (i.e. regulators, VPO, etc) at jurisdictional level. Please find a detailed response.

<u>Setting the Scene</u>

Not all VPOs have the same rules, guidance or other professional standard's documents and therefore rely on the IVS, as the global standard setter for the valuation of tangible assets, to set the minimum standards for an IVS compliant valuation.

As drafted the term "inspection" or "inspections", is only included in the IVS (2025 edition) seven (7) times. While this is understandable as the General Standards are applicable to all asset classes, including intangibles, the IVS should make it clear in the specific tangible asset standards that inspections, of tangible assets, by the *valuer* where physically possible, is a critical part of the valuation process.

In the case of real property assets, the inspection of the subject property, by the *valuer*, is one part of the investigations and processes to gather information (facts and data) that the *valuer* undertakes when providing valuation advice. There are numerous other enquiries, research and analysis that are part of the valuation process and all are critical when determining whether a valuation process results in an IVS compliant valuation.

<u>As noted previously the instructions from the *client* should document what the *client's* expectations are regarding the inspection, by the *valuer*, of the subject property.</u>

<u>Inspection Classification Table</u>

A sample table of inspection classification, as proposed in the Perspectives Paper at page 21, may assist some jurisdictions, as long as the classifications do not introduce terms and scenarios that could confuse the issue by moving away from the fundamental question of "what did the *valuer* do as part of the valuation process?"

It is widely accepted that there is either (a) a personal physical inspection by the *valuer*, or (b) there is no personal physical inspection by the *valuer*. Following on from this there are only three levels of inspection classification by the valuer.

The extent and form of the *valuer's* physical inspection could be a:

(a) comprehensive or detailed inspection; or

(b) limited or restricted on-site inspection, or

(c) 'drive-by' or kerbside only inspection with no-site physical inspection by the *valuer*,

would form the next layer.

The inspection classifications should not go beyond the normally expected expertise of the valuer. Should the valuer rely on the expertise and or inspections by others; (e.g., a structural engineer) this is not a substitute, nor can it be classified as a valuer's inspection.

A comprehensive or detailed inspection by a valuer should be accompanied by a qualification, in the report, that inaccessible parts of the subject property were not physically inspected by the valuer.

Where the *valuer* relies on other tools, technology or information to supplement their personal physical inspection, this does not change the inspection classification.

In cases where a personal physical inspection by the *valuer* does not occur, this should not be classified within any "inspection classification" section of a sample table. The term "desktop inspection" is inherently contradictory, and its inclusion within an inspection classification table would be inappropriate. However, this does not imply that a desktop-based process, where the *valuer* relies on information provided by external sources, should be excluded from reporting entirely. Rather, it should be categorised separately to avoid confusion with a physical inspection conducted by the *valuer*.

The core issue identified is the *valuer's* ongoing obligation to fully disclose any limitations that result from not conducting a physical inspection. As part of the *valuers* responsibilities to the *client*, these limitations must be clearly disclosed within the report. The *valuer* should then detail the extent to which third-party data or alternative sources were relied upon, in order to bridge the gap of a non-physical inspection, and explicitly note any assumptions made with the information obtained. By providing this transparency, the *valuer* ensures that the *client* is aware of the potential limitations and risks associated with the *valuation*, enabling the *client* to assess the reliability of the valuation report and make informed decisions accordingly.

<u>Conclusion</u>

We do not consider that the IVSC should include an inspection classification table in the IVS, however the IVSC should encourage relevant authorities (VPOs and or regulators) to do so at their jurisdictional level. The IVS should also encourage differing inspection classifications be considered for different types/classes of tangible assets.

The IVS should be seen as the over-arching concept based global valuation standards.

Q7/ Do you have any other comments in relation to inspection as it pertains to tangible asset valuation?

It is the responsibility of VPOs, in their jurisdiction, to set the minimum requirements for the "valuation process" which may be to a higher standard than the IVS.

Where a VPO sets a lower standard of investigations and processes, this may still be a "valuation" but may not result in an IVS compliant valuation report due to the limitations or restrictions in the investigations or processes undertaken by the Valuer.

It is the "investigation" and "compliance with IVS" parts of the valuation process that the 2025 edition of the IVS is somewhat deficient on. Not all VPOs have the same rules, guidance or other professional standards documents and therefore rely on the IVS, as the global standard setter for the valuation profession, to set the minimum standards for an IVS compliant valuation.

Improvements to IVS 400

The following discussion relates to the wording contained in IVS 400 *Real Property Interests*. As much of the wording in IVS 400 is replicated in IVS 410 *Development Property* it would also be necessary to update the wording in IVS 410 to ensure consistency in the asset standards for real property interests.

A lot of the paragraphs in IVS 400, section 40 relate to the investigations and processes that a *valuer* undertakes as part of a valuation process. Some restructuring of section 40 may improve the understanding and application of the IVS, and this is addressed in further detail in the discussion below.

In order for IVS 400 to tell a "story" as to the valuation of real property interests we recommend that existing paragraphs 40.06, 40.08 and 40.09 are relocated to after existing 40.01.

Investigations

Existing paragraphs 40.02 to 40.05 are related to the investigations part of the valuation process and it may be beneficial to create a new section/subheading of "investigations" to make it clear what the intention of these paragraphs relate to. Having them under "scope of work" section has the potential for them to be misinterpreted.

The use of the term "valuation engagement" at para 40.02 also seems out of place at the end of the first sentence. The term "valuation report" would be more appropriate and provide a clearer explanation as to the concept that this paragraph is intending to convey.

Investigations

~~40.02~~ ##.01 In accordance with requirements contained within IVS 101 *Scope of Work*, section 20 and 30, investigations made during the course of a *valuation* ~~engagement~~ *must be appropriate for the* intended use of the valuation ~~engagement~~ report and the basis(es) of *value*.

(In the case of a *valuation review* the scope of work *must* state whether the review is a *valuation process review* or a *value review*.) <The last sentence is out of place under "investigations". Recommend that this sentence be relocated as a new last paragraph under section 40 "Scope of Work">

In existing paragraph 40.03 (suggest relocating to "Investigations" section as second paragraph) review the use of the term "engagement" and instead use the defined term "*valuation*" to outline that the paragraph relates to the valuation process. This paragraph relates to the investigations and processes that the *valuer* undertakes as part of an IVS compliant valuation process and is considered out of place under the "scope of work" section.

The use of "or" in the first sentence of existing para 40.03 means that all of the listed items are optional and only one is required to be undertaken in an IVS compliant valuation. This is a fatal error that is open for misinterpretation and abuse as it significantly dilutes the quality and integrity of the valuation process. The IVSC must continue to set the bar high (gold standard) for an IVS compliant valuation.

Recommend that the first sentence be amended as per below so the *valuer* is recognised as being the most important part of the valuation process. This then reinforces the IVS Foreword which states "IVS describes the valuation process, which may involve multiple parties (…). The *valuer* is ultimately responsible for the assertion of compliance with IVS." That is, it is about what the *valuer* does, and if the investigations, processes or information available is so limited or restricted then the *valuer* may need to state that the valuation process does not result in an IVS compliant valuation (see IVS 400, existing para 40.07).

In the last sentence of this paragraph, replace "it" with "the investigations and evidence" as "it" refers to these two items.

> ~~40.03~~ ##.02 Sufficient investigations and evidence *must* be assembled, by the *valuer*, by means such as ~~inspection,~~ enquiry, research, computation, ~~or~~ analysis and, where physically possible, inspections to ensure that the *valuation* is properly supported. When determining the extent of investigations and evidence necessary, *professional judgement* is required to ensure ~~it is~~ the investigations and evidence are fit for the purpose of the valuation report.

These changes also reinforce the importance of the valuer's personal physical inspection of the real property asset, where possible, as part of the valuation process.

At existing paragraph 40.04 (suggest relocating to "Investigations" section as ##.03), as per previous comments, review and delete the term "engagement" and use "*valuation*" as the defined term. That is, when reading the IVS read the term "*valuation*" as valuation process resulting in a valuation report containing the *valuer's* opinion of the *value* of a real property *asset*.

> ~~40.04~~ When a *valuation* ~~engagement~~ involves reliance on information supplied by a party other than the *valuer*, consideration *should* be given as to whether the information is credible or that the information may otherwise be relied upon without adversely affecting the credibility of the *valuation*. *Significant inputs* provided to the *valuer* (e.g., by management/owners) *should* be considered, investigated and/or corroborated. In cases where credibility or reliability of information supplied cannot be supported, consideration *should* be given as to whether or how such information is used (see IVS *Scope of Work*, para 20.01 (j)).

At existing para 40.05 (b) (see earlier comments about relocating this under an "Investigations" section), why use the term "valuation conclusion"? Introducing a new term that means the same as an existing defined term, namely "*value*" is not necessary and may result in confusion and misinterpretation of the standards. Consider replacing the term "valuation conclusion" with the defined term "*valuation*" so that it is the whole of the valuation process that is considered including the *valuer's* opinion of *value* contained in the valuation report.

> ~~40.05~~ ##.04 (b) the significance of the information to the *valuation* ~~*conclusion*~~,

At existing para 40.06 (see earlier comments about relocating this under "Scope of Work" section) the term "valuation engagement" is used, however this is not considered necessary and the paragraph could be simplified by deleting the term "valuation engagement" and simply referring to the scope of work. Also add "report" at the start of the first sentence so that it refers to the purpose of the valuation report rather than the purpose of the valuation process.

> 40~~.06~~## The *intended use* of the valuation report, the basis of *value*, the extent and limits on the investigations and any sources of information that may be relied upon, are part of the ~~valuation engagement~~ scope of work that *must* be communicated to all parties to the *valuation*.

<u>Compliance</u>

The existing paragraph 40.07 relates to IVS compliance and so as to avoid confusion and misinterpretation by *valuers* we recommend that a new section “Compliance” be added for clarity.

This section could then be focussed on the valuation process that the *valuer* is able to control and assess. It is the valuation process undertaken by the *valuer* that determines whether a valuation report is in compliance with IVS, not the *value(s)* contained within the valuation report that is the deciding factor.

This paragraph (existing 40.07) should also be split into two so that the messaging around “IVS compliant valuation” is clear and unambiguous. The existing para 40.07 relate to whether or not the valuation process results in an IVS compliant valuation.

Suggested changes as follows;

Compliance

~~40.07~~ ##.01 If, during the course of a~~n engagement~~ *valuation*, it becomes clear the;

(a) investigations or limitations included in the scope of work, ~~will not result in a credible valuation~~ and/or

(b) information to be provided by third parties is either unavailable or inadequate, and/or

(c) limitations on investigations, such as inspections, are so substantial that,

the *valuer* cannot sufficiently evaluate the inputs and assumptions then the report will not be IVS compliant.

##.02 Where the *valuer* determines, for whatever reason(s) that, the valuation process will not result in an IVS compliant valuation, the report ~~outcome that is adequate for the purpose of the *valuation*~~ *must* explicitly state that the *valuation* is not in compliance with IVS (see IVS 100 *Valuation Framework*, section 40 and IVS *Scope of Work*, para 20.03).