الهيئة السعودية للمقيّمين المعتمدين
Saudi Authority for Accredited Valuers

تقييم
TAQEEM

The VALUATION REVIEW MANUAL

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PREFACE

Saudi Authority for Accredited Valuers (TAQEEM) is the pre-eminent valuation institution in the Kingdom of Saudi Arabia established by a Royal Decree to regulate and improve the standards of the valuation industry in the Kingdom.

Since its inception in 2012, TAQEEM has put in place the requisite regulatory, licensing, standard-setting and academic framework aimed at advancing the valuation profession and raising public trust and confidence in the profession. TAQEEM has initiated adoption and promulgation of the International Valuation Standards (IVS) in Arabic, strategic partnerships with leading professional organizations from around the world and facilitation of several high-profile stakeholder forums on various topical issues.

As part of its continuing efforts to advance and align local valuation practice, and to raise public trust and confidence, TAQEEM is pleased to present this first edition of the Saudi Valuation Review Manual. This manual is designed to provide guidance to valuers for developing and writing valuation review reports according to current methodology, common practices, TAQEEM Code of Ethics and Professional Conduct for Valuers (CEPC), and in compliance with the International Valuation Standards (IVS). Note that the IVS requirements for valuations also apply to valuation reviews.

This manual is not training material but should be used as a reference book about procedures in valuation review. It will provide valuers and reviewers with a clear understanding of the review process, including review development and review writing, as well as a path for success in the review profession. This valuation review manual includes steps for reviewing valuations in a manner that provides unbiased, independent reports, with a focus on measuring the valuation content against accepted methodology and required standards.

Examples are provided to help reviewers identify various problems in valuations and illustrate how to report on those problems in a professional manner. The TAQEEM Valuation Review Worksheet and TAQEEM Valuation Review Checklist are also included, and valuers are encouraged to utilize those tools to facilitate effective and appropriate review.

It is the hope of TAQEEM that this manual will be useful in helping our members conduct their valuation reviews on par with best international practice and create uniformity of valuation review services with other professions, end users, related stakeholders and the public at large. Ultimately, this will increase transparency, confidence and drive investment in the market of the Kingdom, in line with the Saudi Vision 2030.

SAUDI AUTHORITY FOR ACCREDITED VALUERS (TAQEEM)

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INTRODUCTION

The manual is aimed primarily at valuers who are authorized by TAQEEM to perform valuation reviews. It is not intended as a textbook on valuation review or a substitution for any qualifying course materials. In as far as valuation review approaches and techniques are concerned, the manual highlights best practice in their application considering both the provisions of IVS and the peculiarities of the KSA market. By carefully infusing international standards and leading international valuation review practice with local market custom, laws and regulations, the manual is primarily intended to complement the IVS and serve as a reference in operationalizing the international standards in the context of the intricacies of the local market, rather than change or replace any of their provisions.

Along with a need for trustworthy valuations, comes a need for trustworthy reviews of those valuations. At times, differing opinions of valuation exist. When such differences occur, clients and users of valuations need professional guidance to determine if work products are developed using appropriate methodology in compliance with each discipline manual, TAQEEM *Code of Ethics and Professional Conduct for Valuers* (CEPC) as well as in compliance with the International Valuation Standards (IVS).

As stated in IVS Standard 101: Scope of Work, Paragraph 20.3 (m), the valuer may restrict the use, distribution and publication of the report to the client and other intended users; this does not, however, limit review of any valuation. Legally, for litigation or supervision issues, courts and TAQEEM have the right to review valuation reports as deemed necessary without acquiring consent of the author of the valuation under review.

The International Valuation Standards framework[1] provides a definition for a qualified valuer, which states each valuer must possess qualifications, ability and experience to perform a valuation in an objective, unbiased, ethical and competent manner. It further states that valuers must have appropriate skills, experience and knowledge of the subject of the valuation in order to exhibit appropriate competencee.[2] These requirements are in place to assure the client that the valuer has a professional obligation to uphold the standards and perform services competently for the public. The same expectations are held for valuation reviewing.

[1] IVS Framework 30.1, page 10

[2] IVS Framework, Paragraph 50.1, page 11

International Valuation Standards states "a valuation reviewer is a professional valuer engaged to review the work of another valuer. As part of the valuation review, that professional may perform certain valuation procedures and/or provide an opinion of value." [3] While the act of reviewing is discussed in a limited manner throughout IVS, reviews also have specific requirements according to each discipline manual. In most instances, reviewers should follow IVS standards for the confidence and trust of the users of valuation reviews.

The IVS requirements for valuation review are discussed in this manual.

TAQEEM *Code of Ethics and Professional Conduct* also includes general provisions related to the valuation review profession, to which the qualified reviewer must conform. In addition, it is imperative that valuation reviewers also be mindful of requirements in the TAQEEM Code that specifically address the reviewing process and responsibility. The Code applies to all valuation, review and consultation services and to all sectors of valuation included in the law which are real estate, business entities, machinery and equipment, movable properties, and the like. Furthermore, the Code applies to all active, associate, honorary and student members of TAQEEM.[4]

In conjunction with the expectations of this review manual, the aim of the Code is to uphold public interest and trust.[5] Professionally written, standard compliant review reports that are reliable, trustworthy and unbiased provide the public with clear, understandable information needed in order to make important decisions about the validity of a valuation.

When providing valuation review services, the reviewer can take pride in producing a high quality product that is consistent with the fundamental principles of the Code. [6] It is through review coursework and practice that a valuer becomes skilled with the higher quality of honest, professional performance. Producing an opinion about the quality of another valuer's work includes an important responsibility for avoiding undue influence, bias and conflict of interest.[7]

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[3] IVS Glossary, Paragraph 20.28, page 8

[4] TAQEEM Code of Ethics, Scope of Code, 2

[5] TAQEEM Code of Ethics, The Aim of this Code, 1 ,2, page 4

[6] TAQEEM Code of Ethics, The Aim of this Code, 3, page 4

[7] TAQEEM Code of Ethics, Fundamental Principles, Article 2 ,1, page 8

The reviewer must always remember that reviews are judgments about quality and compliance. Those judgements must be impartial and well-reasoned, and the reviewer must always provide logical reasons for his agreement or disagreement with the report›s methodologies or conclusions. Maintaining an objective, unbiased stance for reviewing valuations will ensure the reviews of colleagues, or reviews of competitors, will all remain consistent.

TAQEEM reviewers must comply with all required laws, regulations codes and standards, particularly IVS standards and the methodology contained in this manual, so that great care is provided when reviewing other valuers' work.

Many valuation reviewers find that they also become better valuers. Taking the care to explore and analyze methodology and report content often makes a valuer more attentive to the entire process of valuing.

[8] TAQEEM Code of Ethics, Fundamental Principles, Article 16 ,2, page 10

GLOSSARY

The following terms apply to a variety of valuation asset classes. The intention is to encourage consistent valuation and review reporting across all asset classes covered by the IVS and TAQEEM each discipline manual and discourage any misinterpretation of valuation standards to the disadvantage of clients. This is especially important where separate, TAQEEM accredited Real Estate, Business and M&E valuers may be reporting individually to a single KSA commercial enterprise, employing and reporting regarding all three respective asset classes.

Real Estate, Business and M&E Reviewers should refer to the appropriate TAQEEM manuals for discipline-specific terms.

Accredited valuer A natural or corporate person licensed to practice the profession according to this Law (Accredited Valuers Law 1433H).

Adjudication The legal process by which an arbiter or judge reviews evidence and argumentation, including legal reasoning set forth by opposing parties or litigants to come to a decision which determines rights and obligations between the parties involved.

Arbitration The use of an arbitrator to settle a dispute (see also, Mediation)

Asset or Assets The words “asset” and “assets” refer generally to items that might be the subject of a valuation engagement. Unless otherwise specified in the manual, these terms can be considered to mean “asset, group of assets, liability, group of liabilities, or group of assets and liabilities (International Valuation Standards, effective 31 January 2022)

Assignment 1. An agreement between a valuer and a client to provide a valuation service.
2. The valuation service that is provided by a valuer (or an appraiser) as a consequence of such an agreement with the client.

(Adapted from (Uniform Standards of Professional Appraisal Practice2021-2020).

Assumption

A supposition taken to be true. It involves facts, conditions or situations affecting the subject of, or approach to, a *valuation* that, by agreement, do not need to be verified by the *valuer* as part of the *valuation* process. Typically, an *assumption* is made where specific investigation by the *valuer* is not required in order to prove that something is true. (RICS Valuation – Global Standards 2022).

Basis (bases) of value

The fundamental premises on which the reported values are or will be based (International Valuation Standards 2022, Glossary 20.2)

In some jurisdictions also known as standard of value.

Book value

The written down, accounting value of *assets* as it appears in the books of account of the company. It usually represents historical or original *cost* (*cost* of acquisition) less accrued depreciation, unless revalued.
Net book value is usually considered synonymous with book value whereas 'gross book value' is generally the acquisition cost.

Business

A commercial, industrial, service, or investment entity (or a combination thereof) pursuing an economic activity.

Business valuation

The practice of determining the economic value of a company or *business* or ownership interest therein.

Chattel

An item of tangible *property* except *real estate* and things (such as buildings) connected with *real property*. The question whether a *chattel* has become a *fixture* depends upon whether it is fixed to land, and if so for what purpose.

Note: Legal recognition of chattels and assumptions regarding their corresponding valuation treatment can sometimes be a complex process, and other professionals (and sometimes courts) may be involved in their recognition and allocation between buildings and machinery and equipment

Client

The person, persons, or entity for whom the *valuation* is performed. This may include external *clients* (i.e., when a valuer is engaged by a third-party *client*) as well as internal clients (i.e. *valuations* performed for an employer) (International Valuation Standards 2022, Glossary, Paragraph 20.3).

Cost The consideration or expenditure required to acquire or create an asset. (International Valuation Standards 2022, Glossary, Paragraph 20.4).

Cost approach An approach that provides an indication of value using the economic principle that a buyer will pay no more for an asset than the cost to obtain an asset of equal utility, whether by purchase or by construction, unless undue time, inconvenience, risk or other factors are involved. (International Valuation Standards 2022, Standard 105, Paragraph 60.1).

Cost analysis Estimating what a product or item will cost.

Cost and freight The cost of goods including transport charges.

Cost centre A unit, such as a department of a company, to which costs may be allocated for cost accounting purposes.

Cost, insurance and freight (CIF) Cost of goods plus insurance plus freight.

Cost of inventories All costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. (IAS 2 Inventories)

Cost of sales All the costs of a product sold including manufacturing cost, allocated overheads and staff costs. Such costs may be recognised differently under international and national accounting standards.

Cost plus System of calculating price from actual cost of production including a percentage of that cost to cover overhead and profit.

Current asset An entity shall classify an asset as current when:

a. It expects to realise the asset or intends to sell or consume in its normal operating cycle;
b. It holds the asset primarily for the purpose of trading;
c. It expects to realise the asset within 12 months after the reporting period; or
d. The *asset* is cash or a cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period

An entity shall classify all other assets as non-current. (IAS 1 Presentation of Financial Statements)

Date of the report
The date on which the *valuer* signs the report (RICS Valuation – Global Standards 2022).

Direct cost
Expenditure for the labour and materials necessary to construct a new *asset*.

Note: Direct costs are also called hard costs. A contractor's overhead and profit are generally considered a direct cost.

Economic obsolescence
A loss of utility caused by factors external to the *asset*, especially factors related to changes in supply or demand for products produced by the *asset* that results in a loss of *value*.

Engagement
An agreement between a *valuer* and a *client* to provide a *valuation* or *valuation review*.

Engagement letter
The contract that defines and affirms the service that the *valuer* will provide in the assignment, the responsibilities of both the valuer and the client in *the assignment* and conditions that will govern the use of the *valuation report*.

Equipment
An all-encompassing term for assets such as machinery, tooling, fixtures, furniture and furnishings, trade fixtures and fittings, vehicles and loose tools that are used to assist the operation of an enterprise or entity. It is also defined as ancillary assets that are used to assist in the function of the enterprise.

Note: "Equipment" is a broad commercial term, and there is no absolute definition of all or any assets that may fall under this term.

Equivalent yield
The single *capitalisation rate* which when applied to both the term and reversion parts in a traditional *income capitalisation* technique would produce the same overall *value indication* as when different rates are used for the individual parts.

Exchange rate
The ratio of exchange for two currencies. (IAS 21 The Effects of Changes in Foreign Exchange Rates)

Exit price
The *price* that would be received to sell an asset or paid to transfer a liability.

Ex-situ

Valuation based on the *assumption* of subject assets being removed from their current location on basis of piecemeal (breakup) disposal (e.g. auction) or removal of entire asset base as single package.

External obsolescence

A loss of utility caused by economic or locational factors external to the *assets* that results in a loss of value.

Fair value

The *price* that would be received to sell an *asset* or paid to transfer a liability in an orderly transaction between market participants at the measurement date (International Financial Reporting Standard 13 — Fair Value Measurement).

Note: As there are a number of general fair value definitions (e.g. as defined under shareholder agreements) valuers should always use the term: "IFRS fair value" when reporting for IFRS accounting statements purposes (ideally referring to the particular IFRS standard).

Fair value less costs to sell (FVLCS)

The amount obtainable from the sale of the *asset* in an arm›s length transaction between knowledgeable and willing parties, less the costs of disposal. (IAS 36 Impairment of Assets).

Fee simple interest

Also, Fee simple estate: Absolute ownership unencumbered by any other interest or estate, subject only to the limitations imposed by the governmental powers of taxation, eminent domain, police power, and escheat (The Dictionary of Real Estate Appraisal, 6th ed.).

Financial statements

A complete set of *financial statements* comprises:

a. A statement of financial position as at the end of the period;
b. A statement of comprehensive income for the period;
c. A statement of changes in equity for the period;
d. A statement of cash flows for the period;
e. Notes, comprising a summary of significant *accounting policies* and other explanatory information; and
f. A statement of financial position as at the beginning of the earliest comparative period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its *financial statements*, or when it reclassifies items in its *financial statements*. (IAS 1 Presentation of Financial Statements)

Firm	The *firm* or organisation for which the valuer works, or through which the valuer trades (Adapted from (RICS Valuation – Global Standards 2022)).
Fixed cost	The *cost* which remains fixed irrespective of consideration whether the quantity of product is increased or decreased.
Fixture	A thing once a chattel which has become, in law, land through having been fixed to land (Jordan CJ, New South Wales Supreme Court). Note: Legal recognition of fixtures and assumptions regarding their corresponding valuation treatment can sometimes be a complex process, and other professionals (and sometimes courts) may be involved in their recognition and value allocation.
Forced liquidation or forced sale	Terms such as *forced sale* or *forced liquidation* are often used in circumstances where a seller is under compulsion to sell and that, as a consequence, a proper marketing period is not possible and buyers may not be able to undertake adequate due diligence. The *price* that could be obtained in these circumstances will depend on the nature and pressure on the seller and the reasons why proper marketing cannot be undertaken. (The International Valuation Standards (IVS), 2022, Standard 104, Paragraph 170.1) Note: Care should be exercised when using such often subjective in nature terms. Ideally, the valuer should report under IVS/TAQEEM defined valuation bases. Terms such as Forced Sale should only be used if referring to a defined commercial scenario and hence would not represent formal valuation advice under IVS and TAQEEM standards.
Freehold interest	Also, Freehold estate: An estate or possessory interest in land that lasts for an indeterminable length of time, such as for a lifetime or forever. Examples include fee simple (also called an indefeasible fee), defeasible fee, and life estates. The first two continue for an indefinite period and are inheritable by the heirs of the owner. The life estate terminates upon the death of the person on whose life it is based (The Dictionary of Real Estate Appraisal, 6th ed.).

Functional obsolescence	A loss of utility resulting from inefficiencies in the subject *asset* compared to its replacement that results in a loss of value.
Going concern	An accounting term for a company that will operate into the future without the threat of a liquidation for the near future or a *business* that is operating and making a profit.
Highest and best use	The use, from a participant perspective, that would produce the highest value for an asset. Although the concept is most frequently applied to non-financial assets as many financial assets do not have alternative uses, there may be circumstances where the highest and best use of financial assets needs to be considered. The highest and best use must be physically possible (where applicable), financially feasible, legally allowed and result in the highest value. (International Valuation Standards 2022, Standard 104, paragraph 140.1 and 140.2). Note: This may involve the use of the asset in isolation, or in concert with other assets the intention being to optimise the asset's use.
Indemnity value	The amount in monetary terms (at the date of the loss event) that a contract of insurance would pay in principle to replace or compensate for an item based on its pre-loss condition.
Independence confirmation	A statement confirming independence from conditions and relationships, in the context of an *engagement*, which would compromise the integrity or objectivity of the company or person involved.
Information requirement list	A list sent to the *client* in order to obtain relevant information regarding the *client's assets* for use in conducting a *valuation*.
Indirect cost	Expenditure for items other than labour and material. Indirect *costs* include administrative *costs*.
In-situ	Valuation based on *assumption* of subject assets being retained in their current location for contemplated future operation, but ignoring any associated commercial enterprise or and/or earnings potential.

Inspection

Personal observation of the exterior or interior of *M&E* that is the subject of an assignment performed to identify the assets' characteristics that are relevant to the assignment, such as make, model, type, capacity, year of manufacture, general physical condition, and functional utility.

Intangible asset

A non-monetary *asset* that manifests itself by its economic properties. It does not have physical substance but grants rights and/or economic benefits to its owner (International Valuation Standards 2022, standard 210, para 20.1).

International Financial Reporting Standards (IFRS)

A set of international accounting standards stating how transactions and other events should be accounted for in the *financial statements* and to help investors and other users of financial information to make economic decisions.

International Valuation Standards (IVS)

Standards for undertaking valuation assignments using generally recognised concepts and principles that promote transparency and consistency in valuation practice. (ivsc.org)

Inventories

Assets:

a. Held for sale in the ordinary course of the *business*;
b. In the process of production for such sale; or
c. In the form of materials or supplies to be consumed in the production process or in the rendering of services.

Inventories encompass goods purchased and held for resale including, for example, merchandise purchased by a retailer and held for resale, or land and other *property* held for resale. Inventories also encompass finished goods produced, or work in progress being produced, by the entity and include materials and supplies awaiting use in the production process. (IAS 2 Inventories)

Joint venture

A joint arrangement where two parties have joint control of the arrangement and rights to the net *assets* of the arrangement. It normally involves sharing of resources, which could include capital, personnel, physical *equipment*, facilities or intellectual *property* such as patents. (IFRS 11 – Joint Arrangements)

Jurisdiction The legal and regulatory environment in which a *valuation engagement* is performed. This generally includes laws and regulations set by governments (e.g., country, state and municipal) and, depending on the purpose, rules set by certain regulators (e.g., banking authorities and securities regulators). The International Valuation Standards (IVS), 2022, Glossary, Paragraph 20.12

This includes TAQEEM's regulatory regime in the context of the Kingdom of Saudi Arabia.

Note: Departures from the standards to comply with legislative and regulatory requirements that are in conflict with the standards are allowed (IVS 2022, Introduction – Core Principles of Valuation Standard Setting, Paragraph 4.

Labour cost The *cost* of paying workers employed to make a product.

Letter of engagement See orderly Engagement letter.

Liquidation value See orderly liquidation value.

i. *Liquidation value* is valued as the sum of estimated sale proceeds of the assets owned by the company taking into consideration the situations urgency of the seller.

ii. There are two different liquidation approaches, which are forced liquidation and orderly liquidation:

   a. Forced liquidation assumes that the *assets* of a *business* are sold quickly as possible; often at distressed *prices*
   b. Orderly liquidation assumes that the *assets* of a *business* are sold over a relatively longer timeframe, in an effort to maximise the proceeds. However, these proceeds at times are offset by the costs incurred during the period of orderly liquidation. It is typically used when the net proceeds exceed the proceeds of a forced liquidation. Under this approach, each major asset or group of *assets* should be reviewed to determine which of the two approaches is more appropriate.

iii. The *liquidation value* approach is used in the following situations:

   a. If the Valuation Subjects' earnings are so insignificant, on a sustainable basis, to the extent that the application of an appropriate capitalisation rate to those earnings results in a value lower than the *liquidation value*

b. Where a *business* is properly valued as a going concern but its value is related to the going concern of its underlying *assets*. *Real estate* and investment holding companies are the most common examples.

c. Where the company has going concern issues and therefore should be liquidated

iv. *Liquidation value* is calculated through undertaking the following steps:

a. Determining shareholder equity as at *valuation date*

b. Restating *assets* and liabilities to the *market value*. As *liquidation value* is based on net realisable values, *assets* and liabilities should be analysed and any requirement restatement should be undertaken. Furthermore, the Valuer may seek the opinion of the Subject Matter such as property and *equipment* valuation, if required.

c. Calculating the costs of disposals of *assets*

d. Calculating the taxes payable upon disposal, if any; calculates the taxes payable upon distribution of the 'net cash pool' to shareholders, if any. (Tax/Zakat advisor opinion shall be sought at time of the disposal).

Machinery

Individual, or a collection or a fleet of machines that may be employed, installed or remotely operated in connection with a user's industrial or commercial processes, trade or *business* sector (a machine is an apparatus used for a specific process).

Manufacturing cost

The *cost* of making a product; also includes overheads such as administration, rent, utilities, etc.

Marginal cost

Cost of making a single extra unit above the number already planned.

Market approach

A *valuation approach* which provides an indication of *value* by comparing the subject *asset* with identical or similar *assets* for which *price* information is available. (International Valuation Standards 2022, standard 105, para 20.1).

Market value

The estimated amount for which an *asset* or liability should exchange on the *valuation date* between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion (International Valuation Standards 2022, standard 104, para 30.1).

May

The word "may" describes actions and procedures that *valuers* have a responsibility to consider. Matters described in this fashion require the *valuer's* attention and understanding. How and whether the *valuer* implements these matters in the valuation *engagement* will depend on the exercise of professional judgement in the circumstances consistent with the objectives of the standards. (The International Valuation Standards (IVSC), 2022 Glossary, para 20.15).

Mediation

Intervention in a dispute in order to resolve it (see also, arbitration).

Most advantageous market

The market that maximises the amount that would be received to sell the *asset* or minimises the amount that would be paid to transfer the liability, after taking into account transaction costs and transport cost.

Must

The word "must" indicates an unconditional responsibility. The valuer must fulfil responsibilities of this type in all cases in which the circumstances exist to which the requirement applies. (The International Valuation Standards (IVSC), 2022 Glossary, para 20.16).

Net realisable value

The estimated selling *price* in the ordinary course of *business*, less the estimated cost of completion and the estimated costs necessary to make the sale. (IAS 2 Inventories)

Non-disclosure agreement (NDA)

A legal contract, which states the confidentiality terms, shared between at least two parties. It describes the information which could be shared between the parties and which should not be accessible for the public.

Obsolescence

A loss of utility of an asset caused by either physical deterioration, changes in technology, patterns of demand or environmental changes that results in a loss of *value*.

Operating costs/running costs

The expenses that are related to the operation of a *business*, or to the operation of a device, component, piece of *equipment* or facility.

Orderly liquidation value

The *value* of a group of *assets* that could be realised in a liquidation sale, given a reasonable period of time to find a purchaser (or purchasers), with the seller being compelled to sell on an as-is, where-is basis. (The International Valuation Standards (IVSC), 2022 standard 104, para 160.1)

Note: The inverse of orderly liquidation value in this regard would be forced liquidation value. Care must be recognised in the use of the term liquidation in the US. This is because in the US region, it is a formal Uniform Standards of Professional Appraisal Practice (USPAP) valuation basis which implies a sale or disposal with adequate time to conduct the sale process, but which may also in turn, be orderly, or forced. However, in most other world regions, the general term liquidation implies an enforced sale, most likely linked to some form of distress or foreclosure.

Overnight cost

In project financial terms, overnight cost is the estimated cost of an *asset*/construction project if no interest was incurred during construction, as if the project was completed «overnight.»

Overnight insurance reinstatement cost

This is the cost necessary to replace, repair, or rebuild the *asset* insured to a condition substantially the same as, but not better or more extensive that, its condition when new.

Participant

The relevant parties pursuant to the basis of value used in a valuation *engagement*. Different bases of value require *valuers* to consider different perspectives, such as those of market participants (e.g. *market value*, *IFRS fair value*) or a particular owner or prospective buyer (e.g. investment value).

Personal property

Assets (or liabilities) not permanently attached to land or buildings.

Note: The term, personal property in US GAAP accounting terms and also USPAP US valuation terms, is taken to mean all moveable assets (including M&E) not forming part of a real estate holding. However, in Europe and parts of MENA and APAC (and also in RICS red book valuation terms) the term, personal property usually signifies chattels such as jewellery, arts and antiques.

This dichotomy between IVS and USPAP is being addressed under a bridge mechanism, but in the interim, it should be sufficient for valuers to be explicit in defining and naming the assets under valuation.

Physical obsolescence
A loss of utility due to the physical deterioration of the asset or its components resulting from its age and normal usage that results in a loss of *value*.

Plant, machinery and equipment (PME)
Tangible *assets* that are usually held by an entity for use in the manufacturing/production or supply of goods or services, for rental by others or for administrative purposes and that are expected to be used over a period of time (IVS Standard 300: Plant and *Equipment*, Paragraph 20.1). The term PME is analogous to the term M&E (Machinery & *Equipment*).

Note: Alternatively, assets that are combined with others and that may include items that form part of industrial infrastructure, utilities, building service installations, specialised buildings, and machinery and equipment forming a dedicated assemblage. It is helpful to note here that whilst PME as a sub, tangible asset class is not part of a real estate holding, PME can form part of the technical service infrastructure within a wider real estate holding which includes buildings annexed to the land. In addition, the term “PPE” (standing for “Property, Plant & Equipment”) is specifically mentioned in M&E related IFRS standards such as IAS 16) Hence, valuers are advised to therefore carefully identify and describe the correct tangible asset class for PME assets subject to valuation.

Price
The monetary or other consideration asked, offered or paid for an asset, which may be different from the value (International Valuation Standards 2022, Glossary, Paragraph 20.18).

Profession
The Profession of valuation (Accredited Valuers Law 1433H).

Property
Something tangible or intangible to which its owner has legal title (The Dictionary of Real Estate Appraisal, 6th Ed.).

Note: This definition encompasses M&E also. Hence, M&E valuers should be aware that terms like property and asset are all interchangeable as terms to also describe M&E.

Purpose
The reason(s) a *valuation* is performed. Common purposes include (but are not limited to) financial reporting, tax reporting, litigation support, transaction support, and to support secured lending decisions. (The International Valuation Standards (IVS), Glossary, 2022, Section 20.19)

Quality and risk management (Q&RM)

The practice of identifying, quantifying, mitigating and managing a company's risk. It involves a team providing coordinated advice and assistance on independence, conflicts, compliance, regulatory, policy, security and risk management issues. Q&RM is synonymous with regulatory *valuation* regimes such as RICS and TAQEEM.

Real estate

Land and all things that are a natural part of the land, e.g. trees, minerals and things that have been attached to the land, e.g. buildings and site improvements and all permanent building attachments, e.g. mechanical and electrical plant providing services to a building, that are both below and above the ground (RICS Valuation – Global Standards 2022.

Note: As stated earlier under the M&E definition, note that M&E as a technical asset class that provides building services (only) can fall under a wider Real Estate valuation.

Real property

The interests, benefits, and rights inherent in the ownership of real estate (USPAP 2021-2020).

Real property interest

A right of ownership, control, use or occupation of land and buildings. A real property interest includes informal tenure rights for communal/community and or collective or tribal land and urban/rural informal settlements or transition economies, which can take the form of possession, occupation and rights to use. (IVS 2022 Standard 400: Real Property Interests, Paragraph 20.2).

Reinstatement insurance value

The monetary amount required to reproduce at one time, in like kind and new condition and materials, the *asset* or group of *assets*, in accordance with current market prices at the time of the loss, together with the addition of policy period and post loss reinstatement period inflationary provisions.

Replacement cost new

The current cost of a similar new *property* having the nearest equivalent utility as the *property* being appraised, as of a specific date.

Replacement insurance value

The monetary amount required to reproduce at one time, in like kind and new condition and materials, the asset or group of assets, in accordance with current market *prices* at the time of the loss.

Reproduction cost new

The *cost* of reproducing a new replica of a *property* based on current *prices* with the same or closely similar materials, as of a specific date.

Report

See valuation report.
Except where stated otherwise, "report" in the manual refers to *valuation* report.

Salvage value

An opinion of the amount, expressed in terms of money that may be expected for sale of the whole asset or a component of the whole *asset* that is retired from service for possible use elsewhere, as of a specific date.

Scrap value

An opinion of the amount, expressed in terms of money that could be realised for an asset if it were sold for its material content, not for a productive use, as of a specific date.

Scope of services or scope of engagement

The fundamental terms of the valuation services, which include purpose of valuation, valuation subject being valued, valuation dates, and responsibilities of parties involved.

Scope of work

Sometimes referred to as terms of *engagement*, describes the fundamental terms of a *valuation engagement*, such as the *asset(s)* being *valued*, the *purpose* of the valuation and the responsibilities of parties involved in the *valuation* (IVS 2022 Standard 101: *Scope of Work*, Paragraph 10.1).

Should

The word "should" indicates responsibilities that are presumptively mandatory. The *valuer* must comply with requirements of this type unless the *valuer* demonstrates that alternative actions, which were followed under the circumstances, were significant to achieve the objectives of the standards. In the rare circumstances in which the *valuer* believes the objectives of the standard can be met by alternative means, the *valuer* must document why the indicated action was not deemed necessary and/ or appropriate. If a standard provides that the valuer "should" consider an action or procedure, consideration of the action or procedure is presumptively mandatory, while the action or procedure is not. (IVS 2022 Glossary, Paragraph 20.20)

Special assumption

Where assumed facts differ from those existing at the date of the *valuation*, it is referred to as a *special assumption*'. *Special assumptions* are often used to illustrate the effect of possible changes on the *value* of an *asset*. They are designated as "special" so as to highlight to a *valuation* user that the *valuation* conclusion is contingent upon a change in the current circumstances or that it reflects a view that would not be taken by *participants generally* on the *valuation date*. Examples of such *assumptions* include, without limitation:

a. An *assumption* that a property is freehold with vacant possession,

b. An *assumption* that a proposed building had actually been completed on the *valuation date*

c. An *assumption* that a specific contract was in existence on the *valuation date* which had not actually been completed, and

d. An *assumption* that a financial instrument is *valued* using a yield curve that is different from which would be used by a *participant*. (IVS 2022 Standard 104: Bases of Value, Paragraph 200.4.

Subject of interest or valuation subject

Refers to the company or *assets valued* in a particular *valuation engagement* or project.

Trade related property

Any type of *real property* designed for a specific type of business where the *property value* reflects the trading potential for that *business* (RICS Valuation – Global Standards 2022).

Note: Although not falling under this asset class, M&E may often be closely associated with trade related properties (e.g., petrol filling station.)

Uniform Standards of Professional Appraisal Practice (USPAP)

The quality control standards applicable for *real property*, *personal property*, *intangible assets*, and *business valuation* appraisal analysis and *reports* in the United States and its territories.

Valuation

The act or process of determining an opinion or conclusion of value of an asset on a stated basis of value at a specified date in compliance with IVS (International Valuation Standards 2022, Glossary, Paragraph 20.24).

Valuation approach In general, a way of estimating value that employs one or more specific valuation methods (see IVS 105 Valuation Approaches and Methods). (International Valuation Standards 2022, Glossary, Paragraph 20.25).

Valuation date (date of valuation) The date on which the opinion of *value* applies. The *valuation* date shall also include the time at which it applies if the *value* of the type of asset can change materially in the course of a single day (RICS Valuation – Global Standards 2022).

Valuation method Within valuation approaches, a specific way to estimate a value (International Valuation Standards 2022, Glossary, Paragraph 20.26).

Valuation purpose See purpose.

Valuation report The document issued by the *accredited valuer* to its *client*, including the outcome of the *valuation*, and which complies with the *valuer›s* obligations set out in the Accredited Valuers Law and Implementation Rules of the Accredited Valuers Law, and is consistent with the approved *valuation* standards (Accredited Valuers Law 1433H).

Valuation reviewer A "valuation reviewer" is a professional valuer engaged to review the work of another valuer. As part of a valuation review, that professional may perform certain valuation procedures and/or provide an opinion of value (International Valuation Standards 2022, Glossary, 20.28).

Valuation technique A specific analytical process of data treatment conducted within a *valuation* method.

Value (noun) The opinion resulting from a valuation process that is compliant with IVS. It is an estimate of either the most probable monetary consideration for an interest in an asset or the economic benefits of holding an interest in an asset on a stated basis of value (International Valuation Standards 2022, Glossary, Paragraph 20.29).

Value indication A *valuer's* conclusion of *value* resulting from the application of a *valuation approach*, e.g., the *value indication* by the *market approach*.

Value in use (IAS 36 Impairment of Assets)

The present *value* of the future cash flows expected to be derived from an *asset* or cash-generating unit.

Valuer

An individual, group of individuals or a *firm* who are accredited by TAQEEM and possess ability and experience to execute a *valuation* in an objective, unbiased and competent manner. In Saudi Arabia, licensing is required before one can act as a Valuer. See also accredited *valuer*; firm. (International Valuation Standards 2022, Glossary, 20.30).

Variable costs

Production *costs* which increase with the quantity of the product made.

Weight

The word "weight" refers to the amount of reliance placed on a particular indication of value in reaching a conclusion of value (eg, when a single method is used, it is afforded %100 weight) (International Valuation Standards 2022, Glossary, Paragraph 20.31).

Weighting

The word "weighting" refers to the process of analysing and reconciling differing indications of values, typically from different methods and/or approaches. This process does not include the averaging of valuations, which is not acceptable (International Valuation Standards 2022, Glossary, Paragraph 20.32).

ABBREVIATIONS

AVL	Accredited Valuers Law
BV	Business Valuation
CEPC	Code of Ethics and Professional Conduct for Valuers
DRC	Depreciation Replacement Cost
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortization
GRC	Governance, Risk management and Compliance: an organization›s approach across these three practices
HABU	Highest and Best Use
IFRS	International Financial Reporting Standards
IVS	International Valuation Standards
IVSC	International Valuation Standards Council
KSA	Kingdom of Saudi Arabia
LOE	Letter of Engagement
ME	Machinery and Equipment
NDA	Non-Disclosure Agreement
PSAC	Problem, Standard, Analysis, Correction
RE	Real Estate
SAMA	Saudi Arabian Monetary Authority
TAQEEM	Saudi Authority for Accredited Valuers
USGAAP	United States Generally Accepted Accounting Principles
USPAP	Uniform Standards of Professional Appraisal Practice
VUR	Valuation Under Review

1

PRE-ENGAGEMENT

PRE-ENGAGEMENT

Review assignments, like valuation assignments, begin with an informative engagement process that includes a pre-engagement communication letter and an engagement letter.

1.1 Overview

During the pre-engagement communication process, the reviewer's responsibility is to determine if the assignment is one that can be completed competently, professionally and in compliance with all requirements. In the engagement stage, the reviewer's responsibility is to ensure that the terms of the contract and the scope of work are clearly described to avoid any confusion or misunderstanding regarding the assignment.

1.1.1 Pre-Engagement

According to IVS, a review report should have a Letter of Engagement (LoE). The letter is generally located at the beginning of the document and describes the scope of the work to be performed, intended users involved, conflicts, limitations, fees, and more, as well as the assets when the review includes an opinion of value.

Reviews may be written with or without an opinion of value from the reviewer. Depending on the client's needs and the purpose of the review, this decision must be made at the onset. When a reviewer provides an opinion of value, he or she must have the competence to perform the assignment and value the types of assets. If he or she is unable to value the assets, the reviewer must decline the assignment.

It is at the engagement stage that a reviewer should request documentation from the client regarding the valuation under review. The client should be asked to provide the reviewer with deliverables of the original valuer, all the information and documents that were provided from the client to the original valuer and vice versa when possible. Both the request and the receipt should be confirmed in writing with the client. This is especially important if the scope of work for the review includes an independent conclusion of value. Clearly, if the valuer and reviewer have received different information, it is expected that the value outcomes would also be different.

As with any valuation, a Letter of Engagement (LoE) must be met before accepting an assignment.

Remember, too, that it is in the pre-engagement discussions with the client that the decision is often made to provide a review with or without an opinion of value and this must be noted in the reviewer's scope of work.

1.1.2 Engagement

Once the pre-engagement process is complete, the engagement letter follows. The engagement letter is the legal agreement between a professional firm and its client, detailing the scope of services in exchange for compensation and other key engagement terms and conditions.

Assignment specific information must be listed in the engagement letter, which serves as a clear communication of what the client expects of the reviewer. Details of specific review expectations can be documented in a format that follows the requirements located in each discipline's manuals.

1.2 Clinent Instructions

Considering a new assignment begins with a prospective client.

1.2.1 Introductory Interaction

When a client approaches a valuation reviewer for a potential engagement, the reviewer must at the outset obtain and evaluate certain information for the purposes of:

a) Determining any conflict of interest relating to the client or the subject of the valuation under review (Accredited Valuers Law (AVL)- Article 20; Implementing Regulations of Accredited Valuers Law; TAQEEM's Code of Ethics and Professional Conduct (CEPC) - Article 2-4);

b) Determining the client's requirements (the valuation review problem) and the reviewer's scope of work to solve the problem (IVS 2022 Standard 101: *Scope of Work*; CEPC Article 4A-1); It is important to note that not all clients know what they need, and it is the reviewer's responsibility to extract enough information to define the problem and provide the right valuation review solution and fee;

c) Determining that the reviewer is appropriately qualified to undertake the requested assignment in terms of qualifications, experience and competency in the type, market and geography of the subject of valuation (CEPC Article 3-3);

d) Determining the reviewer's ability to undertake the assignment in a timely manner, including assessment of adequate resources in terms of manpower and valuation tools, whether within the firm or through teaming up with others, to deliver a quality product and a credible conclusion (CEPC Article 4A-6).

1.2.1.1 Client Screening

Assessing commercial and legal risks, such as client's legal status and financial integrity, including ability to meet the cost of valuation, and that the relationship will be a good fit in line with the reviewer's preferred clientele.

Identifying and obtaining necessary client consents regarding confidential information. Such information is captured through client interviews and the reviewer's own due diligence.

The reviewer must also carry out conflict of interest check to ensure that his own interests, and the client's interests, do not conflict with the duty owed to the other party in the valuation review assignment. Where there appears to be a conflict of interest, the reviewer must take the necessary steps to redress the situation.

1.2.1.2 Communication Choices

Clients approach reviewers through various means of communication including telephone, post, email and other commonly used internet-based applications such as Skype, Zoom, etc. A prudent reviewer would make himself accessible to clients through most, if not all, of such means. Upon engagement, however both parties must select and formalize the means of communication that are both efficient and easily documentable.

Whatever the means of communication used, the reviewer should have in place appropriate tools and systems that capture and facilitate efficient handling, generation, analysis and management of client and assignment information at various stages of an engagement and beyond. Depending on the scale and sophistication of the firm, these may be as simple as traditional but well-organized manual filing and paper trail and tracking systems or as complex as electronic document management systems (EDMS).

1.2.1.3 Professional Protocols

Progressive firms also maintain elaborate client receiving/response protocols designed and regularly reviewed to ensure that client instructions are coordinated and handled professionally and consistently. Frontline personnel are carefully picked, trained, equipped and imbued with a service culture to professionally interact with client calls and walk-ins, eliciting, matching and channeling through meaningful client enquiries to the right person in the firm whilst leaving a positive impression on the client. On-hold messaging, and call recording and review are also helpful in promoting the firm's image and offerings to the client, and allow the firm to retrieve client enquiries, monitor and improve the quality of the conversation.

1.2.1.4 Management Systems

A simple *Assignments* Log which captures, documents and tracks client's instructions and status is an important part of a valuation office information management system. It is also a vital first step in establishing the firm's database of projects which would subsequently be used in checking previous involvement or conflict with clients or subject assets. A simple example is provided in **Appendix A**.

1.2.2 Client Interview

The reviewer shall undertake the client interview, which may be carried out over the phone, online meeting or ideally in a face-to-face meeting with the client.

Depending on the scale of the engagement and client's location, a visit to the client's office for the sake of the initial interview is ideal and helps to corroborate the reviewer's due diligence of the client (client ID, location, line of business, client's demeanor etc.).

If the initial contact has been made by a representative of the client, the reviewer should endeavor to arrange a meeting with the client directly to personally confirm his understanding of the client's requirements.

The template (Interview of Client) in **Appendix B** is provided as a guide to the information that the reviewer should obtain from the client. Such information will ultimately be used to assess risks, define the valuation problem and prepare the *Letter of Engagement* (*LoE*) between the reviewer and the client in the event that the reviewer has ascertained both his independence from, and chooses to work for the client. These stages of the *assignment* are discussed in subsequent sections in this guide.

The reviewer must always maintain an audit trail of his interactions with, and make note of any documents received from, the client. Before embarking on developing the scope of work, the reviewer should also share the notes of his meeting or the completed interview form with the client to confirm his understanding of the client's instructions.

1.2.2.1 Confidentiality Policy & Required Information

Except where the client's Non-Disclosure Agreement (NDA) is used, the client interview also offers an opportunity for the reviewer to share or discuss with the client his own confidentiality policy. Gathering client information should in fact not proceed or should cease as soon as the reviewer ascertains that he cannot fulfil the client's instructions for whatever reason, such as the subject asset being outside his sector or geographical focus or specialization. If on the other hand the reviewer believes that he can fulfil the instructions, he should consider using:

1. Privacy notice- letting the client know how the reviewer typically uses or intends to use and safeguard client information;
2. Opt-out notice- finding out from the client what information must be treated as confidential and cannot be shared, other than with regulatory authorities.

Not all the information the reviewer requests from the client may be available immediately, or at all, and some of it may not be necessary until the reviewer has been engaged. The reviewer should inquire with the client about obtaining such information from other identified sources and use his judgement to decide whether he has sufficient information at this stage to adequately define the client's problem and determine a suitable scope of work and associated fees and timelines (discussed separately in this guide).

1.2.2.2 Right to Review

While the valuer as per IVS 2022 Standard 101: Scope of Work, Paragraph 20.3 (m) may restrict the use, distribution and publication of the report to the client and other intended users, this does not limit the ability to review any valuation. Legally, for litigation or supervision issues, courts and TAQEEM have the right to review valuation reports as deemed necessary without acquiring consent of the author of the valuation under review.

1.2.3 Pre-Screening Clients

Client screening should ideally take place prior to the client meeting, subject to what information the reviewer can gather independently about the client or subject of valuation. Prior screening also makes the subsequent meeting with the client more efficient by confirming or validating certain information not to mention affording the reviewer an opportunity to convey a well thought out range of fees to the client.

If the reviewer is somehow adequately familiar with the client and the subject of the valuation before the meeting, such as from a previous relationship, and he does not want to take on the assignment for whatever reason, he must notify the client of his decision. Otherwise client screening can run in parallel or after the interview when the reviewer has gathered enough information about the client and the subject of the valuation.

Client screening is an important process aimed at establishing that:

1. The relationship with the client will be a good fit for the firm;
2. The client is not a fraud or is unlikely to default on payment of fees;
3. The client is not taking on the wrong reviewer or firm for his project;
4. There are no conflicts in undertaking the assignment for the client (further discussed in the next section);
5. There would be no undue delays in completing the assignment for the client.

If the reviewer decides to take the assignment, he should also confirm his decision to the client in writing, such as through acknowledgement and acceptance of instructions letter, and letting the client know of the next steps.

1.2.3.1 Troublesome Client Situations

Some clients may be difficult, notoriously slow at providing promised information or incomplete one, adding additional scope under the same contract, being difficult with payments or demanding unreasonable turnaround and effort for the fee. Other clients may constantly try to unduly influence the reviewer's opinions. A reviewer is under no obligation to accept any client and should be prudent in selecting his clients. Besides, ethically questionable assignments are not worthy any fee.

Article 1-3

A valuer (and reviewer) must be content and abstain from self-desires and avoid doubtful matters, as he must «give up what is doubtful for that which is not doubtful». The valuer (and reviewer) might hold for something permissible for fear of falling into that which is prohibited (Code of Ethics and Professional Conduct for Valuers 2015).

Valuation reviewers must also adhere to this requirement, as well as the requirements of the Saudi Anti-Money Laundering Law, including but not limited to:

1. Verifying the identity of *clients*. For corporate *clients*, that includes verifying official documents showing entity name, address, names of proprietors and authorized signatories;
2. Maintaining all records and documents of dealings with *clients* for a period of no less than 10 years;
3. Establishing precautionary measures and internal controls to discover and suppress crimes under the law;
4. Reporting transactions of a suspicious nature and purpose;

The reviewer should carefully choose a wide variety of clients. It is risky in both a business sense and from a regulatory perspective to become too dependent on one or a few large-volume clients. Remember that valuation reviewers are subject to all the requirements of valuers. The CEPC requires that:

Articles 2-15

A valuer (and reviewer) must work with various clients and not depend totally on a limited number of clients which threatens his objectivity (CEPC).

1.2.3.2 Ability to Follow Through

Prior to proceeding with subsequent stages of the assignment, the reviewer must also ensure that he has and can commit personnel that is best qualified to carry out the review upon appointment by the client. This is a critical consideration that he will also have to revisit at the scoping stage when the nature and scale of the assignment becomes clearer. In particular:

The reviewer assigned to the job as well as the superior that will be signing off on the review must have the necessary practical experience in the valuation sector addressed by the valuation under review.

The review team has in aggregate the necessary knowledge and skills in the type of asset, location, valuation type and range.

The CEPC stipulates the following in this regard:

Article 3-3:

The valuer (and reviewer) must be certain that he possesses the requisite professional knowledge, technical skills and experience required to deliver competent professional service (CEPC)

Article 3-8:

A valuer (and reviewer) must know his limitations; if he lacks the necessary professional knowledge and experience to carry out a valuation, and does not have the ability to acquire such competence before completing the assignment, he must seek the assistance of someone who has the necessary experience in that type of assignment or decline the assignment (CEPC).

1.3 Risk Management

Reviewers are exposed to several risks at various stages of the engagement and beyond. The risks would vary across diverse types of valuation assignments and require different management techniques. Successful risk management is an ongoing process that spans all the stages of an assignment. Even then it is imperative that risks are identified or anticipated and evaluated early for every engagement and appropriate measures taken to avoid or mitigate them.

1.3.1 Risk Management Framework

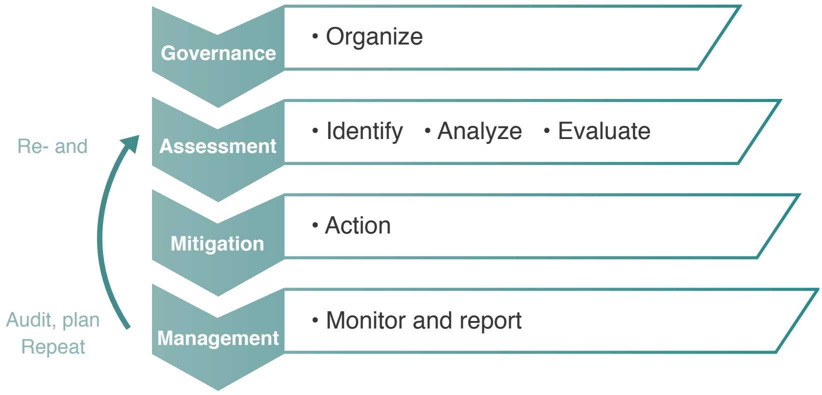

Figure 1: Risk management framework

A risk management program or framework in a firm would include a systematic set of policies, protocols and tools focused on identifying and managing risks. The above diagram outlines the basic elements of a risk management program and the key steps entailed in a risk identification and management process. Some large businesses operate an automated and enterprise-wide Risk Management (ERP) software, which may additionally use artificial intelligence to observe trends and predict patterns of risk events for better decision making.

At the very least however, a risk-minded firm would define and articulate its risk tolerance level(s), appoint a risk manager to design and/or maintain a firm's risk program however sophisticated or rudimentary it may be, train staff, promote a risk culture, oversee the entire risk identification and assessment process, ensuring compliance, monitoring and communicating the occurrence of key risk indicators and their impacts. The program would also include a risk register which records the risks identified, assesses controls and tracks actions and outcomes.

Briefly, the risk management process would commence with the identification and categorization of a comprehensive list of enterprise-wide or project-specific risks in a progressive process involving the project manager and team members. The risks are then analyzed, assessed and measured in terms of likelihood and impact or severity of occurrence of the underlying events. Care is also taken to distinguish the root causes of risks from the symptoms thereof such that the real risks are effectively managed. Such assessment may be both quantitative and qualitative and may consider possible interactions of risks which together pose the danger of magnifying associated loss. The assessment provides for subsequent evaluation of the risks through rating, ranking and prioritization of individual risks and/or combination of risks with reference to pre-set risk tolerance levels. Ultimately appropriate risk responses or controls are planned, matched with the various risks and actioned to either avoid, mitigate or accept them. Integral to the risk management process is documentation of all the steps and monitoring the implementation and outcome of the controls with a view to assessing their effectiveness and maintaining, reinforcing or replacing them if necessary.

A risk management program is only as good as the professionals working under it. Notwithstanding the firm's ultimate contractual liability to clients and its risk management program, risk identification and mitigation is the responsibility of each *valuation* project team member.

1.3.2 Risks and Safeguards in Valuation Review

Like most other professionals, valuation reviewers face the risks of undervaluing or overvaluing their expertise and either receiving inadequate compensation or pricing themselves out of the market; lack of business and downtime; business interruption due to illnesses, accidents or disasters; scope additions, cost overruns, project cancellation and/or client default; and professional indemnity claims. Some of the discussion elsewhere in this manual related to, but not limited to, client screening, scope of work, and calculation of fees and terms of engagement assist in helping reviewers mitigate some of these risks. The remainder of this section is focused on the last category of risks, namely professional liability.

The main risks facing reviewers are related to their ability to comply with ethical and technical standards and to exercise reasonable skill and care, which may result in claims for breach of contract or duty of care by clients and/or third parties. Other risks revolve around compliance with various other laws and regulations including Anti-Money Laundering Law.

Broadly and in the context of the KSA, the main risks include threats to a reviewer's ability to comply with the Accredited Valuers Law, Implementation Regulations and TAQEEM's Code of Ethics and Professional Conduct (CEPC) with respect to amongst others reviewer's independence and objectivity, and confidentiality.

Significance of a risk event is usually assessed through assessment of the likelihood of such an event occurring and the impact or consequences of its occurrence.

Various risk management tools are used to assess and match risks with mitigating actions. An example of such a tool is the Risk Assessment Matrix shown in **Appendix C**.

1.3.2.1 Categories of Threats to Compliance with Ethical Principles

IVSC's guidance on its Code of Ethical Principles for Professional Valuers, which has similar provisions to CEPC, identifies the following categories of threats to the *valuer's* (and reviewer's) ability to comply with ethical principles. These categories also apply to valuation reviewers:

a) **Self-interest threat** – also termed 'own interest conflict', this refers to the threat that a financial or other interest will inappropriately influence the reviewer's judgement or behavior;
b) **Self-review threat** – the threat that a reviewer will not appropriately evaluate the results of a previous judgement made or service performed, or by another individual within the same firm, on which the reviewer may rely when forming a judgement as part of providing a current service;
c) **Client conflict threat** – the threat that two or more clients may have opposing or conflicting interests in the outcome of a *valuation*;
d) Advocacy threat – the threat that a reviewer will promote a client's or employer's position to the point that his objectivity is compromised;
e) **Familiarity threat** – the threat that due to a long or close relationship with a client or employer, a reviewer may be too sympathetic to their interests or too accepting of their work; and
f) **Intimidation threat** – the threat that a reviewer will be deterred from acting objectively

1.3.2.2 Controls to Support Compliance with Ethical Principles

A wide range of actions or controls are available to safeguard against or mitigate some of the risks. Some of these operate at a higher level through regulation of the profession by the government or valuation professional organization, such as regulations on the corporate structure and governance of firms providing valuation services, statutory licensing of valuers for certain types of valuation, qualification and CPD requirements and monitoring of compliance with professional standards and disciplinary procedures. On their part, valuation firms attempt to identify and deal with such risks through internal controls and procedures. The controls outlined below are normally used in combination and can vary between firms:

1. Maintenance of a register of the material personal interests of professional reviewers: The firm would obtain, maintain and periodically update and review

declarations of financial interests and employment relationships held by its reviewers and their relatives (often to the third degree) with a view to identifying potential conflicts of interest related to any current or future client engagements.

2. Client screening and due diligence: As previously indicated, this entails enquiries and investigations into a client's reputation, integrity, financial standing and conflict of interest. Various sources of business information, credit rating agencies and data analytics such as Dun & Bradstreet, Zawya, Experian as well as the firm's internal databases are typically used to provide answers to much of the queries. Provided the client consents and no confidentiality obligations are breached, enquiries of previous valuers, solicitors and bankers may also be used for this purpose. Information obtained is evaluated to aid the firm's decision in accepting a new client or continuing with an existing client, often in accordance with a firm's pre-defined acceptance and continuance policies.

3. Vetting team members: Whether acquiring new talent for the firm or appointing a project team with the requisite knowledge, skills set and experience in the subject of an assignment, such an endeavour always involves assessing the qualifications, competencies, independence, conduct and attitudes of candidates and/or valuers (and reviewers) in the firm.

4. Client notification and consent around potential sources of conflict:

5. CEPC (Article 2-2&3) requires valuers (and reviewers) to obtain written consent from clients before acting for them in the same matter. Reviewers are subject to the same requirement.

6. Information barriers ("Lines of Separation") between service lines and/or project teams: Conflicted clients may consent to the firm using separate and distinct teams to advise on the same matter or asset at arm's length and strictly without communication or flow of confidential information between them on the matter.

7. Disclosure of potential sources of conflict in LoEs and reports, and what steps the reviewer has taken to mitigate the risk of such conflict.

8. Internal peer review of valuation reviews including panels, 'hot' and 'cold' reviews: Reviews are an important part of a firm's quality control program. In a 'hot' review, the report and working papers are examined by a more experienced valuer or reviewer in the firm to ensure that all important professional matters and the firm's standard procedures have been complied with prior to report sign-off and submission; By contrast, 'cold' reviews operate sometime after the review assignment has been completed and involve subjecting a random sample of such reports to reviews by partners or senior valuers that were not involved in the original assignments. Findings would be discussed with the concerned reviewers and used to develop remedial training. They may also trigger more frequent reviews and/or ultimately removal of incompetent valuers or reviewers.

9. Privacy policies, confidentiality policies and use of NDAs
10. Recruitment policies focused on certain professional designations
11. Use of standard terms and conditions of engagement, which are rarely negotiable
12. Use of Access letters and Reliance letters
13. Controls on the acceptance of gifts or hospitality from those commissioning valuations.
14. Complaints handling system- discussed separately in the manual.
15. Duty to report breaches
16. Supervision
17. Training
18. Use of industry certified models and software
19. Use of standard report templates and checklists
20. Focus/ specialization by sector, geography or client type
21. Professional Indemnity Insurance (PII)
22. Liability caps

The above list is by no means exhaustive or ranked, and apart from such standard controls as PII, not all the controls may be present in one firm. As also previously indicated, the application of some of the controls may vary with the circumstances of the situation at hand and the significance of the risk event.

1.3.2.3 Saudi Laws and Regulations

It is important to note that Saudi laws and regulations governing *valuers*, which also apply to valuation reviewers, are relatively stricter regarding the actions that *valuers* must take to deal with certain threats, particularly the self-interest threat.

1.3.2.3.1 Direct or Indirect Interest

Article 4-16 of the Implementation Regulations of the Accredited Valuers Law requires valuers (and reviewers) to **decline** any assignments in which they have a direct or indirect interest in the client or subject asset. Valuation reviewers are also subject to these regulations and therefore are advised to avoid reviewing valuations in all cases indicated in the code of conduct, and especially in the following cases:

1. Valuing assets that the valuer owns, co-owns, has interest in - directly or indirectly - as a broker, marketer, investor or a financier for their ownership.
2. Assets in which the valuer is a relative, to the fourth degree, of the founder or a member of the Board of Directors.

3. Assets of companies where the valuer provides services that conflict with one›s valuation of either of the assets, either directly or indirectly.
4. Assets of companies in which the valuer has shares or is a partner of one of its senior employees, one of the partners, one of its board members, or the overseer of one of its endowments.
5. Provide valuation services to more than one client on the same subject asset, except after obtaining written consent from all clients.

1.3.2.3.2 Disclosing Less Proximate Interests

For all other less proximate interests in the client or subject of the review, and in light of various CEPC provisions, the reviewer should carefully assess the threat to his objectivity and/or perception of possible bias from the users of his report. If reasonably convinced that his objectivity will not be compromised or there will be no appearance of bias to users, the reviewer may accept the assignment provided that such interests are disclosed in both the Letter of Engagement and report. Otherwise he must decline the assignment.

Hence the following CEPC requirement:

Article 2-4:

When valuing an asset or reviewing a report, the valuer or reviewer shall take all necessary precautions to ensure that there exists no direct or indirect interest to him or his company, relatives, friends or partners in the subject asset. Indirect interest includes all that is affected by the valuation of the subject asset. When such conflict exists, it shall be disclosed (CEPC).

1.3.2.3.3 Client Conflict Threat

For client conflict threat where the reviewer is acting on behalf of different clients regarding the same matter such as the same asset, opportunity or transaction, the reviewer must, in addition to the above considerations for less proximate interests, obtain written approvals from the clients before accepting the assignment. While doing so, the reviewer must take care not to breach any duty of confidentiality to the conflicted clients. Acting for different clients in the same matter might mean having to use different teams and information barriers or Lines of Separation between them. A compliance officer who is a senior person in the firm and not a member of either team must oversee such an arrangement.

The CEPC provides the following in this regard:

Article 2-2&3

The valuer (and reviewer) shall not act for two or more parties in the same matter except with the written consent of all the parties.

The valuer (and reviewer) shall take all necessary precautions to ensure that there does not arise any conflict between the interests of his clients (CEPC).

Article 4D-1&2

The valuer (and reviewer) must handle client's affairs with precaution and confidentiality. He shall not disclose any sensitive factual data obtained from the client, or assignment outcomes reached in the client's favour to any person or third party.

The valuer (and reviewer) must not use confidential information obtained as a result of professional relationships for personal purposes or for the benefit of a third party (CEPC).

1.3.2.3.4 Financial Independence

Independence is at the heart of a professional reviewer's ethos. Amongst the measures stipulated by the CEPC to safeguard the reviewer's independence is the requirement that reviewers must never agree to fees that are premised on a percentage of value, much less on a predetermined outcome. Reviewers must also ensure that their fee income comes from a wide and diversified client base as opposed to just a few clients. However, what proportion of total valuation fee income from a single client is acceptable or material is not explicitly stated in the CEPC. Nevertheless, TAQEEM advises that for all assignments that may be relied upon by others besides the client, the report should disclose:

i. Whether or not the proportion of the firm's income from the client exceeds %5 of the firm's total income during the last 12 months. Where a specific intended user of the report has been identified at the outset that disclosure must also be made in the proposal and the LoE, which would give the user the opportunity to object to the valuer's or reviewer's appointment if they perceive potential bias.

ii. Payment of any referral fee by the reviewer, in cash or in kind in connection with the procurement of the assignment.

An audit trail of the reviewer's actions with regards to conflict of interest and independence checks and disclosures should be maintained in the assignment working papers for compliance and monitoring. A robust system of conflict checks that spots conflicts and documents the results of such checks through diligent recordkeeping goes a long way to demonstrate that the reviewer acted properly.

1.3.3.1 Reliance on Third Parties

A reviewer may be forced to use the technical expertise of a subcontractor specialized in a certain aspect of the assignment or hire the services of a peer, as well as rely on public information or data provided by third parties such as data vendors.

The reviewer must agree with the client at the outset about his intention to employ the services of the subcontractor. The reviewer would normally sign the review report and take full responsibility for the services provided by the subcontractor. It is thus crucial that the reviewer carefully select a reputable and appropriately qualified subcontractor, ensure the subcontractor is adequately covered, commit him to similar terms as those that the reviewer has/would enter with the client, and review the work of the subcontractor to ensure it has been completed competently and in compliance with IVS and any other applicable standards.

An alternative arrangement, especially where the expert's role is outside the reviewer's expertise, may be to transfer some of the risk involved by having the client sign up the expert directly and have the reviewer and the expert either co-sign the report, or incorporate the expert's findings in the reviewer's report with appropriate references and disclaimers limiting the reviewer's liability concerning such findings. The reviewer should consult a legal expert to help him make the right decision regarding the cited options given the circumstances of each engagement.

As far as data from third-parties are concerned, the reviewer must also agree with the client the extent to which such data may be verified and relied upon. The reviewer must use reasonable care and diligence to ensure that such data is accurate. In this regard, reviewers are also reminded of the considerations required by IVS 2022 Standard 102:

Investigations and Compliance, Paragraph 20.5, when assessing credibility and reliability of information provided by others, particularly the significance of such information to the valuation conclusion, the expertise of the source and independence of the source in relation to the subject matter and subject asset, respectively. The source of third-party data used in the assignment and the extent to which it has been verified must also be stated in the report. Although the reviewer is ultimately responsible for his decision to rely on such data, it is common for reviewers to disclaim liability arising from the use of such data in both the letter of engagement and review report.

IVS Framework Section 50 Competence requires that valuation reviewer be competent in the subject of the valuation under review. Paragraph 50.1 requires that If a valuer does not possess all of the necessary technical skills, experience and knowledge to perform all aspects of a valuation (review), it is acceptable for the valuer to seek assistance from specialists in certain aspects of the overall assignment, providing this is disclosed in the scope of work and the report.

A flowchart mapping the major issues and decisions that the valuer, reviewer or firm may have to consider in taking on a review client is provided in **Appendix D**.

1.4 SCOPE OF WORK

IVS Standard 101: *Scope of Work* requires reviewers to determine and clearly communicate to the client a scope of work that is appropriate for the intended purpose of the review. The scope of work must be communicated to the client before the assignment is completed. Ideally the scope of work should be determined and communicated prior to entering the engagement, except where the scope only becomes clearer or must be modified during the engagement as the reviewer goes about his investigations and enquiries.

TAQEEM's Code of Ethics and Professional Conduct (CEPC) lays more emphasis to the above requirement and further stipulates that the scope of work must be agreed upfront and in writing between the reviewer and the client.

Article 4A-4:

Prior to accepting any assignment or entering into an agreement to deliver such an assignment. The valuer (and reviewer) must be in receipt of specific instructions or mandate from the client, which must be documented in writing and in detail in accordance with International Valuation Standards prior to commencement of work; to avoid any misinterpretation to the meanings or **scope of the work**.

Scope of work undertaken in a valuation review assignment is of fundamental importance as it has a direct impact on the credibility of the conclusion or value opinion. Its adequacy is typically judged having regard to the purpose of the review. No matter how much other compliance with IVS is had or purported by a review, an inadequate or incorrect scope of work that impinges on the credibility of such a review will render it non-compliant with IVS.

IVS explains the following statement regarding a situation where the original scope of work proves inadequate during the actual assignment process. This is equally applicable to the scope of work for a review assignment:

IVS 2022 Standard 102: *Investigations and Compliance*, Paragraph 20.7:

If, during the course of an assignment, it becomes clear that the investigations included in the **scope of work** will not result in a credible valuation, or information to be provided by third parties is either unavailable or inadequate, or limitations on investigations are so substantial that the valuer cannot sufficiently evaluate the inputs and assumptions, the valuation assignment will not comply with IVS.

Under IVS 2022 Standard 102: *Investigations and Compliance*, Paragraph 20.7, it therefore follows that, irrespective of how it came about, in situations where the *scope of work* is so limited, or the reviewer lacks information to render a credible review, the reviewer must, after consultation with the *client*:

1. Adjust or expand the scope to include the gathering of missing information; or
2. Complete the valuation on the basis of a special assumption if the appropriate Asset Standard permits; or
3. Withdraw from the *assignment*.

The reviewer is also subject to the regulations of IVS 2022 Standard 101: *Scope of Work*, wherein the reviewer needs to identify and disclose the following as part of the reviewer's *scope of work*:

a) Identity of the reviewer
b) Identity of the client
c) Identity of other intended users
d) Identity valuation under review, including the identity of author
e) Purpose of the review
f) Review date
g) Valuation date
h) The nature and extent of the reviewer's work and any limitations thereon
i) The nature and sources of information upon which the reviewer relies
j) Significant assumptions and/or special assumptions
k) The type of report being prepared
l) If an opinion of value is included:
    a. Valuation currency
    b. Basis of value
m) That the review will be prepared in compliance with IVS and that the reviewer will assess the appropriateness of all significant inputs

However, in line with CEPC and an interpretation of other statements in IVS, reviewers should consider the above items, especially in a review assignment, as comprising both problem definition and scope formulation. Some items in the list such as parties to the valuation, purpose and asset, are provided by the client at the onset. This information essentially constitutes 'the problem' that the rest of the items in the list, particularly (i) to (m) are needed to address, and therefore generated as part of the review (i.e. reviewer's scope).

The above division can clearly be seen in CEPC:

Article 4A-1:

Prior to accepting any (valuation) assignment or entering into an agreement to deliver such an assignment, the valuer (and reviewer) must understand the dimensions of the assignment to be performed, including identification of the parties to the assignment, the asset that is the subject of the assignment, assignment purpose, and the basis of the required value; so as to be in a position to agree with the client on the **scope of the work**.

This suggested categorization between problem identification and scope formulation aids the reviewer's understanding of the items in IVS 2022 Standard 101 and facilitating the reviewer's focus on the more variable and technical aspects of the engagement in developing his scope of work. These aspects revolve around the reviewer's investigations and analyses. All the items outlined in IVS 2022 Standard101 must still be confirmed in writing between the reviewer and the client and disclosed in both the engagement agreement and the reviewer's report.

Putting CEPC 4-1 and IVS 2022 Standard 101 together, permits further structuring and categorization of the list as follows:

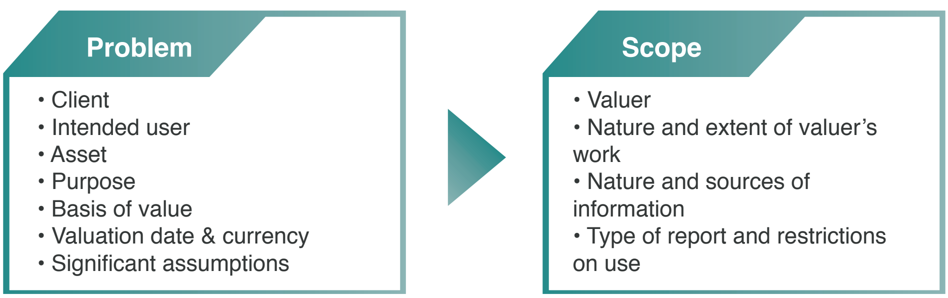

Figure 2: Scope of work

Below is a brief description of each item summarized from IVS 2022 Standard 101: Scope of Work, which the reviewer must understand in his definition of the assignment problem:

1. ***Client*** – the person or entity engaging the external *valuer*, *reviewer* or employing the internal *valuer* or reviewer
2. **Intended user** – the person or entity that the *valuer* or reviewer intends will use the *valuation* he provides. This may also be suggested by the client but ultimately the *valuer* or reviewer decides who relies on his *report*.
3. ***Asset*** – item that is the subject of the valuation.
4. ***Purpose*** – the reason(s) the valuation is performed e.g. for financial reporting, transaction support etc.
5. ***Basis of value*** – the type, definition and fundamental assumptions of value
6. ***Valuation date*** – The date on which the opinion of value applies i.e. the effective date.
7. **Valuation currency** – The monetary currency for the valuation
8. **Significant *assumptions*** – All significant *assumptions* and special *assumptions* that are to be made in the conduct and reporting of the valuation

Recall that the first chapter sets out the framework for capture of all the preliminary information from the client which allows the reviewer to define and understand the needs of the client, or the problem to be solved.

Reviewers can subsequently tailor the items under ‘scope’ in the diagram above to meet the client’s needs. Additionally, there is no single scope of work that suits all review assignments. The reviewer has flexibility in choosing the appropriate scope objectively, and then communicates that scope to the client, followed by an agreement with the client.

The right scope for any assignment is one that is appropriate for the purpose and results in a supportable opinion of the credibility, of the valuation under review.

IVS Framework - 40 (Objectivity)

The process of *valuation* requires the *valuer* (and reviewer) to make impartial judgements as to the reliability of inputs and *assumptions*. For a *valuation* to be **credible**, it is important that those judgements are made in a way that promotes transparency and minimises the influence of any subjective factors on the process. Judgement used in a *valuation* must be applied objectively to avoid biased analyses, opinions and conclusions.

IVSC CEPPV - Discussion of Fundamental Principles (A2.8)

In considering whether a situation creates a threat to their objectivity, a professional *valuer* (and reviewer) should recognise that it is often **the perception of possible bias** by others that creates the threat to the credibility of the *valuation*.

An appropriate scope is:

1. Determined objectively and is free from perception of possible bias by peers and users of the review;
2. Expected by parties who regularly are intended users of such reviews; and
3. Likely to be selected by the reviewer’s peers i.e. other reviewers who have expertise and competency in a similar type of assignment.

Identification of the reviewer in the scope of work relates to a confirmation that the selected reviewer is suitably qualified and competent to carry out the assignment objectively and discloses the nature and source of any material assistance that he intends to seek from others. This requirement is further stressed by CEPC thus:

Article 3-3:

The valuer (and reviewer) must be certain that he has the knowledge, technical skills and experience necessary to carry out the valuation competently, with a high level of professionalism and competence and to a decent level of quality.

Article 3-8:

The valuer (and reviewer) must know the limits of his abilities; if he lacks the necessary professional knowledge and experience to carry out a valuation, and does not have the capacity to acquire such competence before completing the assignment, he must seek the assistance of someone who has the necessary experience in that type of assignment or decline the assignment.

'*Valuation work*' in the case of review assignment entails research and analysis undertaken by a reviewer to estimate credibility of the valuation under review.

With the scope of work now determined, a simple *Assignment* Plan/checklist may also be completed.

1.5 Valuation Review Fees

The reviewer has many options to base the calculation of his fees provided they are not directly related to the *valuation* estimate or outcome of the *valuation*. CEPC states the following in this regard:

Article 2-11

It is prohibited to base valuation fees on the outcome of valuation, such as expressing the fees as a percentage of the value of the asset or making it contingent on the execution of a transaction, for example.

The level of fee that a reviewer can charge is a matter between him and the *client*. Prior to quoting a fee, a reviewer should take time at the outset to gather as much information as possible about the needs of the *client*, the requisite *scope of work*, the type of report and how it will be used and so forth.

For reviewers in the Kingdom, primary considerations in the calculation of *valuation* review fees may include:

1. Hourly fee charge rate x number of hours to complete the *assignment*.
2. Estimated time to complete an *assignment* based on past projects.
3. Experience and expertise in the *asset* type.
4. Risk/ liability issues including reliance by third parties.
5. Fees charged by peers/ competitors and their rating in the market.
6. *Client* perception of quality such as between a local and regional or global *valuation* firm.
7. Current level or schedule of projects in the firm.

8. Hiring other professionals such as engineers, surveyors, etc. if included in the *scope of work*.
9. Hiring other reviewers competent in a special valuation sector or a certain method of *valuation*.

A sample fee estimation is detailed in **Appendix E**.

Like other professions, such as legal and accounting, reviewers work within a general range of hourly rates. In general, the more experienced the reviewer, the higher is his hourly rate. Alternatively, a reviewer may work the rate backward from his typical or desired annual income after factoring business and staffing costs while considering the average number of assignments and time spent on such *assignments*.

For more risky *assignments*, where professional liability is relatively high, reviewer tend to add a premium to their usual fees for the added responsibility, risk and stress. These *assignments* may involve *assets* that are large and complex; unusual or specialized; subject of litigation; or assets with environmental or structural issues. *Clients* that are perceived to be too demanding or 'high maintenance' would also attract a premium. They include clients that demand unusually short turnarounds or are given to scope creep.

Ultimately the fee that a reviewer quotes is tempered by existing relationships and potential for future *business* from the same client, the level of fees charged by peers and what the market can bear.

The reviewer should not forget to estimate and add expenses associated with the *valuation review* including travel, accommodation, translation, per diem, etc.

There is no particular or specific manner for presenting the fee estimate in the proposal or *Letter of Engagement*. Unless requested otherwise by the client, such as is usually the case by public clients, it is acceptable for the reviewer to describe his basis for the calculation of the fee while showing an estimate of the total fee, with or without expenses. However, it is more prudent for the reviewer to provide a breakdown of the fees to permit a comparison with other quotes, and to avail a basis for charging for work completed prior to cancellation, or for a change of scope.

1.6 Proposal

Once a reviewer has understood the client's requirements, determined the client's problem and solution for it, and reasonably determined that he possess the necessary competency, the next step is to send a proposal to the client. The proposal documents the reviewer's understanding of the client's requirements and his proposed scope of work, timelines, fee and information needed to fulfil such requirements.

As a persuasive document, the proposal typically also presents some background information about the valuation review firm, its workforce, credentials and experience with similar reviews or valuations, and details of the team selected for delivery of the review. As such, a review proposal is unique to the firm issuing it. It is common for a firm to have a marketing department or dedicated practice teams that in some cases invest time and effort generating proposals to differentiate the firm from its competition. Reviewers must, however, consider the following provision of the CEPC, which apply to review work as well as valuation work:

Articles 1-6

It is prohibited for a valuer (and reviewer) while advertising himself or marketing his work in order to win business, that he:(A) claims academic or professional qualifications or previous experience which he does not possess, or refuses to correct information around them; (B) Uses incorrect information, misleading advertisements or exaggerated offers about his services; (C) Provides false allegations, unsupported comparisons or offensive references to the actions of other valuers (or reviewers). It must be noted that any valuer who does not comply with Articles 6-1 may be subject to a disciplinary review, with the ultimate sanction being revocation of their practice license.

While there are no standards dedicated to proposals, they should clearly and honestly communicate much of the same terms upon which the reviewer would endeavour to engage with the client once appointed. Unlike an offer, a proposal is not a promise or commitment, but if accepted by the client, the reviewer is expected to follow through and negotiate for the creation of a binding contract.

It is therefore good practice to inform clients of the terms at the proposal stage rather than leave expectations to assumption, or to the subsequent draft letter of engagement. Besides facilitating a broader comparison of the proposition with that of peers, inclusion of the terms in the proposal might also save the parties' time to negotiate the terms alongside any other aspect of the proposal before the opportunity is awarded. Failure to agree to some of the terms on a draft letter of engagement when all other bidders have been turned down can be very frustrating to clients.

The client's RFP may also dictate the structure and content of the proposal. It is in the best interest for the client to request a comprehensive proposal, and to share sufficient information for the reviewers to submit such a proposal, otherwise, it is common for some reviewers to be economical with their terms until the draft engagement stage to counter any surprises by the client.

Through inclusion of their business terms in the proposal, some firms are able to combine the proposal with a draft contract in order to save time. In such cases the proposal would include a section where, if the client accepts to abide by the terms of the proposal, he would be able to sign it, date it, and remit the first fee instalment.

Much may also be said about strategies to develop winning proposals and convert opportunities but that is beyond the remit of this manual.

Appendix F presents a proposal template in PowerPoint based on best practice for the reviewer's proposal structure, content and logical flow. Some clients, particularly public and institutional ones, may stipulate that the proposal be submitted under 3 distinct covers, namely:

1. Submission Letter
2. Technical Proposal
3. Financial Proposal

The appended template clearly allows for such partition and illustrates the contents of each.

1.7 Letter of Engagement

Also referred to as variously as the Engagement Agreement and Agreement for Services, the Letter of Engagement (LoE) is essentially the contract that defines and affirms the service that the reviewer will provide in the assignment, the responsibilities of both the reviewer and the client in the assignment and conditions that will govern the use of the review report.

Anyone who carries out projects that require valuations (or reviews) to be done shall enter into a contract with one or more registered valuers (or reviewers) to estimate the value of the assets to be valued (or the review assignment to be conducted).

A written LoE serves to align expectations by clarifying the terms of the assignment and provides verifiable evidence of the parties' endorsement of those terms, thus mitigating disputes or facilitating their resolution.

The LoE must include at a minimum the terms set out in IVS Standard 101: Scope of Work, plus the assignment duration and fee basis. It must also include identification of the governing law and jurisdiction and any alternative dispute resolution mechanism:

1. Identity and status of the reviewer
2. Identity of the client
3. Identity of other intended users
4. Identification of the valuation to be reviewed
5. The valuation currency
6. Purpose of the review
7. Basis of value
8. Valuation date
9. The nature and extent of the reviewer's work and any limitations thereon, especially noting whether or not an independent opinion of value will be produced in conjunction with the review.
10. The nature and sources of information upon which the reviewer relies
11. Valuation data in support of any restriction in access to assets
12. Assumptions and/or special assumptions
13. The type of report being prepared. It is important also to indicate format, number of copies and delivery method.
14. Restrictions on use, distribution and publication of the report, including confidentiality and third-party reliance.
15. That the review will be prepared in compliance with IVS and that the reviewer/ valuer will assess the appropriateness of all significant inputs
16. Assignment duration including schedule of any milestone deliverables, meetings and timeline for receiving and addressing client comments
17. Subcontract provisions
18. Reviewer's fee basis
19. Reviewer's complaints procedure, if any
20. Changes to agreement, cancellation
21. Governing law and jurisdiction

Typically, the LoE would be drafted by the reviewer, but client contract templates are acceptable as long as they cover all the terms above and are agreed to by the parties. A reviewer's LoE should be attached to the review report.

A LoE would consist of the following documents:

1. Standard Terms of Engagement
2. Acknowledgement Letter
3. Supplementary Letter, in cases of changes or variations to the contract terms during the course of the assignment

The **Standard Terms** would contain the reviewer's general terms of business that are typically common to all engagements except where tailored to the current assignment. Although these documents are largely proformas or boilerplates, the reviewer should review the terms and consider their appropriateness to each assignment.

The **Acknowledgement Letter,** however, is designed to serve as a cover letter acknowledging the client's instructions and introducing the terms of engagement through an appropriate reference to the accompanying Standard Terms document.

Some reviewers prefer to include the scope of work, which is variable across different assignments, in the Acknowledgement Letter instead of including it in the standard terms document. In this manner, the reviewer may only need to change the terms in the Acknowledgement Letter whenever he responds to new instructions from the same client under a long-term contract. As such, the Acknowledgement Letter would also include:

1. The extent of the reviewer ‹s investigations;
2. Assignment duration; and
3. Reviewer's fees.

In this case, the Acknowledgement Letter will normally take precedence over the Standard Terms. Even then, the reviewer must ensure that there is no contradiction between the terms in either document.

The reviewer must make sure that all terms are included and agreed in the LoE. These include conditions limiting the use of the report, disclosure of conflicts, and significant assumptions. Their later inclusion only in the valuation report may not legally bind the client and may expose the reviewer to claims from the client or third parties.

It is important to include a clause on third party access to and reliance on the report so as to restrict the reviewer's exposure to claims from third parties. The default position must always be that third parties are not authorized to receive or rely on the report except where expressly stated otherwise in both the LoE and the report, or with written consent from the reviewer. Some firms would append specimens of their standard 'Access' or 'Hold Harmless' Letters to the LoE. A third party could receive a copy of the report only after the client's and reviewer's consents and upon signing the reviewer's Access Letter. The letter disclaims any liability by the reviewer to the third party and puts the onus on the third party of indemnifying the reviewer against any claims that might arise from the third party sharing the report with others.

2

OVERVIEW OF VALUATION REVIEW

2.1 Introduction

This chapter presents an overview of the purposes for valuation review and the responsibilities of the reviewer in regard to the review client, the general public and the valuation profession as a whole.

2.2 Objectives

At the end of this chapter, the reviewer will fully understand the purposes a valuation review might be needed and be able to appreciate the critical responsibilities of a reviewer in the development and reporting of a valuation review.

2.3 Purposes for Valuation Reviews

Valuation reviews are needed in any circumstance where a valuation is in dispute or unclear. If for any reason a valuation is under question, a valuation reviewer will be retained to investigate and report on the quality of a valuation. In many instances, this report may be delivered to the client of the original valuation, while in other circumstances, the review report may be submitted to another party as mandated by a legitimate or superior authority, such as a governmental body.

The purpose of a valuation review may include providing opinions on IVS compliance, compliance with other standards, laws or codes, or opinions on single assets valued, or all assets valued, or particular asset characteristics, or a combination of several needs. IVS defines a purpose [9] of a valuation as the reason a valuation is conducted. Valuation reviews must always state a purpose and should provide answers to questions raised in a professional, concise and easy to understand manner.

Purposes of a valuation review can include:

- Litigation services
- Court appeals
- Eminent domain
- Disputes
- Lawsuits
- Assessments of members
- Quality assurance and monitoring
- Consulting

[9] IVS 2022 Glossary, Paragraph 20.19, page 7

- Peer and member review
- Financial reporting
- Review of another review

2 .4 Intended Users of Valuation Reviews

The use of a valuation review is, of course, not limited to clients of the original valuation. Other intended users of valuation reviews may include:

- Courts
- TAQEEM panel assessment interviewers
- TAQEEM consultancy center
- Valuation Firms
- Capital Market Authority (CMA)
- Banks
- Insurance companies
- Government agencies
- Businesses

Note that reviews are not limited to valuation reports. A review may be requested for another valuation review report. If litigation or lawsuits require reviews of valuations, it is possible the parties involved may request a review of another review. As with any review, the scope of work is determined and the review may include, or may not include, an opinion of value.

2 .5 Reviewer Responsibilities

Clients and other authorities who request reviews have important, valid reasons for seeking the assistance of a valuation reviewer. Great responsibility accompanies the assignment of measuring a valuation against accepted standards, codes and rules. While the valuer as per IVS 2022 Standard 101: *Scope of Work*, Paragraph 20.3 (m) may restrict the use, distribution and publication of the report to the client and other intended users, this does not limit the ability to review any valuation. Legally, for litigation or supervision issues, courts and TAQEEM have the right to review valuation reports as deemed necessary without acquiring consent of the author of the valuation under review.

The International Valuation Standards (IVS) 2022 states that a valuation reviewer is a professional valuer engaged to review work of another valuer. And, as part of a valuation review, that professional may perform certain valuation procedures and/or provide an opinion of value. [10] A reviewer must also be able to assist with the legibility and understanding of IVS standards, while opining on other needs of the review, as requested by the client.

2.5.1 Duty of Care in a Valuation Review

Reviewers have a significant responsibility in determining the appropriate level of care that should be used in the development of a review report. Equally important, the reviewer also has the responsibility of determining if the care that was used in the creation of the valuation under review was appropriate and acceptable. The reviewer must give both responsibilities proper attention, so that the review report is completed in a manner that reflects the appropriate duty of care necessary, while reporting on the care provided, or not provided, in the valuation under review.

Level of care refers to the amount of attentiveness, skill and overall judgment that another professional would exercise when conducting a similar valuation or review assignment. The measurement that all valuers and reviewers must consider is how other reasonable, equally competent and educated valuers and reviewers would perform a similar assignment.

It is important to note that the level of care, unlike the IVS and TAQEEM Manuals discussed at length in this manual, is not subject to a precise definition. The appropriate level of care is judged on a case-by-case basis.

This manual provides guidance on how to assess the various aspects that are combined in determining the level of care for each review assignment. A reviewer should use information from the valuation under review's scope of work to determine the purview of level of care and attention to detail required in the review process. If the valuation under review fails to fulfil the expectations of the scope of work, when measured against what another reasonable professional would have concluded, the valuation is likely to be found inadequate. By the same token, a valuation found to be unacceptable or invalid will also most likely not meet the necessary level of care.

For example, if a valuation requires the calculation of a discounted cash flow for lost profits, a reasonable valuer will perform that calculation and would follow the procedure set forth in TAQEEM›s Business Valuation manual. A valuation that disregards the need for a discounted cash flow calculation has not met the expected level of detail for that assignment.

Following the guidance of appropriate sources of information, procedures, methodology and analysis is imperative in fulfilling the expected and necessary level of detail in any valuation or valuation review situation. Level of detail, as mentioned previously, is specific to each assignment. In some cases, consulting with other competent valuers or reviewers

[10] IVS 2022 Glossary, Paragraph 20.28, page 8

may be critical in fulfilling level of detail requirements. Pertaining to other assignments, satisfying the level of detail demanded by the scope of work may involve investigating pertinent avenues of research or developing suitable mathematical models.

In all situations, the reviewer's responsibility is to determine the steps that a reasonable valuation professional would perform in the production of the valuation under review and to ascertain that those steps were indeed performed in an appropriate, acceptable, accurate, logical and complete manner.

2.5.2 Objectivity

Reviewers have the fundamental responsibility of providing services that are objective and unbiased. Accredited valuers should always consider that reviews are critical in protecting the public trust in valuation. Reviewing another valuer's work product is a significant responsibility that demands impartial judgments and unbiased reporting. Review reports must logically and adequately explain the review conclusion, including, as necessary, interpretation of data and explanations of information contained in the original valuation, such as calculations, methodology and analysis used to reach the original conclusion of value.

2.5.3 Clarity

The reviewer is responsible for creating reports that explain critical problems in valuations and provide corrections to those problems. The review report should present the results of a valuation review in a manner that is credible, clearly understood, concise and easily followed. At the conclusion of the review, clients and intended users should be easily convinced of the results of the review, so that decisions can be made regarding the valuation that was under review.

To help the involved parties understand whether or not a valuation is dependable and credible, the review report must explain the valuation process in a comprehensive and logical manner. This usually involves explaining the methodology and analysis of the original valuation and should always result in a review report with clearly and logically developed arguments presented in a well-organized narrative. The review should have an introductory beginning, an explanatory middle content and a conclusive ending. As the client reads the review, he needs to be able to comprehend each component in a sequential order, so that he understands the reviewer's analysis and conclusion. The client reading the review should be able to easily follow the progression of the review process and feel satisfied with the information provided in the review report. In this case, the reviewer must apply and refer to IVS 103 Reporting.

2.5.4 Competence

Just as valuers are required to have the necessary competence to perform valuations, reviewers must have the necessary competence to perform and write reviews.

IVS states that valuations must be prepared by an individual, group of individuals or individual within an entity, regardless of whether employed (internal) or engaged (contracted/external), possessing the necessary qualifications, ability and experience to execute a valuation in an objective, unbiased, ethical and competent manner and having the appropriate technical skills, experience and knowledge of the subject of the valuation, the market(s) in which it trades and the purpose of the valuation. If a valuer (or reviewer) does not possess all of the necessary technical skills, experience and knowledge to perform all aspects of a valuation, it is acceptable for the valuer (or reviewer) to seek assistance from specialists in certain aspects of the overall assignment, providing this is disclosed in the scope of work and the report. [11]

In the same manner, the reviewer must possess the necessary competence, professional knowledge and skill to perform a competent review of a valuation report. The standards of IVS, the Accredited Valuers Law and Code of Ethics and Professional Conduct, valuation manuals for each discipline and any other required regulations are available to assist the reviewer with the skills for performing and writing an appropriate and professional review.

Valuation reviewers must comply with TAQEEM's requirements for qualification and be active TAQEEM members who possess valuation and valuation reviewing skills. In accepting review assignments, TAQEEM reviewers are advised to ensure that their own qualifications are equal to or higher than those of the originator valuer of the valuation under review. In cases where the review is an external assignment or will include an opinion of value for the asset(s), it is necessary that the reviewer have the same, or higher level of competency to complete the assignment. If a reviewer is asked to provide a review with an opinion of value, but does not have the competence to do so, he or she must seek assistance, as required by IVS. [13]

2.5.5 Compliance

The role of the reviewer is multifaceted. Compliance in valuation review includes three different and equally important areas. All reviewers are assigned the overlapping tasks of continuously addressing the compliance of the valuation under review, assessing the compliance of their own review process, and creating a review report that aligns with IVS and TAQEEM requirements.

[11] IVS 2022 Framework, Sections 50.1 ,50.2, page 11

[12] TAQEEM Code of Ethics and Professional Conduct, Article 3: Competence, 3

[13] IVS 2022 Framework, Paragraphs 50.1 ,50.2, page 11; Code of Ethics and Professional Conduct Article: 3 Competence, page 11

To uphold the public trust for valuation, the valuation review report must be written in compliance with the International Valuation Standards. While IVS provides limited guidance for valuation review and reviewers, all professionals who review reports should comply with all appropriate IVS standards. In addition, every reviewer must also follow appropriate domestic standards of valuations that are relevant to the industry for which the report is issued. Later in this manual, specific sample review reports and Reviewer Checklists are provided for the industries of Real Estate, Business, and Machinery & Equipment Valuation.

It is important not only that the reviewer consider the valuation being examined, but also consider the construction and compliance of his own review report. These three important compliance issues are addressed in the following sections.

2.5.5.1 Review Compliance

All valuers and reviewers must comply with the International Valuations Standards (IVS), the Accredited Valuers Laws, TAQEEM Code of Ethics and Professional Conduct (CEPC), Implementing Regulations, and the appropriate Saudi valuation manual for each particular discipline. The IVS standards are measurable and conducive to the review process. This manual focuses on reviewing for IVS standards and how to opine on the compliance of another valuer's report. Valuation reviews must comply with all requirements of TAQEEM.

2.5.5.2 Review Report Compliance

While IVS has limited standards for reviewing valuations, similar reporting standards for valuing should be followed for reviewing assignments. Reviewers must comply with standards that apply to review reporting in order to appropriately represent the profession to the public. The choice to comply with the applicable valuation standards for reviewing reports is a prudent practice. IVS 2022 Standard 102: *Investigations and Compliance* indicates that valuation review assignments must be conducted in accordance with all of the principles set out in IVS that are appropriate for the purpose and the terms and conditions set out in the scope of work. [14] This manual addresses IVS compliance for valuations under review and also the development and writing of review reports. Reviewers must comply with all applicable standards when appropriate. See Chapter 3: *The Valuation Review Process*.

2.5.5.3 Valuation Under Review Compliance

The reviewer must analyze the valuation under review for compliance with IVS. A minimal purpose for a review may report and determine if the valuation under review meets all required IVS standards. Of course, other standards would also generally be investigated and reported, as discussed in Chapter 3.

[14] IVS 2022 Standard 102: Investigations and Compliance, Paragraph 10.1, page 16

3

THE VALUATION REVIEW PROCESS

01.01.2017
Volume of sales
01.01.2018
Maximum price
01.01.2019
Minimum price
01.01.2020
Closing price
Sales
3,2
2,6
8,2
1,4
1,2
First quarter
Second quarter
Third quarter
Fourth quarter
Performance level
Payback
Interest rate
Название оси
2017
2018
2019
2020
Power consumption levels
Product 1
Balance sheet profit
Retained earnings
Interest on loans
Return on asset

3.1 Introduction

This chapter provides guidance regarding the valuation review process and describes the procedures to be followed when reviewing a valuation report. At the end of this chapter, the reviewer will be able to appreciate the importance of a comprehensive and systematic process for developing a valuation review from beginning to end.

3.2 Objectives

This chapter describes the procedures that should be followed when developing a valuation review and discusses significant points of concern for the reviewer.

3.3 Summary

At the end of this chapter, the reviewer will be able to appreciate the importance of a comprehensive and systematic process for developing a valuation review from beginning to end.

3.4 Review Development

The review report must be developed in a manner that is organized, effective and efficient. The work to be performed should be planned in a manner that assists the reviewer with the entire process and produces the most effective and efficient review report. Because the length and brevity of a review report should be considered, requirements that is in compliance with standards and rules is often less discussed, or not discussed at all. For all intents and purposes of the review, the client is most interested in understanding what is missing or incorrect in the valuation, and so development of the review focuses in that area.

Efficient organization from start to finish supports a reviewer in addressing the contents of the valuation under review and determining how it measures against requirements, according to the scope of work. In addition, a well-organized reviewer is able to develop a compliant comprehensive review according to TAQEEM requirements and other applicable laws, CEPC, regulation and IVS.

3.4.1 Qualities to be Considered in Valuations

While a reviewer determines compliance of a valuation by measuring a valuation against IVS standards and TAQEEM manuals, including applicable laws, the reviewer should also assess the overall reliability and trustworthiness of the valuation under review. A straightforward and practical way to measure reliability and trustworthiness is to note where the valuation under review is not appropriate, acceptable, accurate, logical or complete. Focusing on these five critical qualities assists the reviewer to pinpoint the areas of concern, in which the valuation may falter.

During the initial reading of the valuation under review, the reviewer should be aware of each of the below qualities, to determine if the valuation under review is appropriate, acceptable, accurate, logical and complete. The reviewer may find it useful to refer to the common valuation errors presented in **Appendix G** of this manual, while remembering that these listings are not wholly inclusive.

The sections following this list will provide additional discussion of each quality.

- **Appropriate** – suitable or fitting for a particular purpose; proper; pertinent, relevant; objective
- **Acceptable** – capable or worthy of being accepted; satisfactory; adequate; meeting minimum requirements, compliant
- **Accurate** – correct, precise, exact; free from error or defect; careful; meticulous; consistent
- **Logical** – reasonable and in accordance with the principles of logic; sensible, convincing; supported with evidence; coherent narrative flow that is compelling to others
- **Complete** – having all required parts, elements or characteristics; comprehensive, whole and entire; full and thorough in both content and quality

3.4.1.1 Appropriate

The reviewer must consider the appropriateness of a valuation. If the content of the valuation under review is not suitable and proper for the purpose, client and all other users and uses of the valuation, the reviewer must document and explain the inappropriate content. In some cases, the inappropriateness may focus on missing or incorrect information. The reviewer should consider and determine if the information contained in the valuation is pertinent and relevant.

3.4.1.2 Acceptable

If the reviewer determines that the contents of the valuation under review are not acceptable, the review report must explain why, and in a manner that provides the client with a clear understanding of which parts of the valuation are unacceptable and why. If this includes noncompliance with standards, the reviewer must also explain the rationale supporting those standards, such as how the required standards protect the client from an invalid, misleading valuation conclusion.

3.4.1.3 Accurate

Additionally, the reviewer should conclude if the material in the valuation is accurate. Often, a valuation might contain parts that are accurate, and other parts that are not accurate. It is the reviewer's responsibility to clearly explain why any inaccurate segments are considered to be incorrect, inconsistent or vague.

3.4.1.4 Logical

The valuation report, as a whole, should be written in a reasonable, logical manner. The reviewer must read the valuation under review with an unbiased attitude, while carefully noting where the narrative might be lacking evidence or otherwise missing important explanations regarding methodology, analysis or choice of data. In any case where the reviewer feels that the narrative lacks coherence or logic, the client must be led to understand how such flaws diminish the validity of the valuation under review.

With all of the above elements, it is the responsibility of the reviewer to document problems discovered in a valuation under review, and clearly explain the data to the client, while providing the correct information that should have been included in the valuation under review.

Lack of Logic in M&E Valuation under Review
Many M&E valuations use the Sales Comparison Approach with comparable sales that have no support for adjustments and reflect only the valuer›s guess. Adjustments to comparable sales should be based upon verifiable evidence and logic and should be presented in a reasonable manner. If the report does not explain why and how adjustments were made, the valuation may be unreliable and not credible. The M&E reviewer must examine how adjustments are made to comparable sales to determine if those adjustments are supported by acceptable evidence and logic.

3.4.1.5 Complete

In the review process, the reviewer determines incomplete data, information or conclusions in the valuation under review. The reviewer must seek missing components and/or determine which pertinent parts are missing from the valuation. The reviewer will determine if the valuation includes all of the information that an acceptable valuation should include. The *Review Report Development Checklist* **(Appendix H)** can help summarize the reviewer's findings.

Reporting on how the valuation under review either is, or is not, appropriate, acceptable, accurate, logical and complete, will provide the client with understandable opinions and information for the valuation. These qualities provide reliable ways in which to measure valuations with understandable and repeatable methodology. When reviewers use these five qualities to critique a valuation under review, the review report is more likely to be thorough, intelligible and comprehensible.

Highest and Best Use in a Real Estate Valuation under Review

"Highest and best use" is commonly one of the weakest areas in a valuation. The reviewer needs to identify if the valuation report clearly states the highest and best use or if it provides support for the determination with a thorough analysis by evaluating the most probable and highest uses, such as office, retail, medical and restaurants. Each property has different requirements pertaining to zoning, setbacks, parking space, drainage, etc., and all of these issues, along with vacancy, potential income and expenses, must be considered when determining highest and best use. Without logical, adequate and appropriate support in the valuation report, the reviewer cannot ascertain that the highest and best use is properly identified, and if it is not properly identified, the reviewer cannot consider the conclusion of value to be valid. Therefore, lack of support for the highest and best use should encourage the reviewer to take a position that the report is not complete and is therefore not credible.

3.4.2 Initial Review

When first reading the valuation under review, the reviewer should take notes and write first impression comments in the *Review Report* Development Checklist **(Appendix H)** for each discipline. This initial reading often uncovers areas of concern that direct the development of the review report. It is often during this first reading that the reviewer will notate areas of the report that fall short of being appropriate, accurate, acceptable, logical, or complete. The reviewer may also become aware of sections in the report that appear inconsistent, biased, or confusing, as well as notice poor organization of information or any lack of evidence for methodology, analysis or conclusions.

Using a checklist to record initial impressions and concerns can aid with overall organization, which supports the creation of a logical, explanatory review report. Organized notes are critical in fulfilling a reviewer's responsibility for a report product that assists the client with understanding if the valuation under review provides an appropriate and reliable conclusion.

As the reviewer may find the *Review Report Development Checklists* **(Appendix H)** to be helpful during this initial study, the *Valuation Review Worksheet* **(Appendix I)** can be used to record notes and comments for problems discovered. The Worksheet is designed to be used with the reporting format *Problem*, *Standard*, *Analysis, Correction* (PSAC), discussed in more detail in the Report Writing chapter of this manual.

Some critical areas to consider during the initial review is the purpose of the valuation under review and the dates involved in the original valuation process.

3.4.2.1 Purpose

As defined in IVS, purpose is the reason for conducting a valuation and valuation review. Every valuation report must state the purpose for the valuation, explaining the reason(s) the valuation was requested and performed. This purpose dictates the amount of work to be considered, performed and compiled for the report. The reviewer must therefore analyze the valuation under review and determine if the purpose of the valuation under review was appropriate and if that purpose was fulfilled.

Purpose of the Valuation in a M&E Valuation under Review
The stated purpose of an M&E valuation is often vague and incomplete. For example, reporting that a valuation is written for "insurance purposes" is incomplete and lacks the specificity needed. When the asset property has been destroyed by fire and there is litigation pursuant to that loss, an M&E reviewer must examine the stated purpose of the valuation under review to determine if it is understandable, as well as appropriate, acceptable, accurate, logical and complete.

3.4.2.2 Dates

The dates involved in the reviewing process are important. A variety of dates must be included in the review report and presented in compliance with IVS. These dates must be identified in a manner that the client can easily understand. Dates to be aware of in the valuation under review are the inspection date, the effective date of valuation, conclusion of value, and the valuation report date. It is common in valuation reports for one or more of these dates to be missing or incorrect. The reviewer must be clear about these critical dates, both during the review process and in creating the review report. Organization of the valuation's chronological timeline is especially important if the review report also provides an opinion of value, since the effective date of the reviewer's opinion of value should be the same as the effective date of the valuation under review. Some assignments request a different effective date for an opinion of value than that of the valuation under review; this may be permissible according to the scope of work and the intended purpose of the review.

3.4.3 Scope of Work

The scope of work is an important component for all reports, as it directs how the entire assignment is to be conducted. This is as true for review reports as it is for valuation reports. Development of a review depends on close attention to two different scopes of work, which must not be confused: reviewers must first develop the appropriate scope of work for the review itself, and they must also carefully analyze the scope of work information in the valuation under review.

The reviewer then, must always ask two questions:

1. What scope of work is appropriate for the purpose of this review?
2. Is the scope of work in the valuation under review appropriate for the purpose for which it was written?

Scope of Work in a Real Estate Valuation under Review
In a real estate valuation, constructing the scope of work to solve the valuation problem is the most critical concern. The process of solving any problem, including a valuation problem, depends upon successfully completing three major steps: 1. Identify the problem, 2. Determine the solution (or scope of work), and 3. Apply the solution. The reviewer's responsibility is to determine that none of the three steps have been neglected and that the process is carried out in an orderly manner. For example, does the scope of work as reported in the valuation under review, include the intended purpose and definition of value? Regarding the intended purpose of the review, does the report include adequate detail such as whether the valuation is for mortgage purposes or for insurable value? Is information relevant to the definition of value adequately discussed, including appropriate characteristics of the subject property that may be important to determining the definition of value used? The reviewer must be sure the valuation report addresses all variables necessary to successfully solve the valuation problem and to determine a credible, overall value.

3.4.3.1 Scope of Work for the Review Report

In developing the scope of work for review report assignments, reviewers must determine a specific task, or set of tasks. Each review assignment for each client should be carefully considered as the scope of work is developed. Just as with writing a valuation, a reviewer writing a review should inform the client about the scope of work to be performed, and enter into an agreement specifying the work to be performed. In cases where the scope of work is not clear or determined at the onset of the assignment, IVS General Standards state that the reviewer should inform the client, and be in agreement to the terms, as soon as the scope is determined, whenever that may be. [15]

[15] IVS 2022 General Standards, Standard 101: Scope of Work, Paragraph 20.4, page 15

Changes to the scope of work often occur and are permissible according to IVS. When changes to the scope are necessary, they must be communicated to the client before the assignment is completed, and before the valuation review is submitted to the client. The General Standards are clear in stating that before the report is finalized, the reviewer should ensure that the intended user(s) of the review understand what is being provided as well as limitations on the use of the report. [16]

For oversight, litigation or supervision issues, courts and TAQEEM have the right to review valuation reports, by law. Limitations placed on a valuation report do not supersede the review ability, oversight or responsibility in any manner. TAQEEM and the courts may review a valuation report for all reasons deemed necessary.

While IVS contains fewer standards for reviews than it does for valuations, the requirements for valuations can easily be translated and adapted for reviewing. Just as investigations made during the course of a valuation assignment must be appropriate for the purpose of the valuation assignment and the basis(es) of value, so must the appropriate investigations take place in valuation reviewing. [17] Also, limits to investigations may be agreed upon and must be noted in the scope of work for the assignment.

The Introduction for IVS 2022 Standard 101: *Scope of Work* states that the fundamental terms of the valuation engagement include information on assets being valued, the purpose of the valuation, and the responsible parties involved. [18] Standard 101 applies to a wide spectrum of assignments including valuation reviews, [19] and so the same information that is required for a valuation scope of work should be included in a review scope of work and the same fundamental terms of an engagement for a valuation should also apply for a review engagement, including the statement of the purpose of the review.

IVS defines *purpose* as the reason(s) a valuation is performed [20], and in the case of reviews, the reason(s) a review is performed. For every review, the client has a problem that requires solving. Solving this problem is the purpose of the review, which must be stated in the review report. Indeed, the purpose, or the reason for conducting the review sets the agenda for the scope of work to be performed, including whether or not the reviewer will provide an opinion of value.

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[16] IVS 2022 General Standards, Standard 101: Scope of Work, Paragraph 20.2, page 13
[17] IVS 2022 General Standards, Standard 102: Investigations and Compliance, Paragraph 20.1, page 16
[18] IVS 2020 General Standards, Standard 101: Scope of Work, Paragraph 10.1, page 13
[19] IVS 2022 General Standards, Standard 101: Scope of Work, Paragraph 10.2, page 13
[20] IVS 2022 Glossary 20.19, page 7

IVS Standard 101: *Scope of Work*, Paragraph 10.2 (c) [21] explains that reviews may or may not include an opinion of value. The engagement with the client, as well as a problem to be solved, will determine if the reviewer should include an opinion of value or not. Competency must be addressed for each assignment that includes an opinion of value.

In compliance with IVS 2022 Standard 101, each review must include the following information, as well as any additional information that is important to the understanding of the report. [22] The reviewer will want to ensure that the finalized report includes these specified requirements:

- Identity of the reviewer(s) by name and contact information
- Identity of the valuer(s) who authored the valuation(s) under review
- Identity of the client(s) of the review assignment
- Identity of other intended users (if any)
- Description of the assets listed in the valuation under review
- The purpose of the valuation review, which determines whether or not an independent conclusion of value will be included in the review scope of work
- The review report date
- If the review includes a valuation conclusion, it must clearly state
    - o The date for that value–which must be the same as the value conclusion date in the valuation under review
    - o The currency used for the value conclusion
    - o The basis or bases of value used
- All limitations and restrictions
- Sources for information
- Significant and/or special assumptions
- Type of valuation report
- Statement for IVS compliance, including any departures with explanations
- Changes in scope of work documented and communicated to the client

3.4.3.2 Scope of Work Examined in the Valuation under Review

After the scope of work to be performed for the review report is addressed and determined, the scope of work that was completed in the valuation under review must be analysed and reported. It is at this point that the reviewer *addresses the scope of work in the valuation under review and determines if the work performed was appropriate, acceptable, accurate, logical and complete.*

[21] IVS 2022 Standard 101: Scope of Work, page 13

[22] IVS 2022 Standard 101: Scope of Work, page 13

Scope of Work in a Business Valuation under Review

The scope of work in a business valuation under review may contain exclusions. The acceptance of provided information is typically directed at financial statements without an audit. Other generally accepted exclusions for a BV scope of work may include projections of future income statements and cash flows as accurate, without formal test procedures to confirm reasonableness of the data. The BV reviewer must consider the acceptance of provided information and exclusions to make a determination if they were appropriate and logical.

The reviewer must consider the work that was, or was not, completed, the work that should have been included and was not, and the work that should not have been included in the valuation but was included. The valuer who authored the valuation under review had an obligation to provide a solution to the reason or problem for the valuation, and the reviewer's obligation is to determine if that solution was properly executed.

In critiquing the valuation under review for compliance with the scope of work IVS 2022 Standard 101: *Scope of Work* [23] the reviewer must verify not only whether the terms of engagement are met or not, but also determine if the scope of work was appropriate to the purpose of the valuation under review, and if the report presents information that is *appropriate, acceptable, accurate, logical and complete*.

In performing this review assignment, the reviewer must locate and analyze all of the components that are required for the valuation. If any requirements are omitted or incorrect, the reviewer should address the lapses in the review report. The process for effectively presenting this information is located in two other chapters: *Valuation Review Process and Writing the Valuation Review Report,* the latter of which contains the section Reporting Format: Problem, Standard, Analysis and Correction (PSAC).

At a minimum, a review must measure the content of the valuation under review against IVS 101 and determine if the valuation under review meets the requirements. The valuation under review must:

- Identify the valuer(s) who authored the report
- Identify the client(s) of the review assignment
- Identify other intended users (if any)
- Identify the assets listed in the valuation under review
- State the currency used in the valuation

[23] IVS 2022 Standard 101: *Scope of Work*, page 13-15

- Clearly and accurately state the purpose of the valuation
- Include Basis or bases of value used
- State a Valuation date, including report date if not the same
- Explain all limitations and restrictions
- Provide sources for information
- List significant and/or special assumptions
- Define the type of valuation report
- State restrictions on use, distribution, publication
- Include a statement for IVS compliance, including any departures with explanations
- Verify that any changes in scope of work were documented and communicated to the client

Property Identification in a Business Valuation under Review
Property identification in a business valuation under review often lacks specificity. For example, comments on an equity interest without the specific information to explain the controlling equity holdings, versus small minority holdings, can differ dramatically based on differences in income statement normalization adjustments. In addition to specifying equity interest, a business valuation must also discuss synergies, especially in the context of mergers and acquisitions. In every instance, in order to appropriately determine the valuation's accuracy and acceptability, a business valuation reviewer must consider whether the proper property identification in a valuation under review is complete and accurate.

4

WRITING THE VALUATION REVIEW REPORT

4.1 Introduction

This chapter provides guidance for the process of writing a valuation review report and describes important issues to be considering in the process of writing the review report. **Appendix J** (Examples of PSAC Reporting) and **Appendix K** (Sample Review Reports) are provided to assist the reviewer in the report writing process. At the end of this chapter, the reviewer will appreciate the importance of a well-written comprehensive review report that can be understood by readers and that focuses on the valuation under review instead of the valuer who produced that valuation.

4.2 Objectives

This chapter describes the procedures that should be followed when writing a valuation review report and discusses significant points of concern for the reviewer.

4.3 Summary

At the end of this chapter, the reviewer will appreciate the importance of a well-written comprehensive review report that can be understood by readers and that focuses on the valuation under review instead of the valuer who produced that valuation.

4.4 Writing for Clarity and Understanding

The review of a valuation is generally requested because someone seeks to confirm the validity of a valuation, or seeks assistance with understanding the valuation, or for any other reason seeks to procure an assessment of how the report measures against standards and regulations. In all cases, the reviewer is engaged to provide pertinent information about the valuation under review that either supports the contents or points to problems and corrections for the valuation. This may include explaining what should have been included in the valuation under review, or explaining more information, or more discussion of analyses and methodology. In some cases, the reviewer may be called upon to discuss why certain information or data should have been excluded from the valuation report, or likely included.

4.4.1 Explaining the Valuation Under Review

When writing a valuation review report, it is the reviewer's responsibility to list the critical problems located in the valuation under review and explain how the valuation should be corrected. In addition to listing problems, however, the reviewer must also explain the importance of a standard that is not complied with, the need to include a concept that was omitted, or why a rule should be followed. The client relies upon the reviewer to clearly justify the corrections for the problems he or she locates. When disputes about the appropriateness, acceptability, accuracy, completeness, or the logical argument of a valuation occur, the reviewer is expected to analyze the content and provide the information required to settle the conflict and correct the issue. When review reports are written for multiple intended users, such as court appeals, eminent domain, or litigation services, the reviewer must present the information clearly so that everyone who is an intended user will understand the content.

4.4.2 Uncomplicated Language

As part of writing a well-researched and carefully organized report, the reviewer should be mindful of the users of the report. Any technical or specialized valuation terms used in the review report must be defined or interpreted in a way that is understandable to all users of the report. Similarly, explanations of problems and corrections for a valuation under review should be reported in a manner that assists the client and intended user(s) in understanding the content, without needing to consult a valuation manual or earn a valuation accreditation.

A report that is uncomplicated, written in concise and simple language, will always be both appropriate and easier for the intended user to read and comprehend. Consider the differences in the following examples:

Example 1

Complicated: The valuation appeared to have shown a lack of consistent measurement, by not listing the characteristics, of the damage sustained in the equipment.

Simple: The valuation under review did not contain detailed descriptions of the damaged equipment. The valuation under review should have included characteristics for explaining the damages for each piece of property.

Example 2

Complicated: The valuation should have considered using better comparable evidence for the office building in the report instead of properties even if they were located in areas not considered to be appropriate for the subject property because the valuation's scope of work required the exact same characteristics and none were within the vicinity at the time of the report.

Simple: The scope of work required the use of comparable evidence that were located outside the area considered to be appropriate for the valuation.

By writing a report that is free of complicated wording and extreme language, the reviewer provides a more valuable service to the client. Clients and other intended users of the review report will be able to more completely understand the review and thereby feel more comfortable depending on the contents as trustworthy and reliable. Of course, the review report should be constructed with facts, not opinions, and include adequate information to support those facts.

4.4.3 Important Narrative Considerations

Important points to keep in mind when composing a review report:

- Keep the content focused on the facts.
- Address information, methodologies or analyses required in the valuation that were not included.
- Address information, methodologies or analysis presented incorrectly or inadequately in the valuation.
- Include corrections for the problems located.
- Write simply and clearly so that all intended users understand the information presented.

4.4.4 Avoiding Defamation

An important consideration in writing a review report is the avoidance of language that could be interpreted as attacking or disparaging to a valuer's reputation. The simplest way to avoid this difficulty is to focus on the content of the valuation report, while assigning any problems to the report itself rather than to the valuer. The following examples illustrate the difference in focus:

Example 1

Valuer: The valuer did not provide adequate descriptions of the damaged equipment. The valuer should have taken the time to do a proper inspection and add sufficient description regarding the equipment being valued.

Report: The valuation under review did not contain detailed descriptions of the damaged equipment. The valuation under review should have included characteristics for explaining the damages for each piece of property.

Example 2

Valuer: The valuer used inappropriate comparables for the office building in the report and he failed to include any explanation of rational for adjusting the comparables to the property being valued.

Report: Comparables used in the valuation report were located outside the geographical area considered to be appropriate for the valuation; the valuation provided no explanation for the use of these comparables instead of geographically appropriate ones.

4.5 Organizing the Review Report

The following outline of a typical review report is a suggestion only. The organization of the components can be modified to an order that best suits each assignment and each reviewer. The most important consideration is that the report present information in a reasonable and systematic way to facilitate the client's and intended user's understanding of the analysis, methodology and work performed.

- Title/Cover Page
- Table of Contents
- Engagement Letter with Scope of Work to be Performed
- Terms and Limitations
- Significant Assumptions and Limiting Conditions
- Brief Overview of Standards and Compliance
- Brief Introduction of Review
- Problems/Standards/Analyses/Corrections
    - Each problem listed in the PSAC format, in order of significance
- Summary of Review Conclusions
- Glossary
- Sources
- Appendix: Valuation Under Review

4.5.1 Reporting Format: Problem, Standard, Analysis, Correction (PSAC)

The problems in a valuation that is under review must be properly organized to enable the client to follow the information presented and understand the review report's conclusions. The information must be stated in a cohesive, logical and professional manner that invites the client to agree with the review. The narrative should be appropriate, acceptable, accurate, logical and complete–the same qualities that inform an acceptable valuation. Such a narrative directs the client appropriately and effectively to the conclusions made in the review report.

A particularly effective structure for review reports is the Problem, Standard, Analysis and Correction format (PSAC). Using this format, the reviewer first states the problem, then cites the standard that governs that problem, followed by an analysis of the data and a correction that provides an appropriate conclusion. The *Valuation Review Worksheet,* found in **Appendix I** of this manual, is designed to assist in the determinations and notations for each of the problems identified in a valuation under review.

The *Worksheet* is comprised of 4 components to be determined for each of the problems identified in the valuation under review: Problem, Standard, Analysis and Correction (PSAC). The *Worksheet* is especially effective when used during the initial reading of the valuation under review to record notes and comments for use when composing the review.

The PSAC components should be written for critical problems discovered in the valuation under review. Because the length and brevity of a review report should be considered, the reviewer must often make decisions regarding which information to include in the review report, and which information to exclude. Generally, the most important failings are worth addressing, while secondary problems may be mentioned briefly and minor errors such grammatical or spelling errors might be best ignored or addressed as a grouping of several. Prioritization will be discussed later in this chapter and sample review reports included in this manual may be helpful in illustrating how to discriminate between levels of report failings.

In addition to the responsibility of prioritizing problems within the valuation under review, each reviewer has the option regarding how to report those problems within the PSAC format. It is acceptable to report each individual segment of IVS standards, rules or laws, individually and it is also acceptable to group problems together according to the standards, rules or laws that encompass such problems. For example, if a valuation does not list the individual segments of the Scope of Work standard, a reviewer might either list all of the missing segments along with each corresponding part of IVS 2022 Standard 101: *Scope of Work*. When the reviewer considers, however, that a single section of IVS 101 (Paragraph 20.3) contains 14 parts that may be listed, it may seem prudent to state an overall Scope of Work problem, quoting the entire Scope of Work standard, and then listing the infractions along with the multiple reasons why the information is required in a valuation.

The reviewer may find it helpful to review the PSAC examples provided in **Appendix J**. Other examples are also provided within the sample reports comprising **Appendix K**.

4.5.1.1 The 4 Components of Problem/Standard/Analysis/Correction

This four-step format for documenting valuation data, or lack of data, assists the reviewer with the development of the review and organization of the report. It also assists the reader of the report in following narrative flow and understanding the information provided.

Each problem, or group of problems, will be written in the PSAC format. A review report may have one PSAC writing, or it may have fifteen PSAC writings, dependent upon the valuation under review and the scope of work for the intended purpose of the review.

4.5.1.1.1 Problem: Step 1

The *Problem* reports a discrepancy, noncompliance, or otherwise incorrect portion of the valuation under review. During the initial reading of the valuation under review, the reviewer should list each problem located. It is important to list each problem as it is found in the valuation and not deviate from the content. Meaning, the reviewer must present the problem as it is stated in the valuation and not alter it for any reasons. This alteration can be influenced by the reviewer's understanding of what the valuer "meant to write" or "intended to state", but the reviewer must remember that the valuation was written for a client who undoubtedly does not have the width or breath of the reviewer's valuation experience and understanding. The reviewer, therefore, must take seriously the obligation to measure the actual valuation as it is written against standards and rules, not allowing for any "possibly intended" interpretations, which would not provide the client or trier of fact with reliable information about the valuation. In short, the review must comment on the contents of the valuation, documenting the problem(s) accurately. Documenting the actual problems without interpretation or speculation will produce a review that provides the client with valuable information, regardless of who authored the report or any reference or interpretation for the author of the report.

4.5.1.1.2 Standard: Step 2

When a problem is identified, the standard that governs the problem must be stated and explained in the review. The focus of the review is to measure the valuation against requirements of care and all authoritative sources, such as IVS, or TAQEEM *Code of Ethics and Professional Conduct*, or TAQEEM's manuals for various valuation disciplines or any other regulation or law. The standard with which the valuation is unaligned must be listed and cited for the full education of the client.

4.5.1.1.3 Analysis: Step 3

In Step 3, Analysis, it is the reviewer's responsibility to analyze the information. The reviewer must fully explain why the standard should have been included, complied with, or otherwise noted in the valuation. The analysis must be as thorough as is necessary for the client to fully understand the rule and its importance to a valid and trustworthy valuation. The reviewer should remember that the client relies on the analysis to understand why the missing information should have been included, or the standard should have been complied with, or the appropriate data included, etc. The analysis is the appropriate location in the review to explain why the standard, rule, manual or code should have been followed, and also explain why it is important to the client by briefly validating the reason for compliance.

The analysis provides important understanding to the client and intended users. It is the role of the reviewer to convey the information in a manner that is helpful. Reviewers must remember that if a client was able to review a valuation for himself, he would not require the services of a professional reviewer. Clients rely on the analysis of data, material concerns, requirements by laws, or standards, and the reviewer must take care in producing an explanation in the analysis for each problem located in the valuation.

4.5.1.1.4 Correction: Step 4

The final stage in the PSAC format is the Correction segment. Clients and intended users rely on the corrections that are provided in a review report to assist in understanding not only the failings of the valuation under review, but also what an appropriate and well-grounded valuation should have included. The Correction step is intended to provide a remedy for each problem. When a review is written for litigation, dissolution, etc., the client or trier of fact learns how the problem could be amended and corrected to provide more dependable, credible valuation results. Concurrently, if the author of the valuation under review has access to the review report, he or she can benefit from studying the Correction argument.

Corrections should, therefore, be written in a manner that is understandable, clear and concise. The correction for the problem should contain the path for reconciling the problem in the valuation, and provide any needed information, data, that is missing. If the necessary information cannot be provided for any reason, the review can at least explain what that information might be. It is the reviewer's responsibility to determine how much explanation is needed for a client or possible valuer to understand the correction.

Cost Approach in an M&E Valuation under Review:
The Cost Approach used in many M&E valuations is only a mathematical «trend and bend» exercise without reconciliation to a market value. A valuation using the cost approach must consider all forms of depreciation–physical, functional and economic–and include some reconciliation to a market value. This reconciliation to the market may be in the form of reconciling the Reproduction Cost New to the true Replacement Cost New and reconciling the final value to the market at least on a sample basis. The M&E reviewer must examine the mechanics of the Cost Approach used in the valuation under review to determine if it has been appropriately and accurately reconciled to the market.

4.6 Limiting Conditions & Assumptions

The practice of listing and explaining limiting conditions and assumptions in review reports protects the reviewer and provides an additional layer of integrity to the review process.

4.6.1 Limiting Conditions

When composing a review report, with or without an opinion of value, reviewers should be conscientious of any limiting conditions for the assignment. Conditions that limit the scope of work and thereby affect the review report conclusions must be listed in the report to ensure that the review report is reliable and not misleading. Limiting conditions are sometimes the result of unavoidable situations, while others are imposed upon the reviewer by the client. The reviewer must be aware that the scope of work which dictates the assignment can also dictate limiting conditions.

Limitations that can affect the review report conclusions may include inaccessibility of the property, lack of information, unavoidable reliance on provided information, or inadequate access to the original valuer's workpapers.

A common limitation in the review process involves a reviewer being asked to construct a review report based only upon the data contained in the valuation report under review. This often occurs with reviews that contain an opinion of value, when, for example, the client wants to know if, based on the same information as in the original review, the reviewer would reach the same conclusion. In cases such as these, when a reviewer is restricted to using only data that is present in the valuation report under review, or perhaps restricted to only using data specific to a particular date, those restrictions should be clearly explained in the review report so that the conclusions are understood within the context of those limitations.

Even in situations where the reviewer develops independent research, parameters may be imposed by the client, the scope of work, or other factors external to the reviewer. Unless the assignment has no limiting conditions, it will be useful for the review report's table of contents to include a separate heading for Limiting Conditions for quick access by the client. The Limiting Conditions should clearly state any limitations imposed upon the review process and explain as thoroughly as possible the reasons for those limitations and how they affect or may affect the review. Importantly, valuation reviews should not be carried out with the benefit of hindsight. Otherwise, the valuation review will lose its focus on measuring the valuation content against accepted methodology and required standards.

4.6.2 Assumptions

Assumptions must also be clearly stated and explained. IVS 2022 discusses two classes of assumptions: significant and special. General Standards, Standard 101: *Scope of Work*, Paragraph 20.3 (k) states that "All significant assumptions and special assumptions that are to be made in the conduct and reporting of the valuation assignment must be identified."

Many valuation situations depend upon information which cannot be proven or verified by the reviewer and therefore assumptions are common in most valuation situations and can also arise in valuation review situations. For example, assumptions that should be declared in a valuation report are those made regarding the condition of a fleet of trucks that were in use and therefore not inspected, or assumptions about the validity of market comparables for real estate when the reviewer did not inspect the units personally.

Assumptions in review situations are typically more prevalent when providing a review with an opinion of value. The practice of identifying assumptions that influence data and information safeguards the reviewer and the client. This is especially important in cases wherein assumptions relied upon in a review are later disproved. In most cases, a report that clearly identifies any assumptions that are relied upon during the scope of work, ensures that the client understands which information or data is unverified or unable to be proven.

Assumptions may be listed with Limiting Conditions in a review report, or they may be listed separately according to the preference of the reviewer.

4.7 Significant and Material Decisions

4.7.1 Prioritizing Problems

During the review process, the reviewer must use discernment and experience to distinguish between material and non-material components located in the valuation under review. In determining how to focus the review report, the reviewer must consider the client and intended users of the review. What information do they need to understand first, most, last or not at all? Which problems in the valuation under review are most important to them, regarding their needs in requesting the review?

Intended users and clients rely on the reviewer to determine which components and problems are significant and noteworthy, and which ones are less egregious or can appropriately be considered less important. During the first reading of the valuation under review, reviewers are advised to locate problems and record all such problems discovered in the Valuation Review Worksheet **(Appendix I)**. Notes documented in the *Worksheet* will then assist the reviewer in the process of analysing the standards and rules of non-compliance to rank the problems by importance and credibility.

Initially, it is less important to prioritize the problems in the valuation under review. Instead, the reviewer is advised to be thorough and diligent in recording all problems found or suspected in the valuation under review. This is the ‘gathering of information’ stage of the process. The judgement of materiality against non-materiality will be made after all problems are properly identified. In many cases the experienced reviewer will immediately recognize which problems are critical and which are less so, and notes for that data should be recorded in the *Worksheet*.

Once the initial reading is complete, the reviewer analyses if the findings, problems are explained and structured according to required standards, policies and compliance, with the importance of those standards and the level of incompatibility, the reviewer will lastly determine the importance of each problem. This determination of materiality verses non-materiality will influence how the problem is listed within the review report.

IVS explains how the term *Significant and/or Material* [24] relates to data and judgement:

Assessing significance and materiality require professional judgement…..[which] should be made in the context of aspects of a valuation (including inputs, assumptions, special assumption, and methods and approaches applied) are considered to be significant/material if their application and/or impact on the valuation could reasonably be expected to influence the economic or other decisions of user of the valuation; and judgements about materiality are made in light of the overall valuation engagement and are affected by the size or nature of the subject asset.

Only after the problems are properly identified the reviewer can determine the significance of each problem and their ranking in the panoply of problems. The most serious errors should be ranked highest, while typographical errors, or problems with punctuation would be ranked lowest, if at all. For the convenience and consideration of the client and users of the review report, the reviewer is advised to organize the presentation of problems in the review report beginning with the most serious problems. These problems would include those that affect the values concluded, or exhibit blatant non-compliance with IVS, or indicate any serious lack of expected levels of care, or any other problem of this kind that can quickly and directly address the assignment questions posed by the client.

It is the discretion of the reviewer as to which problem is presented first, second, and so on. The most egregious problem, or the problem that most affects the value conclusion, or compliance, etc. should be reported first. The second ranked problem should be reported as second, and so on throughout the list of problems in the valuation under review, concluding the problems that least affect the credibility of the valuation under review, such as misspellings or grammatical errors, as deemed necessary.

The ranking presentation process must be considered and analyzed very carefully, as to protect the integrity of the review report and the reputation of the reviewer. While it is the discretion of the reviewer to determine the problems that are addressed, or not, in the review report, the scope of the work and the client's needs must be taken into account. When a review report begins with a critique of the valuation's lesser problems instead of immediately discussing the inadequate analysis of comparables, insufficient asset

[24] IVS 2022 Glossary, Paragraph 20.21, page 8

identification, or the lack of a defined value, the reviewer may lose credibility with the client. If a client requires a review determination for monetary outcomes, a litigation or any calculation for a substantial amount of money, he will be displeased with a review report that begins with problems addressing an incorrect address, or possibly a transposed serial number.

In addition to addressing the critical component problems, the reviewer must decide how to approach the less important problems in the report. Problems judged as less detrimental to the valuation under review may be listed individually or perhaps combined into one problem. For example, the review may list all misspellings, typographical errors, etc, as one problem in the review, and that problem would typically be ranked and listed last. Ranking the less egregious problems at the end of all problems identified will communicate to the client that even though the problems were located in the valuation, they were deemed less detrimental than other problems, such as non-compliance, incorrect type of value, inappropriate comparables, etc. that greatly affect value.

The determination of material problems and non-material problems is always an important responsibility of the reviewer. The validity and integrity of the review report, as well as the reviewer, is significant and must be considered when structuring the report. A reviewer who focuses on the purpose of the review and understands the client's needs will inevitably organize the review with clarity and appropriate narrative flow, ensuring that the review report serves its purpose well.

4.7.2 Length of Report

The decision of how to organize the review should take into consideration the possible completed length of a review report, especially for valuations that contain many identified problems. The length of the review must be weighed against the information to be included. A review, so long, that a client or trier of fact does not read all of it, creates an obvious problem in understandability, while a review that is too short to fully explain the identified problems creates the same difficulty. In either case, a client or trier of fact may ultimately dismiss the information provided by the review. The reviewer, therefore, must create a balance of these interests to create a work product that suits the client for the purpose of the review. Again, it is the responsibility of the reviewer to decide how best to prioritize the problems and effectively organize them using the PSAC format, within the review report.

4.8 Summary and Closing

The client or other intended users of a valuation review report will appreciate a concise and thoughtful summary at the conclusion of a review. A summation of the review contents that are presented in the Problem/Standard/Analysis/Correction format discussed previously, serves as an overall conclusion to the review narrative that explains the findings. Restating the final, overall opinion of the entire review will assist the client in understanding the concluded results. The conclusions can be restated, elaborated or condensed according to the choice of the reviewer. It may, for instance, be helpful to provide the reader with a summary that briefly revisits the most critical problems listed within the body of the report. The most important result of a summary is to provide the client and intended users with a solid sense regarding the dependability of the valuation under review.

The Summary and Closing of the review report may also reiterate the areas in which the valuation under review was found lacking in each of the five qualities deemed important for a valid valuation, reminding the client of which sections of the valuation under review failed to be appropriate, acceptable, accurate, logical or complete. Each reviewer may decide how to best highlight the five qualities to conclude the review report.

5

IVS COMPLIANCE IN VALUATION REVIEW

5.1 Introduction

This chapter describes two distinct aspects of IVS compliance in valuation review. The review report itself must be developed and written following IVS standards pertaining to valuation review. The reviewer must also gauge IVS compliance in the Valuation Under Review. At the end of this chapter, the reviewer will understand the IVS compliance issues of both the valuation under review and the completed valuation review report.

5.2 Objectives

This chapter provides guidance regarding the issues relating to IVS compliance in both the development and reporting of a valuation review and discusses significant points of concern for the reviewer.

5.3 Summary

At the end of this chapter, the reviewer will understand the IVS compliance issues of both the valuation under review and the completed valuation review report.

5.4 IVS Compliance: Developing and Writing the Review

As previously noted, IVS has fewer standards for reviewing than it does for valuing. Nevertheless, it is the reviewer's responsibility to develop and write valuation reviews that are in compliance with those IVS review standards and those standards for valuing that are considered applicable as well as this Valuation Review Manual.

Professional reviewers are engaged in assignments to provide opinions about valuation reports. In order to support the public trust in the valuation profession, review reports must present objective and unbiased judgments in supported and credible manners. Because the public relies on reviewers to provide opinions not only on individual valuations, but also on what determines the credibility of valuations in general, the obligation of compliance must be rigorously honoured.

All reviews must be conducted in accordance with all principles set forth in IVS that are appropriate for the purpose and terms dictated by the scope of work, [25] including whether or not an opinion of value is to be included in the review, as determined by the purpose of the review.

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[25] IVS 2022 Standard 101: Scope of Work, Paragraph 10.1, page 13

The reviewer may find it helpful to study the sample review reports located in this manual, for Real Property, Business Valuation, and Machinery & Equipment provided in **Appendix K**.

5.4.1 Accreditation

In compliance with IVS, a reviewer must be a qualified valuer. TAQEEM requires that a qualified valuer must be accredited to practice valuation and that a reviewer must possess higher or equal qualifications and designations as the valuer who produced the valuation under review.

5.4.2 Investigations & Information

Reviewers are required to complete investigations that are also appropriate for the purpose of the valuation review assignment.[26] It is prudent to comply with all IVS rules and requirements when producing a review report.

IVS 2022 Standard 102: *Investigations and Compliance,* Paragraph 20.4[27] provides direction when relying on information supplied by a party other than the valuer or reviewer.

Depending on the scope of work to be performed in an assignment, reviewers may be restricted to only using information that is located in the valuation under review, or perhaps limited to a particular portion of information from the market. In other cases, the scope of work may allow the reviewer full freedom to research data from the market or may be provided with workpaper files from the valuation under review. Determinations regarding which information is available is generally informed by the scope of work and the purpose of the review. However, the parameters of investigation and information may be set, the reviewer must explain those parameters in the scope of work. The review report should also clearly state in which areas the review relies upon information supplied by others. This sets forth an expectation for the credibility of the opinion, based on the reliance of the information provided by others.

5.4.3 Understandable Reports

With all of these considerations and requirements, it is essential that a review report clearly communicate all information necessary for proper understanding of its conclusions. [28] Reviewers must comply with all applicable standards and produce credible and understandable reports that are appropriate, acceptable, accurate, logical and complete. (See **Appendix K** for examples of review reports.)

The final review report presents the results of this measurement and analysis: the opinion determined about the quality of work produced within the valuation under review. This opinion is what a client relies upon for making a decision and judgment about a valuation report, for various purposes. It is, therefore, the responsibility of the reviewer to develop a review focused on the IVS standards and the quality of care expected from a valuation and to provide a report that addresses any critical flaws or weaknesses in the valuation in order to fully satisfy the purpose of the review and resolve any confusion of the review client.

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[26] IVS 2022 Standard 102: *Investigations and Compliance,* Paragraph 20.1, page 16

[27] IVS 2022 Standard 102: *Investigations and Compliance,* Paragraph 20.4, page 16

[28] IVS 2022 Standard 103: *Reporting*, Paragraph 10.1, page 18

5.5 Compliance: Measuring the Valuation Under Review

The *Review Report Development Checklist* **(Appendix H)** lists the IVS standards that are required in RE, BV and ME valuations. The reviewer will find this to be a useful tool in preparing to gauge the compliance of the valuation under review. The Checklists should be used in conjunction with the *Valuation Review Worksheet* **(Appendix I)**, which is another useful tool for recording problems as they are located in the valuation under review. The reviewer is also advised to consult **Appendix G**, which lists common errors found in valuation and review reports.

These tools serve the reviewer in both developing the review report content and creating a compliant report. The *Checklists* direct and focus the attention of the reviewer during the reading, while the *Worksheet* provides an organized record for noncompliant elements and contents as they are uncovered during the review process. Appendix G alerts the reviewer to common errors.

In accordance with IVS standards, the valuation under review must be measured for compliance with all applicable standards, laws, and regulations, as well as analyzed according to the accepted methodology of each valuation discipline. This careful and objective measuring and analysis of the valuation under review is the entire, essential element of the review process.

The following sections briefly discuss some of the areas of concern for a reviewer analyzing the valuation under review. The *comprehensive Review Checklists* **(Appendix H)** contain more details regarding specific questions to guide the reviewer. The observant reviewer will note that a valuation's scope of work is critical in addressing many of the questions that arise regarding IVS General Standards 104 ,103 ,102 ,101 and 105. It is therefore imperative that the reviewer develop a comprehensive understanding of the valuation's scope of work in order to develop and provide a useful review.

5.5.1 IVS Standard101: Scope of Work

Scope of work for the valuation under review includes a variety of elements, each of which must be examined and weighed according to IVS 2022 Standard 101: *Scope of Work.*

Perhaps the first consideration is whether or not the scope of work is appropriate for the purpose of valuation. This opens the questions of how clearly the intended purpose is explained as well as how thoroughly the scope of work performed is discussed, including any changes to the scope of work made during the valuation. The narrative regarding work performed should address the nature and extent of the valuation, including any limitations or restrictions on the inspection; research, methodology and analysis; the nature and sources of information stated as well as the extent upon which the valuer relied upon that information. Any significant assumptions and/or special assumptions should also be identified.

Other important information to be included in the valuation under review would be identification of various kinds: the identity of the valuer, the client, any other intended users, the date of the report and the effective date of the conclusion of value. A critical identification is of the assets being valued. The reviewer must ensure that the report includes sufficient and appropriate detail to correctly identify the assets being valued. The level of description will vary depending on the type of valuation: business, real estate, or machinery and equipment, as each discipline has its own expectations of subject asset identification.

This survey of scope of work elements is not exhaustive. Please refer to the Review Checklist (**Appendix H**) for a more comprehensive guide to IVS 2022 Standard 101: *Scope of Work*.

5.5.2 IVS Standard 102: Investigations and Compliance

When reviewing for compliance, the overarching consideration is whether or not the valuation under review is presented in accordance with all principles of IVS that are appropriate for the purpose and terms stated in the scope of work, as discussed in the previous section. Several of the items listed in IVS Standard 102: Business and Business Interests directly reference scope of work issues such as the following:

- Is there sufficient evidence to properly support the valuation methodology, analysis, and conclusion?
- Is the information supplied to the valuer, and relied upon by the valuer, credible or reliable?
- If the valuer's investigations were limited by the client, do those limitations affect the compliance of the valuation under review with IVS?

The review must also note whether or not the report indicates when standards other than IVS were followed; in particular, the report should clearly stipulate any instance in which these other standards depart from those of IVS.

5.5.3 Specific Discipline Standards

It is important when reviewing any valuation to consider the specific discipline standards set forth in IVS. In reviewing a business asset, the valuer must consider whether the valuation under review complies with IVS 2022 Standards 200: *Business and Business Interests*, Standard 210: *Intangible Assets* and 220: Non-Financial Liabilities. In the same way, M&E valuations should comply with IVS Standard 300: Plant and Equipment and real estate asset valuation reports should comply with IVS Standard 400: *Real Property Interests* and Standard 410: *Development Property.*

5.5.4 IVS Standard 103: Reporting

IVS 2022 Standard 103: *Reporting* focuses primarily on how the report discloses and discusses the valuation's scope of work. In this area, the reviewer assesses how clearly and accurately the report communicates the scope of the assignment to the client and any other intended users. At a minimum, the report must convey the scope of work performed, explain the approaches to value and discuss the approach(s) used, disclose any key inputs used or assumptions made in the valuation, and provide a conclusion of value. The report must also be dated and the effective date for the conclusion of value should also be clearly noted.

5.5.5 IVS Standard 104: Bases of Value

Compliance with this mandatory standard 104 requires a valuer to select the appropriate basis (or bases) of value and follow all applicable requirements associated with that basis of value, whether those requirements are included as part of this standard (for IVS-defined bases of value) or not (for non-IVS-defined bases of value).

No conclusion of value is valid unless determined using the appropriate basis of value. IVS 2022 Standard 104: Bases of Value addresses this from two directions. First, with direction from the valuation scope of work, the reviewer must ascertain that the valuation under review is using the relevant basis of value according to the terms and purpose of the assignment. The next step examines bases of value in relationship to the subject assets. In the context of a hypothetical exchange, the report must state an assumption or assumptions to clarify the state of the asset(s).

5.5.6 IVS Standard 105: Valuation Approaches and Methods

The critical question of IVS 2022 *Valuation Approaches and Methods* (Standard 105) references again the reviewer's assessment of the *scope of work* (Standard 101) as well as issues regarding *Reporting* (Standard 103), focusing attention on one essential area of valuation, the approach to value. Does the report give adequate consideration to the relevant and appropriate valuation approaches? In answering this question, the reviewer may find it necessary to provide narrative supporting a difference of opinion regarding which valuation approach is best suited to the purpose of the valuation under review.

5.6 Conclusion

Compliance is an important issue in review, encompassing both the reviewer's responsibility to assess the compliance of a valuation under review and the reviewer's obligation to present those findings in a report that is itself compliant. This manual, along with the tools provided in the appendices, is an attempt to provide the reviewer with guidance in measuring and in producing compliant reports, whether those reports are valuations or valuation reviews. At its best, the review process is an integrated and complementary process: reviewing in a manner that meets all the appropriate standards for which the valuation under review is being reviewed.

6

APPENDIX


France
Australia
Newzealand
Africa
China
Japan
America
16%
13%

ASSIGNMENT LOG SAMPLE

CURRENT	PREVIOUS							
FILE #	FILE #	CLIENT	OWNER	TYPE	STREET NAME	SUBDIVISION/ DISTRICT	CITY	PURPOSE
1001		ABC Co.	Fulan bin Fulan	Factory	Manazel street	Anhaar District	Riyadh	Insurance Val.
1002		1 Refinery	Abu nawas	Refinery	Juhaa street	Qasas SD	Buraidah	IFRS 3 PPA
1003		KSA man. Co.	Samsoum	Engineering	Afraah street	Harakat District	Jeddah	Loan Security

				AMOUNT	AMOUNT	DATE	COMMENT	REFERRAL
FEE	DATE IN	DATE OUT	VALUE	DUE	PAID	PAID		
SAR 1,500	25/10/2018	04/11/2018	SAR 2,000,000	SAR 0	SAR 1,500	07/11/2018		
SAR 1,000	27/10/2018	02/11/2018	SAR 550,000	SAR 0	SAR 1,000	03/11/2018		Attorney Shaatur
SAR 1,500	05/11/2018			SAR 750				

INTERVIEW OF CLIENT

Initial interview by: _______________ Date of interview: _______

(Name of Office personnel conducting interview)

Name of interviewee: _______________ Referred by: _______

Client name: _______________

Mailing address for client ordering report: _______________

Phone: _______________ Fax: _______________

Email Address: _______________

Other intended users: _______________

Type of Asset valued in valuation under review

☐ Buildings and Improvements ☐ Land ☐ Fixtures and Fittings

☐ IT and Office Equipment ☐ Plant and machinery

☐ Other: _______________

Brief physical description:

____

____

____

____

Subject address: _______________

Type of Opinion

☐ Review ☐ Review with value opinion

Purpose of Review: _______________

Purpose of Review: _______________

Have we valued the asset before: ☐ Y ☐ N Date of our valuation:

Items Available for Valuer

Work file papers ☐ Y ☐ N Source: _ _ _ _ _ _ _

Legal Description/ Title ☐ Y ☐ N Source: _ _ _ _ _ _ _

Floor Plan/Blue Print ☐ Y ☐ N Specifications ☐ Y ☐ N

Old Valuation Report ☐ Y ☐ N

Fixed Asset Register ☐ Y ☐ N

Insurance Policy ☐ Y ☐ N

Client's CR[29] certificate ☐ Y ☐ N

Client's BOD[30] list ☐ Y ☐ N

Client's Management team ☐ Y ☐ N

Intended user's CR certificate ☐ Y ☐ N

Intended user's BOD list ☐ Y ☐ N

Intended user's Management ☐ Y ☐ N

Details needed to carry out checks for valuer independence/ conflict of interest as per the Saudi Accredited Valuers' Law, as well as verifications under Saudi Anti-Money Laundering Law

Type of Valuation Report: (check one)

☐ Narrative ☐ Form ☐ Summary

No. of copies required: _ _ _ _ _ _ _ _ _ _ _

(if report is not to be emailed)

Delivery of Report: _ _ _ _ _ _ _ _ _ _ _

Express Mail: _ _ _ _ _ _ _ _ _ _ _ _ _ _ Email to: _ _ _ _ _ _ _ _ _ _ _

Pick up by: _ _ _ _ _ _ _ _ _ _ _ _ _ _ _

Courier using: _ _ _ _ _ _ _ _ _ _ _ _ _ _ Acct #: _ _ _ _ _ _ _ _ _ _ _

Fee Quoted for Valuation: _ _ _ _ _ _ _ _ _ _ _

[29] Certificate of Registration

[30] Board of Directors

Method of payment for Review

1. COD Cash on Delivery ☐ Name of person responsible for payment:
2. Check will be mailed prior to inspection?
3. Invoice person ordering report? ☐ Approved by Management ☐ Y ☐ N

If overnight is required please include your account # and preferred company

Shipping Company: _ _ _ _ _ ACCOUNT # _ _ _ _ _ _

Special instructions

Client ordered report ☐ Y ☐ N Date of order

Order followed up with a letter and contract: ☐ Y ☐ N

[31] Board of Directors

Appendix C

RISK ASSESSMENT MATRIX

	Medium	Medium	High	High	Extreme
	Medium	Medium	Medium	High	High
	Low	Medium	Medium	Medium	High
	Low	Low	Medium	Medium	Medium
	Negligible	Low	Low	Medium	Medium
Likelihood	1	2	3	4	5
Probability of occurrence within X years	Unlikely to occur or occur with negligible frequency	Unlikely to occur or occur with low frequency	Could occur or occur with moderate	Likely to occur or occur with high frequency	Highly likely to occur or occur with a very high
	0-20%	20-40%	40-60%	60-80%	80-100%

RISK MANA GEMENT TOOLKIT
Assignment Name: Delta
CONTROLS LIST

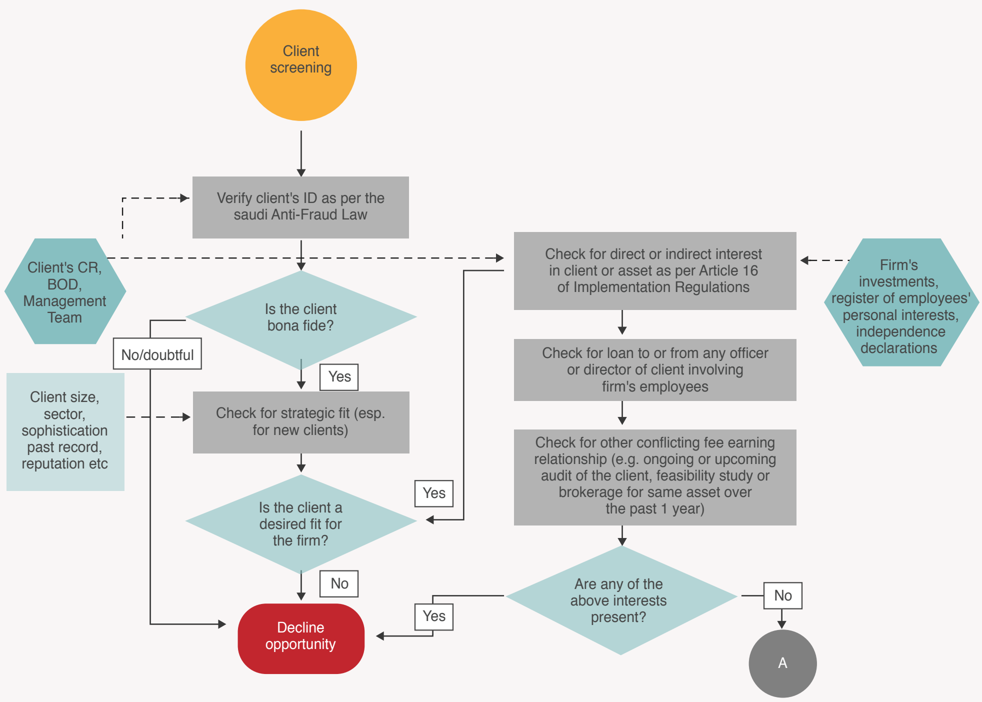
RISK CONTROL ASSIGNMENT
Risk
Select Risk Level

Control
Standard terms and conditions
Client notification and consent
Disclosure of potential sources of conflict
Vetting team members
Chines walls/ info barriers between service lines
Chines walls/ info barriers between project teams
Internal Peer reviews
Hot reviews
Periodic (cold) rewiews
Valuer rotation
NDA letter
Access letter
Reliance letters
Training

	Legal/Regulatory	Reputation	Financial	Operational
Impact	Breach that could lead to disciplinary action, fines, or revocation of license	Damage to the image of the firm or valuer	Financial loss for the firm (% of average revenues p.a.)	Loss/ reduction in business, increased management effort
5	Suspension or Expulsion	Major, long-lastin, national damage	>10%	Significant loss and significant management effort
4	Reprimand or Censure	Significant, national reputational damage	1.0 - 10%	Frequent major loss, majort management effort
3	Admonishment	Moderate, national impact	0.1 - 1.0%	Occasional major loss, moderate management effort
2	Significant breach of internal policy only	Moderate, regional impact	0.01 - 0.1%	Frequent minor loss, minimal management time
1	Breach of internal policy only	Local and short-lived impact	<0.01%	Occasional minor loss and management time

Default	Fraud	Scope Creep	Leakage	Self-interest	Self-review	Client-conflict	Advocacy	Familiarity	Intimidation	Negligence	Confidentiality
	1	1	1	1	1	3	3	5	4	1	2
✓											
							✓				
✓								✓	✓		
✓											
								✓	✓		
✓											
								✓	✓		
✓											

INDEPENDENCE AND CONFLICT CHECK FLOW CHART



SAMPLE FEE ESTIMATION

Project Name

Valuation review estmated budget

01 / 01 / 20xx			SAR				Hours			SAR	SAR
Name	**Rank**	**Chargeout rate**	**Cost rate**	**Hours**	**Information gathering**	**Review/ shadow valuation**	**Liaison with teams**	**Report preparation**	**Report Review**	**Standard engagement revenue by grade**	**cost by grade**
TEAM MEMBERS											
	Partner			2		1.0			1.0	-	-
	Executive Diector			-						-	-
	Director			1		1.0				-	-
	Associate Director			2		2.0				-	-
	Manager			22	1.5		4.0	14.0	3.0	-	-
	Senior / Executive			-						-	-
	Assistant Executive			-						-	-
	Analyst Level 3			-						-	-
	Analyst Level 2			-						-	-
	Analyst Level 1			42	2.0	30.0				-	-
Total				69	3	34	4	14	14	-	-
Standard engagement revenue by task (SAR)					-	-	-	-	-	-	
Cost by task (SAR)					-	-	-	-	-	-	

	Total hours	**69**
	SAR	
Fees	-	
Total cost	-	
Profitability (Margin)		
Oartner involvement		
Realisation		
Total revenue	-	

SAMPLE PROPOSAL TEMPLATE

F.1 Submission Letter

In preparing the initial submission letter for a review assignment, the reviewer should:

- Submit on firm›s official letterhead complete with address and commercial registration number
- Address to the Client (to the attention of the contact person or the recipient stipulated in the RFP)
- May contain unique reference number of the subject proposal
- Acknowledge and reference the Client›s RFP or email/call/meeting by subject, date and ref number where available
- Highlight the firm's preparedness and competitive edge to address the Client›s requirements as explained in the ensuing proposal
- State whether the technical and financial proposals are provided as one document or separately
- Affirm the firm›s willingness to engage with the Client on the latter›s business terms as may be contained In the RFP, the firm's terms as provided in the proposal, or suggest negotiation of some of either party›s terms
- State the name, title and contact of the consultant who would provide clarification/follow up with Client feedback about the proposal
- Signature, name and title of the person who would typically be also the one signing off the engagement once the firm is appointed, such as the firm›s CEO, managing partner or service line leader

F.2 Table of Contents

It may be appropriate to include a table of contents in a submission for a review assignment. More importantly, each of these sections should be included.

Section	Page Number	Suggested Length
Technical Proposal		
Executive Summary'	4	2-1 pages
Firm Profile/Credentials	5	5-1 pages
Defining the Problem	6	2-1 pages
Approach and Methodology	7	3-2 pages
Project Team	8	2-1 pages
Project Calendar/Timeline	9	2-1 pages
Financial Proposal	11	2-1 pages
Appendices	12	4-2 pages
Disclaimer	13	2-1 pages

F.3 Executive Summar

The Executive Summary provides an overview of the proposal and should be the last section to be drafted. The summary should discuss the following subjects:

- Project background, including a brief description of the subject, the purpose of review, statement of client and any other intended users
- The purpose of the proposal
- A summary of valuer›s proposed approach including outline of the scope, methodology and project duration
- Brief profile of the firm, designated team, experience (with particular reference to similar engagements), quality standards and USPs
- Explain the organization of the proposal

F.4. Firm Profile

The Client should be provided with at least a brief account of the firm's standing.

- State ownership of the firm in terms of company, partnership, proprietorship
- Describe firm›s major business activities and state its locations
- Provide a brief history of the firm, past relevant accomplishments and major clients (subject to any confidentiality restrictions)
- Identify the firm›s professional affiliations, values, ethical standards, quality program, industry awards and thought leadership
- Provide case studies or brief descriptions of relevant projectexperience (without compromising clients confidentiality)
- Provide Client references (subject to consent from referees)

F.5. Defining the Problem

State the reviewer›s understanding of the Client›s problem by identifying the

- Client
- Intended user(s)
- Asset and interest to be valued
- Purpose of valuation
- Basis of value
- Valuation date and currency
- Significant assumptions

F.6 Approach and Methodology

The proposal should discuss (or at minimum, state) the following:

- Valuation review methods to be applied
- Standards to be complied with by both the valuation under review and the completed review
- Whether or not an opinion of value will be included
- Type and number of reports to be delivered
- Indicate the Client›s role, if any, in facilitating the above scope of work including when and what information would be required from the client

F.7 Project Team

For the Client's convenience, outline those who will be working on the assignment.

- State and profile the valuer(s), reviewer(s) and analyst(s) proposed for the assignment in terms of their role in the firm and in the assignment, designations, qualifications and experience
- Provide the team structure including a highlight of those team members responsible for Client contact, report review and sign-off
- Provide contacts of key team members for follow up of proposal and those expected to drive the project

F.8 Project Calendar/Timeline

As clearly as possible, provide the Client with an understanding of the assignment's possible completion schedule.

- Outline the time expected (in days, weeks or months) to complete the various aspects of the scope of work (milestones) and to submit both the draft and final reports (including planned meetings and reviews)
- Provide any caveats (e.g., exclusions of public holidays, Client delays in availing documents or comments, unforeseen events etc)
- Depending on the complexity of the assignment (such as one involving a portfolio with diversified assets, plant and equipment, multiple work streams etc) it may be prudent, if not necessary, to propose a detailed project management and governance process and plan

F.9 Financial Proposal

Depending on the provisions of the RFP outline the proposed:

- Professional fees:
    - o As a total lumpsum/flat fee (most common)
    - o On a uniform hourly rate basis
    - o On a variable hourly rate based on the seniority of team members or pegged to specific tasks

- ‹Out-of-pocket› expenses to be billed at cost to Client but capped to a certain amount to cover travel, accommodation, courier, translation, etc.
- Payment schedule and terms
- Provisions for:
    - o Out-of-scope services
    - o Assignment cancellation, expense reimbursement and prorating of fees

F.10 Appendices

Appendices should provide important documents referenced in the proposal, such as lists of tables and detailed information, exhibits (e.g. CRE, P II certificate, Zakat certificate), firm›s standard terms and conditions of business, etc.

F.11 Disclaimer

As appropriate for each assignment, be sure to indicate:

- A list of exceptions, or what the proposal does not include, especially with reference to the RFP, and reasons for such exclusions
- Proposal›s validity period
- Proposal access restrictions
- Copyright restrictions
- Limitations on accuracy, completeness or correctness of any private or public information used in the proposal

COMMON ERRORS IN VALUATION AND REVIEW REPORTS

A number of common errors occur regularly in both valuation reports and review reports. Often, basic awareness of these common mistakes helps both the valuers and the reviewers avoid such errors, leading to a better quality of report writing in the valuation profession as a whole.

One of the most common errors in review involves focusing on the valuer and not the valuation; a report reflecting this difficulty can include inappropriate personal opinions regarding the valuer or even attacks on the valuer. Another less obvious error, which inevitably leads to an incomplete and inadequate review, is a lack of attention by the reviewer to the scope of work reported in the valuation under review. An often subtle lapse in valuation review standards is a lack of competence by the reviewer that is not supported, as is appropriate, with guidance from a more experienced reviewer. As stated earlier in this manual, an accredited valuer should be of higher or equal qualifications and designation in order to opine on the work products of other professional valuers.

The following lists of Common Errors, in conjunction with the information and direction provided in this manual, should help valuers and reviewers attain a higher level of professionalism in their valuation and review developing and report writing. The list of specific common errors found in valuations of different disciplines can help guide a reviewer in both developing and reporting the review of a valuation. The concluding list of common errors found in review reports can serve to alert the reviewer in preparing his or her own work.

G.1 Common Errors in Valuations of All Disciplines

Many of the errors common to all valuations–such as insufficient explanation of scope of work or lack of an engagement letter–must also be considered when reviewing valuations for specific disciplines and have therefore been included in the specific discipline errors as well as being listed below.

- Lack of technical competence for performing the valuation
- Lack of engagement letter to confirm assignment specifics for the valuation assignment
- Problems with Scope of Work
    - o Failure to confirm the scope of work to be performed with the client
    - o Inappropriate scope of work for the purpose of the valuation
    - o Inadequate explanation of the scope of work

- Not writing in compliance with required standards
- Submit on firm›s official letterhead complete with address and commercial registration number
- Address to the Client (to the attention of the contact person or the recipient stipulated in the RFP)
- May contain unique reference number of the subject proposal
- Acknowledge and reference the Client›s RFP or email/call/meeting by subject, date and ref number where available
- Highlight the firm's preparedness and competitive edge to address the Client›s requirements as explained in the ensuing proposal
- State whether the technical and financial proposals are provided as one document or separately
- Affirm the firm›s willingness to engage with the Client on the latter›s business terms as may be contained In the RFP, the firm's terms as provided in the proposal, or suggest negotiation of some of either party›s terms
- State the name, title and contact of the consultant who would provide clarification/follow up with Client feedback about the proposal
- Signature, name and title of the person who would typically be also the one signing off the engagement once the firm is appointed, such as the firm›s CEO, managing partner or service line leader

G.1.2 Common Errors in Real Estate Valuation

- Inadequate or lacking identification of Valuer, status, Client, and Intended Users.
- Inadequate or lacking identification of purpose of valuation, basis of value and its definition.
- Scope of Work and Problem Identification not addressed sufficiently
- Reporting Scope of Work
- Significant Assumptions/Special Assumptions not identified
- Limiting Conditions not identified
- Comparables and adjustments not properly supported
- As-Is value not identified when Prospective Values required
- Analysis of the Subject Property History not discussed
- Highest and Best Use not thoroughly research and reported
- Excess Land and Surplus Land not discussed, if applicable
- No discussion of exposure and marketing time
- Failure to use or apply appropriate valuation approach(es) and methods

- Failure to support valuation inputs for the used approach(es) and methods such as cap or discount rates when using income approach or omission of functional and economical obsolescence when using cost approach.
- Failure to separate tangible items and real estate
- Failure to recognize intangible and business value from real estate
- Including irrelevant data in the report or leaving out relevant information
- Reconciliation and conclusion not supported
- Report not written in compliance with required standards

G.1.3 Common Errors in Business Valuation

- Lack of technical competence for performing business valuations
- Omission of confirmation with client of the scope of work to be performed
- Engagement letter does not confirm assignment specifics for the valuation assignment
- Inappropriate scope of work for the purpose of the valuation
- Neglect of valuation uncertainty and potential width of a reasonable range of value
- Report not written in compliance with required standards
- Insufficient facts or source documents disclosed
- Failure to provide evidence for the derivation of the discount rate
- Unconfirmed/inappropriate market data selections
- Scope of work limitations not discussed in report
- Limiting conditions and significant assumptions not stated in the report
- Use of inappropriate search criteria for market comparables—public companies or transactions
- Lack of confirming or rejecting criteria for market comparables
- Inappropriate or inconclusive analysis/analyses
- Failure to clearly state a marketing period for asset(s)

G.1.4 Common Errors in Machinery & Equipment Valuation

- Lack of proper identification for the valuation problem to be solved
- Omission of required dates with clear explanations
- Vague scope of work
- Valuer bias
- Poor or incomplete asset descriptions
- Incorrect basis of value and definitions when providing an opinion of value
- Omission of significant assumptions where appropriate
- Incorrect market comparables for purpose

- Lack of support or explanation for adjustments made to market comparables
- Installation costs not considered or not depreciated properly
- Blind use of cost approach; no reconciliation to the market
- Using historical cost as an original cost
- Utilizing the incorrect index
- Reproduction Cost New not reconciled to the market
- Incorrect life, condition and use patterns
- Functional obsolescence not considered
- Economical obsolescence not considered
- Information used inappropriately; including information that does not relate or pertain to the valuation

G.2 Common Errors for General Valuation Review Reports

- Lack of technical competence and education to perform a review
- Omission of the scope of work to be performed for the review
- Lack of engagement letter to confirm assignment specifics for the review
- Inappropriate scope of work for the purpose of the review
- Materiality verses immateriality—including and opining on minor problems and overlooking major problems; too much focus on unimportant details
- Inappropriate or inconclusive analysis/analyses of the valuation under review
- Biases regarding methodology, analysis, the valuation, or the valuer; biases may be either positive or negative
- Omission of analyses to conclude opinions
- Incorrect basis of value and definitions when providing an opinion of value

REVIEW REPORT DEVELOPMENT CHECKLIST

This appendix presents three review report development checklists. These checklists for Real Estate, Business Valuation and Machinery & Equipment are provided to reviewers as a measurement tool for determining valuation components and IVS compliance of both a valuation under review (VUR) and also the review report for the specified valuation specialties.

These TAQEEM Checklists are designed to assist the reviewer in composing the review report, as well as proofreading the review report prior to delivery to the client. Reviewers are urged to use the appropriate checklist during the initial reading of the valuation under review, during the review report development, and while composing the review report. The VUR contents and standards should be measured as “compliant” or “noncompliant”, while “does not apply” may be appropriate for some content.

Each checklist is based upon the guidelines stipulated in the International Valuation Standards and reviewers are encouraged to use the appropriate checklist, as provided, to confirm IVS compliance and non-compliance of any valuation under review.

H.1 Real Estate Review Report Development Checklist

TAQEEM Review Report Development Checklist
International Valuation Standards -- Compliance & Discipline Reference
R E A L   E S T A T E

This checklist serves as a measurement tool for determining valuation components and IVS compliance of both a valuation under review (VUR) and also the review report for Real Estate. Reviewers may use this checklist to confirm IVS compliance and non-compliance. This TAQEEM Checklist assists the reviewer and may be referenced when composing the review report, as well as proofreading the review report prior to delivery to the client. This checklist may be used during the initial reading of the valuation under review, during the review report development, and while composing the review report. The VUR contents and standards should be measured as “compliant” or “noncompliant”, while “does not apply” may be appropriate for some content. This checklist is based upon the guidelines stipulated in the International Valuation Standards and may be used in a manner that takes in consideration the overall context of the IVS framework for the reviewer to determine what is appropriate for each assignment.

CLIENT

Client(s) / Intended User(s): ______________________

Date of Review: ______________________

Purpose of Review: ______________________

Does the review include an Opinion of Value? (Yes or No): ____________

VALUATION under REVIEW (VuR)

Author of the VuR: ______________________

Purpose of the Valuation (VuR): ______________________

Interest to be values: ______________________

Date(s) of Inspection (if applicable): ______________________

Valuation Date (for VuR): ______________________

Report Date (for VuR): ______________________

Asset Identification (type of asset): ______________________

Asset Location: ______________________

TAQEEM Report Review - Quality Assurance Checklist (IVS Compliance) - Real Estate

Measurement for VALUATION UNDER REVIEW	Page No. in VUR	compliant	non-compliant	notes	Not Applicable (N/A)
IVS Standard: 101 Scope of Work *General Requirements*					
Valuation advice and work undertaken appropriate for the intended purpose - 20.1					
Ensure that the intended recipient(s) of the valuation understand(s) what is to be provided AND any limitations on its use are clearly stated - 20.2					
Factors that need to be addressed to ensure objectivity - 20.3:					
Identity of the valuer listed - individual, group, or firm (and if material assistance sought from others (a)					
Identity of the client(s), if any (b)					
Identity of other intended users, if any (c)					
Asset(s) being valued - should be clearly identified (d)					
Valuation currency should be stated (e)					
Purpose of the valuation - should be clearly identified (f)					
Basis/bases of value used in the valuation appropriate for the purpose (g)					
Source of basis/bases of value cited/explained (g)					
Valuation date stated (h)					
Nature and extent of valuer's work; limitations or restrictions on the inspection, enquiry and/or analysis identified (i)					

Measurement for **VALUATION UNDER REVIEW**	**Page No. in VUR**	**compliant**	**non-compliant**	**notes**	**Not Applicable (N/A)**
Nature and sources of information stated, upon which the valuer relied, and the extent (j)					
Significant assumptions and/or special assumptions identified (k)					
Type of report prepared; communication format must be described (l)					
Restrictions on use, distribution, and publication of the report stated (m)					
Statement of compliance with IVS, and any departures clearly explained (n)					
Scope of Work established, agreed and explained (written and included) - 20.4 ,20.5 ,20.6					
Changes to the Scope of Work explained, if any (changes should be agreed in writing with the client) - 30.1 ,30.2					
IVS Standard 102: Investigations and Compliance					
VUR conducted in accordance with all of the principles of IVS that are appropriate for the purpose and the terms and conditions stated in the Scope of Work - 10.1					
Sufficient evidence to properly support valuation - 20.2					
Limits agreed upon as to the extent of valuer›s investigations; stated in scope of work - 20.3					
Reliance on information supplied by others; credible or reliable? - 20.4					
Compliance with other standards - 40.1 ,40.2					
«Departure» stated when following other standards - 40.1					

Measurement for VALUATION UNDER REVIEW	Page No. in VUR	compliant	non-compliant	notes	Not Applicable (N/A)
IVS Standard 103: Reporting (in VUR)					
Clear and accurate description of the scope of the assignment - 10.2					
Purpose stated - 10.2					
Intended Use (including limitations) - 10.2					
Assumptions/special assumptions stated - 10.2					
VUR sufficiently communicates (to the intended users) the scope of the valuation assignment, work performed, and conclusions reached - 20.2					
Conveys scope of work performed - 30.1 (a)					
States the intended use - 30.1 (b)					
States approach or approaches adopted - 30.1 (c)					
States the method or methods applied - 30.1 (d)					
States key inputs used - 30.1 (e)					
States assumptions made - 30.1 (f)					
States conclusions of value and principal reasons for any conclusions reached - 30.1 (g)					
States date of report (may differ from valuation date) - 30.1 (h)					
States name of the valuer(s)					
Report is signed by the valuer(s)					
States valuer(s) TAQEEM registration / license number					
States name of firm; and firm›s TAQEEM registration / license number					

Measurement for **VALUATION UNDER REVIEW**	**Page No. in VUR**	**compliant**	**non-compliant**	**notes**	**Not Applicable (N/A)**
IVS Standard 104: Bases of Value					
IVS-Defined Bases of Value 20.1 (a) as applicable: ______Market Value (section 30) ______Market Rent (section 40) ______Equitable Value (section 50) ______Investment Value/Worth (section 60) ______Synergistic Value (section 70) ______Liquidation Value (section 80)					
(Notes for IVS-defined Bases of Value)					
20.1 (b) Other Bases of Value (non-exhaustive list): ______Fair Value (International Financial Reporting Standards, section 90) ______Fair Market Value (Organization for Economic Co-operation and Development, section 100) ______Fair Market Value (US Internal Revenue Service, section 110) ______Fair Value (Legal/Statutory, section 120) ______Other Bases (kindly speci fy)______________________					
(Notes for Other Bases of Value)					
Relevant basis (or bases) of value chosen according to the terms and purpose of the valuation assignment 20.2					

Measurement for **VALUATION UNDER REVIEW**	**Page No. in VUR**	**compliant**	**non-compliant**	**notes**	**Not Applicable (N/A)**
Premise of Value/Assumed Use of the asset - 130.1 (a) highest and best use (section 140) (b) current use/existing use (section 150) (c) orderly liquidation (section 160) (d) forced sale (section 170) (-) other premise of value (kindly specify)					
Entity-Specific Factors 180 (180.1-3)					
Synergies Considered 190 (190.1-3)					
Stated assumption(s) and special assumption(s) to clarify the state of the asset in a hypothetical exchange 200 (200.1-5)					
Transactions Costs Considered 210.1					
IVS Standard 105: Valuation Approaches and Methods					
1. Consideration for relevant and appropriate valuation approaches (IVS 90-10 ,105; and IVS -30 ,400 70) (a) market approach (Described and Explained) (b) income approach (Described and Explained) (c) cost approach (Described and Explained) 2. Critical – Explanation 3. Significant – Are the approaches used appropriate for the type of property and for the stated purpose of the report?					
If Market Approach is used, the report should include: (a) Detailed comparable data (b) A location map showing each of the comparable sales in relation to the subject					

Measurement for VALUATION UNDER REVIEW	Page No. in VUR	compliant	non-compliant	notes	Not Applicable (N/A)
(c) Original photographs (not Multiple listing Service photos) of each sale cited in the report (d) An adjustment grid summarizing the data provided in the narrative (e) Development of paired sales analyses to support at least two or three adjustments. Any/ all adjustments should be fully discussed, and market supported					
If Income Approach is used, the report should include: (a) Detailed market support (comparable rentals) for the estimated monthly market rent for the subject property approach (b) Detailed comparable data (c) A location map showing each of the comparable rental properties in relation to the subject (d) Original photographs (not MLS photos) of each comparable rental (e) Development of adjustments (supported by pairing comparable properties) to substantiate differences between the comparable rental properties and the subject. An adjustment grid (f) Reconciled market rent indicators to reflect a market rent for the subject (g) Gross Monthly Rent Multiplier: Develop and provide detailed market support (g) Gross Monthly Rent Multiplier: Develop and provide detailed market support (h) Summary and Reconciliation to an indicated value by this approachh					

Measurement for **VALUATION UNDER REVIEW**	**Page No. in VUR**	**compliant**	**non-compliant**	**notes**	**Not Applicable (N/A)**
If the Cost Approach is used, the report should include: (a) Support for the site value estimate using a sales comparison approach (b) Detailed comparable data (c) A location map showing each of the comparable sales in relation to the subject as well as photographs of each sale (d) An adjustment grid (e) The use of a recognized cost estimating service or detailed builder costs to fully develop the Cost Approach. Source material must be clearly identified (f) Full discussion of physical, functional and external depreciation. Development of support for any/all depreciation factors applicable to the subject property. The report must demonstrate support for the appraiser's estimate of depreciation and effective age. (g) A value indication by the Cost Approach					
If more than one Approach is used, the report should include Weighting (IVS glossary, paragraph 20.18 and 20.19).					
Asset Standards **IVS Standard 400: Real Property Interests**					
Identification of ownership of title (reference Introduction 20)					
If intangible assets are associated with, and have a material impact on, the value of real property assets, the VUR should also follow IVS 210 Intangible Assets 20.3					
Description of the real property interest to be valued 20.5 (a)					
Identification of any superior or subordinate interests that affect the interest to be valued 20.5 (b)					
If intangible assets are associated with, and have a material impact on, the value of real property assets, the VUR should also follow IVS 210 Intangible Assets 20.3					

Measurement for **VALUATION UNDER REVIEW**	**Page No. in VUR**	**compliant**	**non-compliant**	**notes**	**Not Applicable (N/A)**
Description of the real property interest to be valued 20.5 (a)					
Identification of any superior or subordinate interests that affect the interest to be valued 20.5 (b)					
Identification of the nature of the rights accruing to the holder of that interest; describe constraints or encumbrances imposed by the other interests 90.3					
IVS Standard 410: Development Property					
All applicable standards in IVS 410 should be addressed, considered, defined and identified appropriately: Bases of Value (Section 30) Valuation Approaches and Methods (Section 40) Market Approach (Section 50) Income Approach (Section 60) Cost Approach (Section 70) Special Considerations (Section 80) Residual Method (Section 90) Value of Completed Property Construction Costs Consultants' Fees Marketing Costs Timetable Finance Costs Development Profit Discount Rate Existing Asset (Section 100)Special Considerations for Financial Reporting (Section 110) Special Considerations for Secured Lending (Section 120)					
Notes:					
Limits / Extent of Review: (a) This is a review of the report structure and narrative only, as it complies / aligns with IVS 2020 (the standards applicable at the date(s) of valuation) (b) No liability is assumed by the reviewer for the valuer's opinion of value, for the report contents, or for any part of the work undertaken by the valuer(s) - individual, group of individuals or firm - with regards to the subject property.					

Measurement for **REVIEW REPORT** Measurement for REVIEW REPORT As the reviewer, does your review report comply with the following IVS standards?	**compliant**	**Requires EDIT TO COMPLY**	**notes**
IVS Standard 102: Investigations and Compliance			
Review is conducted in accordance with all of the principles set in IVS that are appropriate for the purpose and scope of work 10.1 ;20.1			
IVS Standard 103: Reporting			
Review communicates information and provides intended users with clear understanding 10.1			
Clear description of scope of work for the review assignment 10.2			
40.1 (a) the review must convey the scope of review performed, including elements noted in IVS Standard 101: Scope of Work, Paragraph 20.3 as applicable to the assignment			
40.1 (b) the review must convey the valuation report being reviewed (VUR) and the inputs and assumptions upon which that valuation was based			
40.1 (c) the review must convey the reviewer's conclusions about the valuation under review, including supporting reasons			
40.1 (d) the review must convey the date of the report, which may differ from the valuation date)			
40.2: Some of the above requirements may be explicitly included in a report or incorporated into a report through reference to other documents (engagement letters, scope of work documents, internal policies and procedures, etc.)			
Additional Comments:			

H.2 Business Review Report Development Checklist

TAQEEM Review Report Development Checklist

International Valuation Standards -- Compliance & Discipline Reference

BUSINESS VALUATION

This checklist serves as a measurement tool for determining valuation components and IVS compliance of both a valuation under review (VUR) and also the review report for Business Valuation. Reviewers may use this checklist to confirm IVS compliance and non-compliance. This TAQEEM Checklist assists the reviewer and may be referenced when composing the review report, as well as proofreading the review report prior to delivery to the client. This checklist may be used during the initial reading of the valuation under review, during the review report development, and while composing the review report. The VUR contents and standards should be measured as "compliant" or "noncompliant", while "does not apply" may be appropriate for some content. This checklist is based upon the guidelines stipulated in the International Valuation Standards and may be used in a manner that takes in consideration the overall context of the IVS framework for the reviewer to determine what is appropriate for each assignment.

Client/Intended User(s) of Review: ______________________

Date of Review: ________ Does Review Include an Opinion of Value? Yes*/No

*If yes, Valuation Date: ______________

Purpose of Review: ______________________

Valuation Under Review (VuR):

Author of VuR: ______________________

Purpose of valuation (VuR): ______________________

Form of Ownership: ______________________

Interest to be Valued: ______________________

Date of Inspection (if Applicable): ______________________

Valuation Date (for VUR): ______________________

Report Date (for VuR): ______________________

Asset Identification (type of asset): ______________________

Asset Location (if applicable): ______________________

Measurement for VALUATION UNDER REVIEW	Page No. in VUR	compliant	non-compliant	notes	Not Applicable (N/A)
IVS Standard 101: Scope of Work *General Requirements*					
Work undertaken appropriate for the intended purpose - 20.1					
Ensure that the intended recipient(s) of the valuation understand(s) what is to be provided AND any limitations on its use are clearly stated - 20.2					
Factors that need to be addressed to ensure objectivity - 20.3:					
Identity of the valuer listed - individual, group, or firm (and if material assistance sought from others (a)					
Identity of the client(s), if any (b)					
Identity of other intended users, if any (c)					
Identity of the asset(s) being valued (d)					
Valuation currency should be stated (e)					
Purpose of the valuation should be clearly identified (f)					
Basis/bases of value used in the valuation appropriate for the purpose (g)					
Source of basis/bases of value cited/ explained (g)					
Valuation date stated (h)					

Measurement for VALUATION UNDER REVIEW	Page No. in VUR	compliant	non-compliant	notes	Not Applicable (N/A)
Nature and extent of valuer's work; limitations or restrictions on the inspection, enquiry and/or analysis identified (i)					
Nature and sources of information stated, upon which the valuer relied, and the extent (j)					
Significant assumptions and/or special assumptions identified (k)					
Type of report prepared; communication format described (l)					
Restrictions on use, distribution, publication of the report stated (m)					
Statement of IVS compliance and departures explained (n)					
Scope of work explained, written and included 20.4 ,20.5 ,20.6					
Changes to the scope of work explained, if any. 30.1 ,30.2					
IVS Standard 102: Investigations and Compliance					
VUR presented in accordance with all principles of IVS that are appropriate for the purpose and terms stated in the scope of work 10.1					
Sufficient evidence to properly support valuation 20.2					
Limits agreed upon as to the extent of valuer›s investigations; stated in scope of work 20.3					
Reliance on information supplied by others; credible or reliable? 20.4					
Compliance with other standards ,40.1 40.2					
«Departure» stated when following other standards 40.1					
IVS Standard 103: Reporting (in VUR)					

Measurement for **VALUATION UNDER REVIEW**	**Page No. in VUR**	**compliant**	**non-compliant**	**notes**	**Not Applicable (N/A)**
Clear and accurate description of the scope of the assignment 10.2					
Purpose stated 10.2					
Intended Use (including limitations) 10.2					
Assumptions/special assumptions stated 10.2					
VUR sufficiently communicates (to the intended users) the scope of the valuation assignment, work performed and conclusions reached 20.2					
Conveys scope of work performed 30.1 (a)					
States the intended use 30.1 (b)					
States approach or approaches adopted 30.1 (c)					
States the method or methods applied 30.1 (d)					
States key inputs used 30.1 (e)					
States assumptions made 30.1 (f)					
States conclusions of value and principal reasons for any conclusions reached 30.1 (g)					
States date of report (may differ from valuation date) 30.1 (h)					
States name of the valuer(s)					
Report is signed by the valuer(s)					
States valuer(s) TAQEEM registration / license number					

Measurement for VALUATION UNDER REVIEW	Page No. in VUR	compliant	non-compliant	notes	Not Applicable (N/A)
States name of firm; and firm›s TAQEEM registration / license number					
IVS Standard 104: Bases of Value					
IVS-defined Bases of Value 20.1 (a) as applicable: _ Market Value (section 30) _ Market Rent (section 40) _ Equitable Value (section 50) _ Investment Value/Worth (section 60) _ Synergistic Value (section 70) _ Liquidation Value (section 80)					
(Notes for IVS-defined Bases of Value)					
20.1 (b) Other Bases of Value (non-exhaustive list) _ Fair Value (International Financial Reporting Standards, section 90) _ Fair Market Value (Organization for Economic Co-operation and Development, section 100) _ Fair Market Value (US Internal Revenue Service, section 110) _ Fair Value (Legal/Statutory, section 120) _ Other Bases (kindly speci fy)________________________					
(Notes for Other Bases of Value)					
Relevant basis of value chosen according to the terms and purpose of the assignment 20.2					
Premise of value/assumed use of asset 130.1 a) highest and best use (section 140) b) current use/existing use (section 150) c) orderly liquidation (section 160)					

Measurement for **VALUATION UNDER REVIEW**	**Page No. in VUR**	**compliant**	**non-compliant**	**notes**	**Not Applicable (N/A)**
d) forced sale (section 170) (-) other premise of value (kindly specify)					
Entity-Specific Factors 180 (180.1-3)					
Synergies Appropriately Considered 190 (190.1-3)					
Stated assumption(s) and special assumption(s) to clarify the state of the asset in a hypothetical exchange 200 (200.1-5)					
Transactions Costs Considered 210.1					
IVS Standard 105: Valuation Approaches and Methods					
1. Consideration for relevant and appropriate valuation approaches (IVS 105, 10-90; IVS 200;210 Paragraph 40-70) a) Market Approach (Described and Explained) b) Income Approach (Described and (Explained) c) Cost Approach (Described and Explained) 2. Critical – Explanation 3. Significant – Are the approaches used appropriate for the type of property and for the stated purpose of the report?					
If more than one Approach is used, the report should include Weighting (IVS Glossary, Paragraph 20.18 and 20.19).					
Asset Standards **IVS Standard 200: Business and Business Interests**					

Measurement for **VALUATION UNDER REVIEW**	**Page No. in VUR**	**compliant**	**non-compliant**	**notes**	**Not Applicable (N/A)**
Determination if the VUR is of the entire entity, shares or a shareholding in the entity, or a specific business activity of the entity 20.3 a) enterprise value b) total invested capital value c) operating value d) equity value					
Reasonable basis for comparison with, and reliance upon, similar businesses in the market approach 50.3: a) similarity to the subject business, qualitative and quantitative business characteristics b) amount and verifiability of data c) arm's length and orderly transaction for price of similar business					
List of topics relevant to the valuation of businesses and business interests: a) ownership rights (section 90) b) business information (section 100) c) economic and industry considerations (section 110) d) operating and non-operating assets (section 120) e) capital structure considerations (section 130)					
Consideration of rights, privileges or conditions that attach to ownership interest (proprietorship/corporate/ partnership) 90.1					
Consideration of adjusting information from publicly-traded businesses to exclude the value, income and expenses associated with non-operating assets 120.5					

Measurement for VALUATION UNDER REVIEW	Page No. in VUR	compliant	non-compliant	notes	Not Applicable (N/A)
IVS Standard 210: Intangible Assets					
Compliance with all applicable standards located in IVS 210 also include compliance with other standards as referenced throughout 210: Bases of Value (section 30) Valuation Approaches and Methods (section 40) Market Approach (section 50) Income Approach (section 60) Cost Approach (section 70) Special Considerations for Intangible Assets (section 80) Discount Rates/Rates of Return for Intangible Assets (section 90) Intangible Asset Economic Lives (section 100) Tax Amortization Benefit (TAB) (section 110)					
IVS Standard 220: Non-Financial Liabilities					
Compliance with all applicable standards located in IVS 220 also include compliance with other standards as referenced throughout 220: Bases of Value (section 30) Valuation Approaches and Methods (section 40) Market Approach (section 50) Income Approach (section 60) Cost Approach (section 70) Special Considerations for Non-Financial Liabilities (section 80) Discount Rates/Rates of Return for Financial Liabilities (section 90) Estimating Cash Flows and Risk Margins (section 100) Restrictions on Transfer (section 110) Taxes (section 120)					
Notes:					
Limits / Extent of Review:					

Measurement for **VALUATION UNDER REVIEW**	**Page No. in VUR**	**compliant**	**non-compliant**	**notes**	**Not Applicable (N/A)**
(a) This is a review of the report structure and narrative only, as it complies / aligns with IVS 2020 (the standards applicable at the date(s) of valuation) (b) No liability is assumed by the reviewer for the valuer's opinion of value, for the report contents, or for any part of the work undertaken by the valuer(s) - individual, group of individuals or firm - with regards to the subject property.					

Measurement for **REVIEW REPORT** Measurement for REVIEW REPORT As the reviewer, does your review report comply with the following IVS standards?	**compliant**	**Requires EDIT TO COMPLY**	**notes**
IVS Standard 102: Investigations and Compliance			
Review is conducted in accordance with all of the principles set forth in IVS that are appropriate for the purpose and scope of work 20.1 ;10.1			
IVS Standard 103: Reporting			
Review communicates information and provides intended users with clear understanding 10.1			
Clear description of scope of work for the review assignment 10.2			
40.1 (a) the review must convey the scope of review performed, including elements noted in IVS Standard 101: Scope of Work, Paragraph 20.3 as applicable to the assignment			
40.1 (b) the review must convey the valuation report being reviewed (VUR) and the inputs and assumptions upon which that valuation was based			
40.1 (c) the review must convey the reviewer's conclusions about the valuation under review, including supporting reasons			
40.1 (d) the review must convey the date of the report, which may differ from the valuation date) 40.2: Some of the above requirements may be explicitly included in a report or incorporated into a report through reference to other documents (engagement letters, scope of work documents, internal policies and procedures, etc.)			
Additional Comments:			

H.3 M&E Review Report Development Checklist

TAQEEM Review Report Development Checklist

International Valuation Standards -- Compliance & Discipline Reference

M A C H I N E R Y & E Q U I P M E N T

This checklist serves as a measurement tool for determining valuation components and IVS compliance of both a valuation under review (VUR) and also the review report for Machinery and Equipment. . Reviewers may use this checklist to confirm IVS compliance and non-compliance. This TAQEEM Checklist assists the reviewer and may be referenced when composing the review report, as well as proofreading the review report prior to delivery to the client. This checklist may be used during the initial reading of the valuation under review, during the review report development, and while composing the review report. The VUR contents and standards should be measured as "compliant" or "noncompliant", while "does not apply" may be appropriate for some content. This checklist is based upon the guidelines stipulated in the International Valuation Standards and may be used in a manner that takes in consideration the overall context of the IVS framework for the reviewer to determine what is appropriate for each assignment.

Client/Intended User(s) of Review: _______________________

Date of Review: _________ Does Review Include an Opinion of Value? Yes*/No

*If yes, Valuation Date: _______________

Purpose of Review: _______________________________

Valuation Under Review (VuR):

Author of VuR: _______________________________

Date of Inspection (if applicable): _______________________

Valuation Date for VUR: ___________________________

Report Date (for VuR): ___________________________

Asset Identification (type of asset): _______________________

Asset Location (if applicable): _________________________

Measurement for VALUATION UNDER REVIEW	Page No. in VUR	compliant	non-compliant	notes	Not Applicable (N/A)
IVS Standard 101: Scope of Work *General Requirements*					
Valuation advice and work undertaken appropriate for the intended purpose 20.1					
Ensure that the intended recipient(s) of the valuation understand(s) what is to be provided AND any limitations on its use are clearly stated - 20.2					
Factors that need to be addressed to ensure objectivity - 20.3:					
Identity of the valuer listed - individual, group, or firm (and if material assistance sought from others) (a)					
Identity of the client(s), if any (b)					
Identity of other intended users, if any (c)					
Identity of the asset(s) being valued (d)					
Valuation currency stated (e)					
Purpose of the valuation identified (f)					
Basis/bases of value used in the valuation appropriate for the purpose (g)					
Source of basis/bases of value cited/ explained (g)					
Valuation date stated (h)					
Nature and extent of valuer's work; limitations or restrictions on the inspection, enquiry and/or analysis identified (i)					

Measurement for **VALUATION UNDER REVIEW**	**Page No. in VUR**	**compliant**	**non-compliant**	**notes**	**Not Applicable (N/A)**
Nature and sources of information stated, upon which the valuer relied, and the extent (j)					
Significant assumptions and/or special assumptions identified (k)					
Type of report prepared; communication format described (l)					
Restrictions on use, distribution, publication of the report stated (m)					
Statement of IVS compliance and departures explained (n)					
Scope of work explained, written and included 20.4 ,20.5 ,20.6					
Changes to the scope of work explained, if any. 30.1 ,30.2					
IVS Standard 102: Investigations and Compliance					
VUR presented in accordance with all principles of IVS that are appropriate for the purpose and terms stated in the scope of work 10.1					
Sufficient evidence to properly support valuation 20.2					
Limits agreed upon as to the extent of valuer›s investigations; stated in scope of work 20.3					
Reliance on information supplied by others; credible or reliable? 20.4					
Compliance with other standards ,40.1 40.2					
«Departure» stated when following other standards 40.1					
IVS Standard 103: Reporting (in VUR)					
Clear and accurate description of the scope of the assignment 10.2					
Purpose stated 10.2					

Measurement for VALUATION UNDER REVIEW	Page No. in VUR	compliant	non-compliant	notes	Not Applicable (N/A)
Intended Use (including limitations) 10.2					
Assumptions/special assumptions stated 10.2					
VUR sufficiently communicates (to the intended users) the scope of the valuation assignment, work performed and conclusions reached 20.2					
Conveys scope of work performed 30.1 (a)					
States the intended use 30.1 (b)					
States approach or approaches adopted 30.1 (c)					
States the method or methods applied 30.1 (d)					
States key inputs used 30.1 (e)					
States assumptions made 30.1 (f)					
States conclusions of value and principal reasons for any conclusions reached 30.1 (g)					
States date of report (may differ from valuation date) 30.1 (h)					
States name of the valuer(s)					
Report is signed by the valuer(s)					
States valuer(s) TAQEEM registration / license number					
States name of firm; and firm›s TAQEEM registration / license number					
IVS Standard 104: Bases of Value					
IVS-defined Bases of Value 20.1 (a) as applicable: _ Market Value (section 30)					

Measurement for **VALUATION UNDER REVIEW**	**Page No. in VUR**	**compliant**	**non-compliant**	**notes**	**Not Applicable (N/A)**
_ Market Rent (section 40) _ Equitable Value (section 50) _ Investment Value/Worth (section 60) _ Synergistic Value (section 70) _ Liquidation Value (section 80)					
(Notes for IVS-defined Bases of Value)					
20.1 (b) Other Bases of Value (non exhaustive list) _ Fair Value (International Financial Reporting Standards, section 90) _ Fair Market Value (Organisation for Economic Co-operation and Development, section 100) _ Fair Market Value (US Internal Revenue Service, section 110) _ Fair Value (Legal/Statutory, section 120) _ Other Bases (kindly speci fy)_________________________					
(Notes for Other Bases of Value)					
Relevant basis of value chosen according to the terms and purpose of the assignment 20.2					
Premise of value/assumed use of asset 130.1 a) highest and best use (section 140) b) current use/existing use (section 150) c) orderly liquidation (section 160) d) forced sale (section 170) (-) other premise of value (kindly specify)					

Measurement for VALUATION UNDER REVIEW	Page No. in VUR	compliant	non-compliant	notes	Not Applicable (N/A)
Entity-Specific Factors 180 (180.1-3)					
Synergies Considered 190 (190.1-3)					
Stated assumption(s) and special assumption(s) to clarify the state of the asset in a hypothetical exchange 200 (200.1-5)					
Transactions Costs Considered 210.1					
IVS Standard 105: Valuation Approaches and Methods					
1. Consideration for relevant and appropriate valuation approaches (IVS 105, 10-90; IVS 200;210 Paragraph 40-70) a) Market Approach (Described and Explained) b) Income Approach (Described and (Explained) c) Cost Approach (Described and Explained) 2. Critical – Explanation 3. Significant – Are the approaches used appropriate for the type of property and for the stated purpose of the report?					
If more than one Approach is used, the report should include Weighting (IVS Glossary, Paragraph 20.18 and 20.19).					
Asset Standards **IVS Standard 300: Plant and Equipment**					
Life span identification for “right to use” an asset must be stated 20.2					
Assets for which the highest and best use is “in use” must be valued using consistent assumptions 20.3					

Measurement for **VALUATION UNDER REVIEW**	Page No. in VUR	compliant	non-compliant	notes	Not Applicable (N/A)
Factors that may need to be considered according to the asset itself, its environmental and physical, functional and economic potential: **20.5 (a) Asset-Related** 1. asset's technical specification 2. the remaining useful, economic or effective life 3. asset's condition 4. any functional, physical and technological obsolescence 5. costs of decommissioning and removal, and any associated costs such as installation and re-commissioning for assets not valued in location at time of valuation 6. rental lease renewal options, end-of-lease possibilities 7. potential loss of a complementary asset, such as the operational life of a machine that is curtailed by the length of a lease on the building in which it is located 8. costs associated with additional equipment, transport, installation and commission, etc. 9. References taken from Engineering, Procurement, Construction (EPC) contract for M&E that may reside within a plant during construction					
20.5 (b) Environment-Related 1. location in relation to the source of raw materials and market for the product 2. impact of any environmental or other legislation that restricts utilization or imposes additional operating or decommissioning costs 3. radioactive substances that may be in M&E and require proper disposal, disposal costs					

Measurement for **VALUATION UNDER REVIEW**	**Page No. in VUR**	**compliant**	**non-compliant**	**notes**	**Not Applicable (N/A)**
20.5 (c) Economic-Related 1. actual or potential profitability of the asset based on comparison of operating costs with earnings or potential earnings 2. demand for the product manufactured by the plant with regard to macro/micro-economic factors impacting demand 3. highest and best use potential					
Consideration to the degree to which the asset is attached to, or integrated with, other assets: 20.7 a) permanently attached to land b) dependent upon other assets, ex: integrated and function relies on other assets c) classification as a component of real property (ex: heating, ventilation, Air Conditioning, etc.)					
If purpose of VUR requires connected equipment to be valued separately, the scope of work must include a statement to the effect that the value of those items would normally be include in the real property 20.8					
The VUR must include appropriate references to matters addressed in the scope of work, and a comment on the effect on the value of any associated transaction (operating software, continued right to occupy land) 20.11					
Notes:					
Limits / Extent of Review:					
(a) This is a review of the report structure and narrative only, as it complies / aligns with IVS 2020 (the standards applicable at the date(s) of valuation) (b) No liability is assumed by the reviewer for the valuer's opinion of value, for the report contents, or for any part of the work undertaken by the valuer(s) - individual, group of individuals or firm - with regards to the subject property.					

Measurement for **REVIEW REPORT** Measurement for REVIEW REPORT As the reviewer, does your review report comply with the following IVS standards?	**compliant**	**Requires EDIT TO COMPLY**	**notes**
IVS Standard 102: Investigations and Compliance			
Review is conducted in accordance with all of the principles set in IVS that are appropriate for the purpose and scope of work 10.1 ;20.1			
IVS Standard 103: Reporting			
Review communicates information and provides intended users with clear understanding 10.1			
Clear description of scope of work for the review assignment 10.2			
40.1 (a) the review must convey the scope of review performed, including elements noted in IVS Standard 101: Scope of Work, Paragraph 20.3 as applicable to the assignment			
40.1 (b) the review must convey the valuation report being reviewed (VUR) and the inputs and assumptions upon which that valuation was based			
40.1 (c) the review must convey the reviewer's conclusions about the valuation under review, including supporting reasons			
40.1 (d) the review must convey the date of the report, which may differ from the valuation date) 40.2: Some of the above requirements may be explicitly included in a report or incorporated into a report through reference to other documents (engagement letters, scope of work documents, internal policies and procedures, etc.)			
Additional Comments:			

TAQEEM VALUATION REVIEW WORKSHEET (PROBLEM/STANDARD/ANALYSIS/CORRECTION—PSAC)

The worksheet provided in this appendix supports the valuation reviewer in documenting and organizing the problems located in a valuation under review. The information collected in this worksheet will assist in the development of the review and will organize the data for efficiency. The reviewer should use this worksheet to begin the critique process of the valuation and to create an outline for the review report.

Put all your comments you found to adequately capture the failings of the valuation under review. After all notes are completed, determine which problem is the most serious and list it as 1#, then decide on the second serious problem and list it as 2# and so on.

In completing the worksheets, use this reminder of the PSAC process to ensure that each item is properly addressed:

- **PROBLEM:** clearly and accurately state each problem located in the valuation.
- **STANDARD:** cite the IVS standard that is missing or not complied with, or state the governing rule that should have been followed (example: IVS standards, law, regulation, code of ethics and manual for each discipline).
- **ANALYSIS:** Explain the standard or rule and why the standard is important to the client, intended user or public in general. Explain how the valuation is impacted by the problem, and how the standard or rule was needed and should have been included.
- **CORRECTION:** Provide an answer as to how the valuation should be corrected, the appropriate information that was needed or not needed in the valuation, including the proper information to make the valuation compliant with the standard, rule, etc.

Problem/Standard/Analysis/Correction—PSAC

PROBLEM #_______
STANDARD (cite the source)
ANALYSIS (explain the standard and why it is needed)
CORRECTION

EXAMPLES OF THE PROBLEM/STANDARD/ANALYSIS/CORRECTION FORMAT (PSAC)

J.1 Real Estate Property Sample PSAC

J.1.1 IVS 2022 Standard101: Scope of Work

Problem: The valuation under review does not contain sufficient information or evidence to support the value conclusion, for the intended purpose of the assignment.

Standards: IVS 2022 Standard 101: Scope of Work, Paragraph 20.1 All valuation advice and the work undertaken in its preparation must be appropriate for the intended purpose.

Analysis: IVS 2022 Standard 101: *Scope of Work*, Paragraph 20.1 states that all work performed, prepared, and data collected, must be presented in a manner that is appropriate for the intended purpose.
The valuation under review does not includ
e sufficient ownership information on the past and current sales history of the subject property, which is needed to address value. The appraised value of the property is SAR1,000,000.00; however, it sold two years ago for SAR250,000.00, and is currently listed for sale at SAR2,000,000.00. This information was not included in the valuation under review and is necessary for the level of care in providing the intended user with all of the appropriate and relevant data. Explanations of this information and the effect on the value of the property is necessary for producing appropriate results, as well as providing clear and understandable information to the intended user. The work under view should sufficiently address and explain these factors, and then it will be appropriate, acceptable, accurate, complete, and therefore logical.

Correction: If the valuation under review includes explanations of the past and current sales history, with ownership transactions of the subject property to show the work performed, and the appropriate preparation for the intended purpose, the valuation will be compliant with IVS 2022 Standard 101: *Scope of Work*, Paragraph 20.1.

J.2 Business Valuation Sample PSAC

J.2.1 IVS 2022 Standard 101: Scope of Work

Problem: A valuation incorporated projections of the future financial performance of a company being valued without incorporating any procedures assessing the reasonableness of the projections being performed. The valuation report does not comment on the ability to reasonably rely upon the projections to develop an estimate of value.

Standard: General Requirements, IVS 2022 Standard 101: *Scope of Work*, Paragraph 20.1 states "All valuation advice and the work undertaken in its preparation *must* be appropriate for the intended *purpose*."

IVS 2022 Standard 101, Paragraph 20.3(n) states "that the valuation will be prepared in compliance with IVS and that the *valuer* will assess the appropriateness of all *significant* inputs"

The importance of an adequate Scope of Work is also discussed in other sections of the IVS 2022, including Standard 102: Investigations and Compliance, and Standard 105: Valuation Approaches and Methods.

IVS 2022 Standard 102: Investigations and Compliance is consistent with IVS Standard 101: *Scope of Work*. Key extracts from IVS 102 include:

> Paragraph 20.1 Investigations made during the course of a valuation assignment must be appropriate for the purpose of the valuation assignment and the basis(es) of value.
>
> Paragraph 20.2. Sufficient evidence must be assembled by means such as inspection, inquiry, computation and analysis to ensure that the valuation is properly supported. When determining the extent of evidence necessary, professional judgment is required to ensure the information to be obtained is adequate for the purpose of the valuation.

IVS 2022 Standard 105: *Valuation Approaches and Methods provides* further guidance on required valuation procedures.

> Paragraph 10.7 requires valuers to perform sufficient analysis to evaluate all inputs and assumptions and their appropriateness for the valuation purpose.
>
> Paragraph 20.4. When a valuation assignment 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 opinion. Significant inputs provided to the valuer (eg, by management/owners), may require consideration, investigation and/or corroboration. In cases where credibility or reliability of information supplied cannot be supported, such information should not be used.

Analysis: A valuation is required to assess all significant inputs used in developing an opinion of value. For business valuations, the Income Approach is typically used in the valuation of a going concern. The Income Approach is especially important as the value of businesses is predicated on the future cash flows to be received by the investor from the subject business.

The Income Approach may employ a Discounted Cash Flow Method with multiple years of projected future financial results or a Capitalized Income Method with a single year of forecast future income or cash flow. The Capitalized Income Method is used when a business is operating at a stabilized level and growth at a relative constant annual percentage rate is a reasonable assumption. For businesses where varying rates of cash flow growth are expected, a Discounted Cash Flow Method best addresses the valuation of these future cash flows.

Correction: The valuation under review is not in compliance with IVS 2022 requirements to incorporate sufficient procedures to reasonably assess a significant valuation input such as projections of future revenues, expenses, income and cash flows as set forth in IVS Standard 101: *Scope of Work*, Paragraph 20.3(n). It is also not in compliance with IVS Standard 102: Investigations and Compliance, Paragraphs 20.1 and 20.2, or with IVS Standard 105: Valuation Approaches and Methods, Paragraphs 10.7 and 20.4. The valuation should be corrected to include the incorporated projections of the future financial performance and explain the ability to reasonably rely upon the projections to develop an estimate of value. By adding these requirements, the valuation under review would become compliant with IVS.

J.2.2 IVS 2022 Standard 200: Business and Business Interests

Problem: The valuation under review was prepared for the total equity of a manufacturing company. The subject company had three manufacturing facilities that were operating profitably at or near capacity. The business had a fourth manufacturing facility that had been closed in the recent past. For the four manufacturing facilities, the business owned the land and building for each facility.

The valuation of the total equity of the parent company did not include any adjustments to the income statements of the company for the expenses associated with maintaining the closed facility. Additionally, in the determination of the value of the total equity of the subject company, the valuation procedures did not include an adjustment to reflect the possible value of the closed facility.

Standard: IVS 2022 Standard 200, Paragraph 120.1 states, "It is important to understand the nature of assets and liabilities of the business and to determine which items are required for use in the income-producing operations of the business and which ones are redundant or "excess" to the business at the valuation date."

> Paragraph 120.2. Most valuation methods do not capture the value of assets that are not required for the operation of the business. For example, a business valued using a multiple of EBITDA would only capture the value the assets utilised in generating that level of EBITDA. If the business had non-operating assets or liabilities such as an idle manufacturing plant, the value of that non-operating plant would not be captured in the value. Depending on the level of value appropriate for the valuation engagement (see para 20.3), the value of non-operating assets may need to be separately determined and added to the operating value of the business.
>
> Paragraph 120.4. When separately considering non-operating assets and liabilities, a valuer should ensure that the income and expenses associated with non-operating assets are excluded from the cash flow measurements and projections used in the valuation.

Analysis: The idle manufacturing facility requires certain expenses on a recurring basis. Examples include insurance, property taxes, utilities, property maintenance and security expenses among others. These expenses of the idle manufacturing facility reduce the reported EBITDA of the subject company. This would lead to an EBITDA figure for the company that is below the EBITDA level generated by the three operating facilities. The expenses of the idle manufacturing plant would lead to an undervaluation of the operations of the subject company (i.e., the three operating manufacturing facilities).

The idle facility is not generating income for the subject company as a part of its ongoing operations. Despite this, the idle manufacturing plant would potentially have value in an alternative use. Another manufacturing company might be interested in purchasing the land and building for use in its operations. If the structure is deemed obsolete and of no value, the land would have value in some form of alternative use. If material to the value conclusion of the subject company, a value for the idle manufacturing facility should be included in the valuation of the subject company. Expected costs to continue to maintain the property through the period until sold should be developed. Costs to sell the idle facility should also be developed. These amounts should be netted against the estimated sales proceeds and added to the value of the business operations to reach a conclusion of the value of total equity of the subject company.

Correction: The valuation under review is not in compliance with asset specific requirements of IVS 2022 Standard 200 and is also not in compliance with IVS Scope of Work requirements, which is not acceptable, logical or complete. It should be amended to correct the problems stated in this review.

IVS Standard 200: Business and Business Interests, Paragraph 120.4 requires that a valuation include sufficient procedures to reasonably assess the impact of the idle manufacturing facility on the EBITDA of the subject company in the determination of the value of the operating assets of the subject company. The valuation under review does not include these procedures that should be added for compliance.

IVS Standard 200: Business and Business Interests, Paragraph 120.2 requires that a valuation include an adjustment for the value of the idle manufacturing facility as a non-operating asset of the subject company. The valuation under review does not include such an adjustment and should be amended to render it appropriate and accurate.

Consistent with IVS 2022, Standard 101: Scope of Work, Paragraph 20.3(n), Standard 102: Investigations and Compliance, Paragraphs 20.1 and 20.2, and Standard 105: Valuation Approaches and Methods, Paragraphs 10.7 and 20.4, require that a valuation perform adjustments to EBITDA and to include a value for the non-operating assets. The valuation under review does not address the non-operating assets and does not include required adjustments to EBITDA, which would make it compliant, appropriate and accurate if amended.

With the above corrections included in the valuation under review, it would become compliant with IVS 2022 and therefore appropriate, acceptable, accurate, logical and complete.

J.3 Machinery & Equipment Sample PSAC

J.3.1 IVS 2022 Standard 101: Scope of Work

Problem: The purpose of the valuation is not stated in the valuation under review.

Standard: IVS 2022 Standard 101: Scope of Work, Paragraph 20.3 (f) states "Purpose of the valuation: The purpose for which the valuation assignment is being prepared must be clearly identified as it is important that valuation advice is not used out of context or for purposes for which it is not intended. The purpose of the valuation will also typically influence or determine the basis/bases of value to be used."

Analysis: Although the comparable sales appear to be reasonably comparable to the Subject Assets, they are not exact matches of the Subject Assets and therefore adjustments need to be made. Significant adjustments were, in fact, made to the comparable sales used in the valuation; however, no information was provided in the valuation under review regarding the logic or rationale of these adjustments. When the valuer was called about this, he stated that he had been in the business for numerous years and that that these adjustments were based upon his professional judgment.

Correction: Because the valuation under review does not provide independently verifiable support for adjustments made to the subject assets, the valuation results are not reliable. Adding such support would remedy this problem.

J.3.2 Unexplained Adjustment

Problem: The valuation under review uses the market comparison method and does not state the logical rationale for adjustments made to comparable sales.

Standard: The Saudi, Machinery And Equipment Valuation Manual prepared by: Saudi Authority for Accredited Valuers (TAQEEM) states that *"The valuer should sufficiently explain and support the rationale for using the comparable M&E selected in the valuation report, <u>the basis for adjustments</u> and reconciliation, and any limitations"* and that the valuer is to *"Adopt adjustments to address differences such as producers, quality, usage, accessories, model, capacity, size, age and so on should be taken into account."*

Analysis: Although the comparable sales appear to be reasonably comparable to the Subject Assets, they are not exact matches of the Subject Assets and therefore adjustments need to be made. Significant adjustments were, in fact, made to the comparable sales used in the valuation; however, no information was provided in the valuation under review regarding the logic or rationale of these adjustments. When the valuer was called about this, he stated that he had been in the business for numerous years and that that these adjustments were based upon his professional judgment.

Correction: Because the valuation under review does not provide independently verifiable support for adjustments made to the subject assets, the valuation results are not reliable. Adding such support would remedy this problem.

SAMPLE REVIEW REPORTS

Please note that these review reports are provided as examples only. Rather than attempting to duplicate any of these reports, a reviewer should use his or her own judgment in organizing and formatting a review report.

The important consideration is that the report contains all required information, meets IVS standards and TAQEEM manuals, and be appropriate, acceptable, accurate, logical and complete. Each reviewer is responsible for determining how many problems the review should discuss, based on the scope of work and the quality of the valuation under review.

K.1 Real Estate Sample Review Report

June 2020 ,17
Mr. Client
EFG Services, Inc.
AL Khamees Road
Fanateer, Saudi Arabia

> Re: Valuation Review Report of a valuation of a property known as -374.81 acre JC conservation easement on a -374.810acre island located in the Jubial Conservation district on Gurmah Island in the Arabian Gulf. Date of valuation was 2019/27/12 and report prepared by Riyadh Real Estate Valuation Inc.

Dear Mr. Client:

In fulfillment of the agreement outlined in our engagement letter dated January ,4 2020, we are pleased to present the attached valuation review report, which has been prepared in accordance with International Valuation Standards.

This report was specifically prepared for Owners of JC Conservation Fund and is intended for use only by that person or entity, its associates, professional advisers and appropriate regulatory authorities, if applicable. It may not be distributed to or relied upon by any other persons or entities without our prior written permission. If you have any questions concerning this report, please contact the undersigned.

TAQEEM Accredited valuer and reviewer

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Summary Valuation Review Information

Identity of Client

This valuation has been prepared for and on behalf of owners of JC Conservation Fund.

Intended User

On the basis of instructions received at the time of the assignment, the client is recognized as the intended user of this review valuation report.

Intended Purpose of the Valuation

We have been informed that the intended user expects to employ the information contained in this valuation review report for the purpose of validating if the valuation problem was properly identified and if the valuation followed standards, was creditably analyzed and competed correctly. This review determines the appropriateness, acceptability, accurateness, logic and completeness of the assignment and meets acceptable standards of valuation practices.

Governing Purpose of the Assignment

Determination if the valuation under review was written in compliance with IVS (International Valuation Standards Council, 2022 edition), without an opinion of value of the subject property

Effective Date of the Valuation Review Report

April 25 ,2020

Type of Report

This valuation has been prepared as a ‹Review Valuation Report›, as defined by the International Valuation Standards. This narrative report summarizes my analysis and the rationale for my conclusion.

Valuation Under Review

This review concerns the valuation of a property known as -374.81acre JC conservation easement on a -374.810acre island located in the Jubial Conservation district on Gurmah Island in the Arabian Gulf. Date of valuation was 2019/27/12 and the report was prepared by Riyadh Real Estate Valuation Inc.

Summary Review Conclusion

Based upon this examination of the subject valuation assignment report and my analyses, the valuation under review does not fully comply with the requirements set forth in the International Valuation Standards.
Therefore, the report is not accurate, acceptable, or complete.

Scope of Work & Extent of Research

The scope of work and intended purpose determined by the reviewer and agreed upon by the client involved reviewing the actual valuation report for credibility without developing an opinion of value. The valuation document to be reviewed is the original valuation assignment and does not include a review of the work file.

The review valuation report complies with International Valuation Standards. The purpose of this review includes validating the appropriateness, acceptability by peers, accuracy, logic and completeness of the aforementioned real estate valuation report through analyzing the completeness of the materials and information presented in the valuation report.

Important factors in a review process include methodology– including applicable approaches to value–that is presented and written in a way that is well supported by the valuer and understandable by the intended user.

These factors require the reviewer to remain abreast of changes, new developments within the valuation profession and how its methods are constantly reviewed and revised. Therefore, the reviewer must continuously improve the skills to remain proficient in valuation review. It is also imperative that the reviewer stay familiar with the specific type of property or asset, market, geographic area of Jubail conservation area of the Arabian Gulf, analytic method, and applicable laws, regulations and guidelines. We continuously improve our skills through research and training, including mitigation and conservation banks and mitigation credits supply and demand. We are familiar with the specific type of property, market, geographic area, analytic method, and applicable rules, regulations and guidelines as needed to provide an appropriate, acceptable, accurate, logical and complete valuation review of the valuation under review.

The real estate valuation profession uses three main approaches of the valuation: market, income, and cost approach. In order to properly perform the necessary work, the reviewer must first determine if the assignment under review used the applicable approaches to value. Once the reviewer makes the determination, the reviewer will then take appropriate measures to verify that research contained within the report addresses the problem and complies with standards, and that the data is analyzed appropriately, and that the information reported is correct.

We relied on the information provided in the valuation under review, researched the internet for data verification, and utilized aerial views of the subject property and surrounding areas. We did not make an inspection of the subject property. The scope of work contained in this valuation review concluded that the valuation assignment was adequate and sufficient, and that necessary documentation was accurately addressed. The valuation assignment contained appropriate analysis with the approach to valuation method(s) used and were appropriately applied. We did not conduct additional market research as part of the valuation review assignment. We did not independently confirm the market data that was included in the valuation under review or physically inspect the comparable properties. We based the information contained in the report on information and data contained in the valuation report and assumed that this information was factual and accurate. However, we did verify that any calculations were accurate. Should new information arise, we reserve reconsidering our review conclusions should information become available that may contradict the information relied upon in the valuation review report.

Analysis of Valuation Under Review

One problem in the valuation under review is the inappropriate Scope of Work.

Problem 1: Inadequate Research

The valuation under review does not demonstrate proper scope of work to support analysis and conclusions. The valuation does not comply with IVS with regard to appropriate and adequate research for an acceptable scope of work.

Standard

The proper scope of work is discussed in IVS General Standards, Standard 101: Scope of Work, Paragraph 20.3, page 9.

> 20.3 ,101 states that “A valuer must communicate the scope of work to its client prior to completion of the assignment, including the following:
> (i) The nature and extent of the valuer’s work and any limitations thereon: Any limitations or restrictions on the inspection, enquiry and/or analysis in the valuation assignment must be identified.

(j) The nature and sources of information upon which the valuer relies: The nature and source of any relevant information that is to be relied upon and the extent of any verification to be undertaken during the valuation process must be identified.

Analysis

A valuation is generally defined as an opinion of value based on the parameters of the assignment as of a specified date. The valuation of real estate is based on a process of data collection, analysis, approaches to value and reconciliation and conclusion by a nonbiased third party. An adequate disclosure of research and analyses were not discussed in the valuation under review. Therefore, the valuation under review did not contain adequate information to demonstrate that methodology.

The market research phase of the report is inadequate and therefore not acceptable. The research discussed and presented regarding the local region, county and immediate neighborhood was limited and not sufficient to allow the reader of the report to understand the current economic and social climate within which the subject property operates.

Additionally, the report included no discussion of the competition in order to understand the demand and supply characteristics of the local area, such as data from such sources as local governments, public records, chamber of commerce, private real estate professionals, owners of comparable properties, the actual subject property history and real estate publications.

The report included no discussion about other properties in the neighborhood with an overall opinion of the character, composition, and trends of the submarket. Neither was there any indication of interviews with real estate agents, owners and investors active in the market. The lack of such discussion and research indicates inadequate support for the conclusion of the highest and best use for the subject property, which is the basis of the valuation methodology.

Correction

With the appropriate and acceptable research explained, the valuation under review would comply with IVS Standard 101: Scope of Work, Paragraph 20.3, (i) and (j) to provide the intended user with a complete and logical scope of work. The valuation under review should include information pertaining to the scope of work performed for the assignment. With accurate and acceptable data included and explained to the intended user for the purpose of the valuation, the valuation under review would be appropriate, logical and complete.

Problem 2: Incomplete Approach to Value

The valuation under review does not include an adequate explanation for the Approaches to Value used in the report and does not provide complete information. The level of care expected for valuations of this type calls for the valuer is to consider which of the three approaches to value is most appropriate to the property and to consider each of these approaches in reconciling an opinion of value.

Standard

Approaches to value are required in IVS Standard 105: Valuation Approaches and Methods, Paragraph 10.1, page 29.

> IVS 10.1 ,105 states "Consideration must be given to the relevant and appropriate valuation approaches. The three approaches described and defined below are the main approaches used in valuation. They are all based on the economic principles of price equilibrium, anticipation of benefits or substitution. The principle valuation approaches are:
> (a) market approach
> (b) income approach, and
> (c) cost approach

Analysis

The valuation report relied upon the Income Capitalization method under the Market Approach to form an opinion of the value of the subject property. However, the Market Approach – as covered in IVS 2022 General Standards, Standard 105: Section 20 (page 30) and Standard 400 Real Property Interest, Section 50 (page 99) – is generally considered the most appropriate approach of valuing this type of property for similar intended use. While not this approach is not mandated, IVS does encourage valuers to consider all three approaches. The lack of explanation as to why this approach was not considered in the context of valuation creates some distrust in the level of care exhibited in the valuation and therefore also undermines reliance on the adequacy and completeness of the report.

As part of the review process, I utilized commercial data services and public records to obtain information related to the investment and sales histories of properties similar to the subject in order to find an indication of an appropriate value for the subject. If information of this sort, along with conversations with real estate agents, owners and investors active in the market, were discussed in the valuation report, it would provide much needed research support for any conclusion of value.

While IVS does not mandate that all three approaches to value be defined and explained within the valuation report, it does require that a logical and supportable discussion must be provided to support the choice of the approach used for the conclusion of value.

Correction

The valuation under review would comply with IVS and be more credible if it included an explanation of which approaches to value were considered to be appropriate for the assignment, including a discussion of why the sales comparison approach– generally considered the most appropriate approach for valuing this type of property for similar intended use– was not used in this valuation.

Final Review Conclusion

Based upon this examination of the subject valuation report and the preceding analyses, the valuation under review is considered to not be in compliance with the requirements set forth in the International Valuation Standards 2022. The report is incomplete, inadequate and unacceptable, and therefore the value opinion stated in the valuation report is not adequately supported.

Assumptions and Limiting Conditions

The use of this review valuation report for any purpose signifies the reading and acceptance of all assumptions, attachments and limiting conditions. These conditions are a part of the review valuation report, they are a preface to any certification, definition, fact or analysis, and are intended to establish as a matter of record that the reviewer s› function is solely to review valuation reports prepared by third parties. It is not intended to provide a market value indication for the property which is the subject of the reports reviewed. This review report should not be construed as an opinion of value or a valuation report.

The valuation under review is based upon the valuers› observations as to the subject property and real estate market and is an economic study to estimate value as defined in the report. It is not an engineering, construction, environmental, legal or architectural study nor survey and no such expertise by the reviewer is implied. No testing of material, equipment, soils, water, air or vegetation were made on or off site of the property which is the subject of the valuation under review. The reviewer did not inspect the property that is the subject of the valuation under review.

The limiting conditions and assumptions which follow should be considered as a part of the reviewer’s report.

Assumptions relevant to the acceptance and completion of this review:

1. That the legal description as given in the valuation under review is correct.
2. That the title to the property in the valuation under review is good and marketable.
3. That certain opinions, data, and estimates furnished by others in the course of the valuer's investigation are correct.
4. That no recorded restrictions or zoning ordinance would prohibit the use of the property for any purpose indicated to be the Highest and Best Use unless cited in the valuation under review.
5. That the factual information contained in the valuation under review is true and correct, and has not been verified by the reviewers.
6. That the sales shown in the valuation under review are assumed to be the most recent comparable sales available.
7. No confirmation of market data reported in the valuation under review was undertaken.

Limiting conditions which apply to the acceptance and completion of this review:

1. The reviewer has no responsibility for matters of a technical or legal nature, especially those affecting title to the property, which is the subject of the valuation report reviewed.
2. No obligation for court testimony with regard to this review valuation report exists, unless arrangements have been previously made.
3. The reviewer has no responsibility for any drawings, sketches, or maps as included in the valuation under review.
4. It is assumed that the valuation under review is based on there being no hidden or unapparent conditions of the property, subsoil, or structures, which would render it more or less valuable. The reviewer has no responsibili1y for such conditions, or for engineering studies which might be required to discover such factors.
5. Intended users of this valuation review report are directed to obtain the services of a professional engineer to determine the presence and/or absence of hazardous materials including but not limited to asbestos and/or radon gas and/or urea formaldehyde foam insulation.
6. The reviewer has not made any form of environmental study of the property which is the subject of the valuation report reviewed, nor have any such studies been made available to the reviewer s. The review valuation report assumes that the subject of the valuation report is free and clear of any and

all contamination, either on or underground, above ground, air borne, water borne, or within any improvements thereon. The reviewer cannot assume liability for offsite environmental problems, either unrevealed, unidentified, or in no way provided to the reviewer.

7. The valuation review report is an economic study for value and it is not an engineering, structural, mechanical, feasibili1y, or architectural study.

8. The liability of the review valuation firm and its employees is limited to the client only.

9. Possession of this valuation review report or any copy thereof does not carry with it the right of publication, nor may it be used for other than its intended use; the physical report(s) remains the property of the valuer(s) for the use of the client, the fee being for the analytical services only. Use of this review report is limited to the person, persons, agency or firm for whom it is prepared, and to the reviewer. The client may distribute copies of this review report in its entirety to third parties, however, parties cannot use the report without the prior written consent of the signatories of this review valuation report. Further, there is no accountability, obligation, or liability to any third party. It is, however, the third parties› responsibili1y to assure itself that the information contained in the valuation report reviewed is accurate and complete. Any reliance on the contents shall be solely at the third parties› risk. This document when provided to third parties is without any warranty or representation, expressed or implied, as to its content, its suitabili1y for any purpose, its accuracy or completeness. Neither all nor any part of this review valuation report shall be disseminated to the general public by the use of advertising media, public relations, news, sales or other media for public communication without the prior consent of the reviewer(s).

10. This valuation review report is to be used only in its entirety and no parties to be used without the whole report. The reviewer so indicated on the individual certification prepared all conclusions and opinions concerning the review report. No change of any item in the review report shall be made by anyone other than the reviewer. The reviewer and firm shall have no responsibility if any such unauthorized change is made.

11. The International Valuation Standards, Regulations, Bylaws, memberships, code of ethics and professional manuals of TAQEEM, with which the reviewer is affiliated, govern disclosure of the contents of the valuation review report.

12. The valuation under review was obtained from ABC Valuations and consists of «trade secrets and commercial or financial information» which is privileged and confidential and exempted from disclosure.

13. Work files including Review valuations are maintained for ten years from the issuance of the final review report. In case of a lawsuit, the valuer shall retain all of the above until a final judgment is rendered. Article 17, The Accredited Valuers law.

For purposes of this review valuation, any masculine pronoun shall include the feminine, any feminine pronoun shall include the masculine, any plural pronoun shall include the singular, and any singular pronoun shall include the plural.

The names and qualifications of the reviewer who materially assisted in the preparation of this report are found below.

K.2 Business Valuation Sample Review Report

May 2020 ,1

Khaled Attorney, bureau.

123 Royal Way
Riyadh, KSA

Subject: Review of Valuation Report
Fair Market Value of a %100 Equity Interest in 123 Company, Inc.

Dear Mr. Attorney,

I performed a review of the valuation of a %100 controlling equity interest in 123 Company, Inc. as of December 2019 ,31. The report was dated March 2020 ,31 (the "valuation under review"). The attached Valuation Review Report provides the basis for our conclusion. The Valuation Review Report was prepared in accordance with the terms and conditions outlined in our engagement letter dated April ,2 2020. The valuation under review was prepared by Mr. Mohamed AbdulRahman of International Valuations and is attached as Exhibit A.

The review was performed to determine compliance with the International Valuation Standards (IVS) 2022 edition. This review was performed without developing an opinion of value.

The intended purpose of this review report is in connection with shareholder litigation. You and your client, opposing legal counsel and their client, and representatives of the court handling this litigation are the sole intended users of this report. This Valuation Review Report is not intended for any other use or intended users.

After reviewing both the valuation under review and IVS Edition, I concluded the valuation under review does not meet various requirements of the IVS Framework, General Standards and Asset Standards set forth in the IVS. Further details are provided in this report in the section entitled *Review, Problems, and Analysis of valuation under review.*

This Valuation Review Report was prepared in accordance with the IVS Edition, promulgated by the International Valuation Standards Council. The Valuation Review Report was prepared in compliance with IVS Standard 103: Reporting, Paragraph 40: Valuation Review Reports. Throughout the IVS, other guidance on the performance of valuation reviews is provided. To the best of my knowledge, this Valuation Review Report complies with other guidance on valuation reviews set forth in the IVS.

Respectfully submitted,

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I) Introduction and Defined Terms

Client

Khaled Attorney, bureau.

Report Type

A valuation review report prepared in compliance with IVS Standard 103: Reporting, Paragraph 40: Valuation Review Reports (the “Valuation Review Report”)

Review Purpose

To determine whether the valuation under review is in compliance with the International Valuation Standards 2022 Edition (“IVS”). An opinion of value is not being provided.

Scope of Review

To determine compliance of the valuation under review with the IVS Edition, I reviewed the IVS Framework and most specifically the guidance pertaining to objectivity, competence and disclosure of any departures from IVS requirements. I reviewed all of the General Standards included in the IVS. These include IVS Standard 101: Scope of Work, IVS Standard 102: Investigations and Compliance, IVS Standard 103: Reporting, IVS Standard 104: Bases of Value, and IVS Standard 105: Valuation Approaches and Methods. As the valuation under review covers the valuation of an operating business, I also assessed the valuation under review to determine whether it meets the standards set forth in IVS Standard 200: Business and Business Interests.

The review did not include an audit in accordance with generally accepted auditing standards of the financial statements contained in the valuation under review. Accordingly, no responsibility is assumed, and no representations are made with respect to the accuracy or completeness of any information provided by and on behalf of the subject assets contained in the valuation under review.

I have not verified any of the information contained in the valuation under review and have made a significant assumption that all information contained in the report is accurate and not misleading in any way.

I have not completed a review of the affairs of the subject company or conducted any verification of the data contained in the valuation under review as the engagement does not comprise an audit in accordance with auditing standards.

I have not performed an examination, compilation, or agreed-upon engagement of a financial forecast in accordance with standards established by the relevant accounting professional organization, and I do not express assurance of any kind on it.

A site visit to 123 Company, Inc. was not conducted. Unless noted otherwise in this Valuation Review Report, I have made a significant assumption that the data in the valuation under review is correct in all aspects including, but not limited to, the presentation of the historical financial statements, prospective financial information and capital structure. I accept no liability for the reliability, accuracy, or completeness of such information or the reasonableness of any explanation relating to, or assumptions applied in, such information.

The valuation under review was a -54page report dated March 2020 ,31. Should the report provided be proven to be an incomplete version of the report, the statements in this review may become incorrect and should be reconsidered.

This review was prepared in accordance with the IVS Edition, promulgated by the International Valuation Standards Council. This review was prepared in compliance with all applicable sections of the IVS, most specifically, IVS 103: Reporting, specifically Paragraphs 40.1 and 40.2: Valuation Review Reports, IVS Standard 200: Business and Business Interests, and other IVS standards referencing the review process and preparation of review reports to determine the valuation under review's completeness, accuracy, adequacy, relevance, and reasonableness of its analysis and conclusion given law, regulations, and intended user requirements.

This review states an opinion with supporting analysis to explain any significant departures from IVS standards and/or improperly documented areas in the valuation under review. This Valuation Review Report is focused on the four most critical areas in which the valuation under review is not in compliance with IVS. In the interest of efficiency, the report does not address all non-compliant components or any less significant issues of potential non-compliance.

Date of Review

The date of this review is the date of completion, April 2020 ,15.

Reviewer's Technical and Review Competency

The reviewer is technically competent to review the valuation under review. I am an Accredited Valuer in Business Valuation as accredited by TAQEEM, Saudi Authority for Accredited Valuers. I have performed business valuations for over 20 years. I am current on all requirements of TAQEEM.

The reviewer is competent in the performance and documentation of reviews of valuation analyses and reports. The reviewer has completed the required TAQEEM Valuation Review & Management coursework, including exams, and has the necessary expertise and experience to prepare a review.

Intended Purpose
The intended purpose of this report is for use in legal action pertaining to a shareholder dispute. Specifically, the Plaintiff in the current lawsuit alleges that the Defendant sold 123 Company, Inc. for a price less than its fair market value. The report is not intended for any other use.

Intended Users
This Valuation Review Report was prepared for use by Khaled Attorney, bureau, his client, opposing legal counsel and their client, and appropriate personnel of the court handling this litigation. There are no other intended users or intended purpose for this Valuation Review Report, or for any reliance of the report other than that listed above. I accept no responsibility or liability to any party in the event the review is used outside the use for which it was intended, or for any reliance that may be placed on the review by any third party, unless expressly agreed by the reviewer in writing.

Publication
Neither the whole nor any part of this Valuation Review Report, including any references thereto, may be included in any published document, circular or statement or published in any way without prior written approval of the reviewer of the form and context in which it would appear.

Valuation under Review
The valuation under review is the valuation report for the valuation of 123 Company, Inc. to determine the fair market value of a %100 interest. The report was dated March 2020 ,31 with a valuation date of December 2019 ,31, and is presented in Exhibit A.

Author of Valuation Under Review
Mr. Mahomed AbdulRahman of International Valuations

Basis of Value in Valuation Under Review
Fair Market Value

Conflicts of Interest

I am not aware of any conflict of interest preventing me from providing an independent review of the valuation under review and have no bias towards the subject asset, owner, or author of the valuation under review.

I have no material connection with 123 Company, Inc. and do not have any past, present or prospective interests in the subject assets in the valuation under review. I confirm, other than the fixed fee for the review, that I will not benefit from this engagement.

Any additional valuation services regarding this valuation review, such as expert witness work, will constitute a new assignment and a new engagement contract will be required.

Confidentiality

The Valuation Review Report is provided solely for the intended purpose stated above. It is confidential to and for the use of the party(s) to whom it is addressed, and no responsibility is accepted to any third party beyond the intended users noted previously for the whole or part of its contents.

All information provided to complete this Valuation Review Report will be kept confidential and not disclosed to any unauthorized third party. Any information held will be done so in accordance with IVS and the IVSC Code of Ethical Principles for Professional Valuers and with the Professional Standards and TAQEEM Code of Ethics and Professional Conduct.

Confidential information may only be disclosed to third parties when I am required to do so by law or to meet a request from any governmental agency or regulatory body.

II) Review, Problems, and Analyses of Valuation Under Review

The purpose of IVS is to advance the quality of the valuation profession. A primary objective is to build confidence and public trust in valuation by producing standards and securing their universal adoption and implementation for the valuation of assets across the world. The IVSC believes that International Valuation Standards (IVS) are a fundamental part of the financial system, along with high levels of professionalism in applying them.

The IVS establishes a basis for credibility so that a complete and accurate valuation report can be prepared by the valuer and understood by the client and intended users for its intended use.

The valuation under review was issued on March 2020 ,31, and has been assessed using the IVS Edition to determine compliance.

The appropriate IVS standards considered included all of the General Standards as well as Asset Standard IVS 200, Business and Business Interests.

The four critical areas in which the valuation under review is not in compliance with IVS include investigation, valuation procedures, bases of value, and comparable transactions. Discussion regarding each of those areas is presented in the following sections.

Problem 1: Investigation

Problem: The valuation under review does not present evidence that adequate valuation procedures were performed to develop a credible conclusion of value, which is required by the IVS.

Standard: IVS Standard 102: Investigations and Compliance

Standard: IVS Standard 102: Investigations and Compliance
20.1. Investigations made during the course of a valuation assignment must be appropriate for the purpose of the valuation assignment and the basis(es) of value.

20.3. Limits may be agreed on the extent of the valuer's investigations. Any such limits must be noted in the scope of work. However, IVS Standard 105: Valuation Approaches and Methods, Paragraph 10.7 requires valuers to perform sufficient analysis to evaluate all inputs and assumptions and their appropriateness for the valuation purpose.

20.4. When a valuation assignment 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 opinion.

Significant inputs provided to the valuer (eg, by management/owners), may require consideration, investigation and/or corroboration. In cases where credibility or reliability of information supplied cannot be supported, such information should not be used.

Analysis: A valuer must gather and analyze information about those assignment elements that are necessary to properly develop an opinion of value.

IVS Standard 102: Investigations and Compliance, Paragraph 20.1 requires "Investigations . . . must be appropriate for the purpose of the valuation assignment and the basis(es) of value". The valuation under review does not provide sufficient disclosure in several key areas:

1. Procedures performed to develop normalized earnings of 123 Company;
2. Procedures to address the potential value of market participant synergies that potential buyers of 123 Company, Inc. would consider in their development of an indication of value;
3. Procedures to confirm the reasonableness of projected future cash flows; and
4. Potential incremental cash flows associated with market participant cash flow synergies.

Correction: Disclosure of the extent of the investigation performed is incomplete and inadequate as the valuation under review does not identify the work undertaken to address this requirement. Accordingly, the valuation under review is not in compliance with IVS Standard 102: Investigations and Compliance. Specifically, the valuation under review does not meet the requirements set forth in paragraphs 20.1 and 20.4.

Because this this information is omitted, the valuation under review is considered to not be complete and therefore does not provide a credible result.

Recommended courses of action to address this problem would include incorporating and documenting additional valuation procedures pertaining to the missing procedures noted above.

Problem 2: Valuation Procedures

Problem: The valuation under review does not demonstrate that adequate valuation procedures were performed.

Standard(s): Extracts below from IVS Standard 103: Reporting provide insights on important elements of the valuation process which should be disclosed in the valuation report.

10.1. It is essential that the valuation report communicates the information necessary for proper understanding of the valuation or valuation review. A report must provide the intended users with a clear understanding of the valuation.

20.1. The purpose of the valuation, the complexity of the asset being valued and the users' requirements will determine the level of detail appropriate to the valuation report.

30.1. Where the report is the result of an assignment involving the valuation of an asset or assets, the report must convey the following, at a minimum:

(a) the scope of the work performed, including the elements noted in IVS Standard 101: Scope of Work, Paragraph 20.3, to the extent that each is applicable to the assignment,
(b) the approach or approaches adopted,
(c) the method or methods applied,
(d) the key inputs used,
(e) the assumptions made,

Analysis: The valuation under review was prepared to assist management of 123 Company, Inc. in determining an appropriate sales price for the Company. As will be discussed in greater detail in a subsequent section of this Valuation Review Report, the valuation under review does not describe procedures associated with earnings normalization and assessment of potential market participant synergies.

Paragraph 10.1 indicates "It is essential that the valuation report communicates the information necessary for proper understanding of the valuation. . ."

Paragraph 20.1 notes ". . . the complexity of the asset being valued and the users' requirements will determine the level of detail appropriate to the valuation report". Earnings normalization and consideration of synergies are recognized as important elements in the valuation of operating businesses in an acquisition setting. Paragraph 30.1(d) and (e) also tie to this area where procedures are required.

Correction: Disclosure of the valuation procedures performed is incomplete and inadequate as the valuation under review does not describe the work performed to address this requirement. Accordingly, the valuation under review does not comply with IVS Standard 103: Reporting. Specifically, the valuation under review does not meet the requirements set forth in paragraphs 10.1and 20.1

Due to the omission of this information, the valuation under review is considered to not be complete. Therefore, the valuation under review does not demonstrate that a credible assignment result was produced.

Recommended courses of action to address the above include incorporating and documenting additional valuation procedures pertaining to the missing procedures noted above.

Problem 3: Bases of Value

Problem: The valuation under review does not include a comprehensive analysis that appropriately addresses the base of value of fair market value and a valuation of total equity synergies and other elements.

Standard(s): IVS Standard 104: Bases of Value

10.1. Bases of value (sometimes called standards of value) describe the fundamental premises on which the reported values will be based. It is critical that the basis (or bases) of value be appropriate to the terms and purpose of the valuation assignment, as a basis of value may influence or dictate a valuer's selection of methods, inputs and assumptions, and the ultimate opinion of value.

30. IVS-Defined Basis of Value – Market Value

30.1. Market Value is the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.

(g) "After proper marketing" means that the asset has been exposed to the market in the most appropriate manner to effect its disposal at the best price reasonably obtainable in accordance with the Market Value definition. The method of sale is deemed to be that most appropriate to obtain the best price in the market to which the seller has access.

30.4. The Market Value of an asset will reflect its highest and best use (see para 140.1-140.5). The highest and best use is the use of an asset that maximizes its potential and that is possible, legally permissible and financially feasible. The highest and best use may be for continuation of an asset's existing use or for some alternative use.

190. Synergies

190.1. "Synergies" refer to the benefits associated with combining assets. When synergies are present, the value of a group of assets and liabilities is greater than the sum of the values of the individual assets and liabilities on a stand-alone basis. Synergies typically relate to a reduction in costs, and/or an increase in revenue, and/or a reduction in risk.

190.2. Whether synergies should be considered in a valuation depends on the basis of value. For most bases of value, only those synergies available to other participants generally will be considered (see discussion of Entity-Specific Factors in Paragraphs 180.1-180.3).

190.3. An assessment of whether synergies are available to other participants may be based on the amount of the synergies rather than a specific way to achieve that synergy.

Analysis: The valuation was prepared in connection with the possible sale of the operating business and/or total equity of 123 Company, Inc. Given this, IVS Standard 104: Bases of Power, Paragraph 10.1 provides important guidance. Specifically, ". . . a basis of value may influence or dictate a valuer's selection of methods, inputs and assumptions, and the ultimate opinion of value." Given the base of value of fair market value and a valuation of total equity synergies and other elements require assessment in the valuation analysis.

Paragraph 30.1(g) provides "The method of sale is deemed to be that most appropriate to obtain the best price in the market to which the seller has access." For the total equity of an operating company, the seller would have access to the acquisition market. In this market, synergies are an important consideration that can lead to significant increases in value over what might otherwise be indicated based on the standalone earnings of an entity.

Paragraph 30.4 notes market value will reflect its highest and best use and that maximizes its potential. Paragraph 190.1 discusses synergies – the benefit associated with combining assets.

Correction: The valuation under review does not demonstrate a comprehensive analysis that appropriately addressed elements of value associated with a controlling equity interest in an operating company. The purpose of the valuation under review–for management planning in connection with the potential marketing and sale of 123 Company–strongly indicates the need for procedures in this area.

Problem 4: Comparable Transactions

Problem: The valuation under review does not correctly incorporate required elements of IVS Standard 105: Valuation Approaches and Methods and IVS Standard 200: Business and Business Interests to develop a credible indication of value.

Standard(s): IVS Standard 105: Valuation Approaches and Methods

30.7. A valuer should choose comparable transactions within the following context:
(e) sufficient information on the transaction should be available to allow the valuer to develop a reasonable understanding of the comparable asset and assess the valuation metrics/comparable evidence,

30.12. The key steps in the guideline publicly-traded comparable method are to:
(d) make necessary adjustments, if any, to the valuation metrics to reflect differences between the subject asset and the publicly-traded comparables,

50.13. As required by Paragraph 50.12, regardless of the source of the PFI (eg, management forecast), a valuer must perform analysis to evaluate the PFI, the assumptions underlying the PFI and their appropriateness for the valuation purpose. The suitability of the PFI and the underlying assumptions will depend upon the purpose of the valuation and the required bases of value. For example, cash flow used to determine market value should reflect PFI that would be anticipated by participants; in contrast, investment value can be measured using cash flow that is based on the reasonable forecasts from the perspective of a particular investor.

IVS Standard 200: Business and Business Interests

60.8. Adjustments may be appropriate to reflect differences between the actual historic cash flows and those that would be experienced by a buyer of the business interest on the valuation date. Examples include:

(a) adjusting revenues and expenses to levels that are reasonably representative of expected continuing operations,
(c) adjusting non-arm's length transactions (such as contracts with customers or suppliers) to market rates,
(d) adjusting the cost of labour or of items leased or otherwise contracted from related parties to reflect market prices or rates,
(e) reflecting the impact of non-recurring events from historic revenue and expense items. Examples of non-recurring events include losses caused by strikes, new plant start-up and weather phenomena. However, the forecast cash flows should reflect any non-recurring revenues or expenses that can be reasonably anticipated and past occurrences may be indicative of similar events in the future,

100. Business Information

100.1. The valuation of a business entity or interest frequently requires reliance upon information received from management, representatives of the management or other experts. As required by IVS Standard 105: Valuation Approaches and Methods, Paragraph 10.7, a valuer must assess the reasonableness of information received from management, representatives of management or other experts and evaluate whether it is appropriate to rely on that information for the valuation purpose. For example, prospective financial information provided by management may reflect owner-specific synergies that may not be appropriate when using a basis of value that requires a participant perspective.

Analysis: Details of the analysis of the problems summarized above are provided below:

The valuation under review does not comply with IVS Standard 105: Valuation Approaches and Methods, Paragraph 30.7(e) in the analysis of comparable transactions. The valuation was prepared to assist management in the determination of the fair market value for the purpose of selling the Company. The transaction database included acquisitions by private companies where limited disclosure was provided. Further, the disclosed information cannot be confirmed as reliably representing reported financial performance.

Paragraph 30.12(d) notes that in applying the guideline publicly-traded comparable methods " … make necessary adjustments, if any, to the valuation metrics to reflect differences between the subject asset and the publicly-traded comparables". As the appraised interest in the total equity of 123 Company, the valuation should consider potential synergies available to potential willing buyers of the total equity. The publicly-traded companies are not trading on a control basis and an analysis to consider potential incremental cash flows reasonably expected by a purchaser of 123 should be performed.

Paragraph 50.13 notes that PFI (Prospective Financial Information) "cash flow used to determine market value should reflect PFI that would be anticipated by participants." As the total equity is the subject of the valuation and has control over operating policies and decisions, willing buyers would consider market-based synergies that themselves and other potential market buyers would reasonably anticipate for 123.

Correction: The valuation under review does not completely or adequately comply with IVS or use reasonableness in addressing the foregoing elements relating to IVS Standard 105: Valuation Approaches and Methods and IVS Standard 200: Business and Business Interests.

Recommended course of action to resolve the above items is to address the following in performing the analysis:

- Develop an objective basis for earning normalization adjustments, including sufficient valuation procedures to support those determinations,
- Incorporate valuation procedures related to financial projections provided by management

III) Summary

The valuation under review was rendered in a manner that did not comply with the International Valuation Standards 2022 Edition. IVS rules were created to provide credible reports and to protect the overall public trust in the valuation profession.
In my opinion, the valuation under review is not considered to be credible for its intended user(s) as it does not comply with the IVS in the areas identified in this review and the valuation under review is considered to not be complete and as a result its accuracy, reasonableness and relevance cannot be positively confirmed.

Addressing and remedying these omissions would benefit the client and intended user(s) of the valuation under review by providing a clear, logical, and well-reasoned approach to determining the value for the client and meeting the needs of the intended users and its intended use.

IV) Exhibits A – Valuation under review (Omitted attachment)

Valuation of 123 Company, Inc. as of December 2019 ,31, prepared March ,31 2020, by Mr. John Smith of Veritas Valuations

K.3 Machinery & Equipment Sample Review Report

21 April 2020

Mr. Client

ABC Services, Inc.

Nakhil Street

Riyadh, Saudi Arabia

RE: Review of Valuation Report of Tanmiah Company, Inc., prepared by Mshari Abdullah, dated 30 January 2020

Dear Mr. Client:

In accordance with our letter of engagement agreement with you (client) dated 15 March 2020, we are pleased to submit this Review Report (Review). This Review presents our opinion of analyses and conclusions reached in the Valuation under Review (Valuation). The purpose of this review is to determine if those conclusions are reasonable and adequately supported for business audit purposes and to determine compliance with the International Valuation Standards (IVS) 2022 edition. This review does not include an opinion of value.

Our Scope of Work includes reviewing the evidence, analysis and conclusion presented in the Valuation for appropriateness, acceptability, accuracy, logic and completeness as well as a review of the supporting evidence in the related work file. Our engagement does not call for us to perform a site inspection or to arrive at a separate opinion of value.

The Valuation under Review is the Valuation Report of machinery and equipment, prepared by Mshari Hashi with the report date of 30 January 2020. The Valuation under Review is a Valuation Report of (15) custom made Galaxi Star 150 KW installed generators (Subject Assets) located at King Fahad Industrial Port, Jubail. The Valuation was prepared in relation to the acquisition of Tanmiah Company Inc., Oliya Street, Riyadh, which owns and operates the Subject Assets. The primary valuation approach was the cost approach, utilizing the Depreciated Replacement Cost method to arrive at Fair Value defined in IFRS 13 (ASC 820).

This Valuation Review Report was prepared in accordance with the IVS Edition, promulgated by the International Valuation Standards Council. The Valuation Review Report was prepared in compliance with IVS Standard 103: Reporting, Paragraph 40: Valuation Review Reports. Throughout the IVS, other guidance on the performance of valuation reviews is provided. To the best of my knowledge, this Valuation Review Report complies with other guidance on valuation reviews set forth in the IVS.

The Review was prepared for and our professional fee billed to The Company, Inc. and is intended only for use by your internal management and your auditor. It may not be distributed to or relied upon by other persons or entities without our written consent.

The Review opinion is qualified by certain definitions, limiting conditions, and certifications which are set forth in this Review. We particularly draw your attention to the special assumptions of the Review.

Based on our analysis and methodologies employed as described, our opinion is that the value conclusion is not appropriate and reasonable given the data and analyses presented. This Review will discuss the main problems observed, the standard(s) that relates to each problem, analyses of each problem in relation to the standard(s) and the suggested corrections.

We appreciate the opportunity to provide our services to ABC Services, Inc. Please contact us regarding any questions.

Sincerely,

Accredited valuer and valuation reviewer

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Problems Observed

Problem 1: Condition of Assets Not Considered

Problem: Subject Assets operate in a harsh marine environment and according to the pictures in the work file, some of the Subject Assets appear to be significantly corroded. According to the VUR, a day was spent at the site inspection; however, there is no indication of the condition of the equipment and its marketability.

Standards: IVS Standard 300: Plant and Equipment, Paragraph 20.5 states that "all plant and equipment valuers should normally inspect the subject assets to ascertain the condition of the plant and also to determine if the information provided to them is usable and related to the subject assets being valued."

Furthermore, The Saudi Machinery and Equipment Valuation Manual ("M&E Manual") published by TAQEEM states that ascertaining the condition of an item is one of the purposes of the inspection.

Analysis: Based upon pictures of the Subject Assets observed in the work file it appears that at least five of the Subject Assets have a great deal of rust and corrosion on them which would likely reduce their value in the marketplace. No adjustments appear to be made to these items for their condition therefore the analysis is inadequate and therefore not acceptable. This could lead to the Subject Assets likely being overvalued.

Correction: To correct this problem the condition of the Subject Assets must be indicated in the report and

Problem 2: Inaccurate Asset Life

Problem: The analysis in the Valuation indicates that the Subject Assets were given a -15year life. However, given the work environment, items are typically replaced in 10 years. The shorter asset life makes sense given the harsh marine environment in which the Subject Assets operate.

Standards: IVS Standard 300: Plant and Equipment, Paragraph 20.5 (b) 1 states "The suitability of a location may also have a limited life."

The M&E Manual states that "It is up to the valuer to pick a depreciation method which best reflects the asset sector, useful life of the asset, the impact of all forms of obsolescence and the asset's residual value element at end of life."

Analysis: Although the ASA life tables indicate that generators typically have a -15year life, the general ledger in the workpapers indicates that in this case the Subject Assets are typically disposed of when they are 10 years old. This is likely due to the fact that the generators often run around the clock for long periods of time as stated in the Valuation. Therefore age/life analysis in the Valuation is not relevant to the normal useful life being experienced by the Subject Assets and likely results in an over valuing the Subject Assets.

Correction: To correct the problem the cost approach model should be recalculated using a -10year life.

Problem 3: Installation Costs Inappropriately Included in Items Held for Sale

Problem: Three (3) generators are not in service and are currently on the market for sale yet installation cost for these generators is included in the value.

Standards: IVS 300: Plant and Equipment, Paragraph 30.2 states "Using the appropriate basis(es) of value and associated premise of value (see IVS Standard 104: Bases of Value, Sections 170-140) is particularly crucial in the valuation of plant and equipment because differences in value can be pronounced, depending on whether an item of plant and equipment is valued under an "in use" premise."

The M&E Manual states "The principle underlying the IFRS fair value and the market value bases of value is the concept of the highest and best use (HABU) of the subject asset(s). The valuer must therefore explicitly understand and report regarding whether HABU is reflected in how the subject asset(s) are currently utilized, or if HABU would be achieved by other deployment, or even liquidation in the case of assets that are under-utilized or incapable of generating profit in their current configuration."

Analysis: Because the (3) generators are held for sale as of the effective date and are not "in use" their HABU would be as valued at the liquidation price less the selling costs. This value would not include installation costs. Because the items are valued with installation cost in an "in use" scenario, the analysis is incorrect, and they are likely overvalued.

Correction: To correct the problem, market research should be done and the items held for sale should be valued using the Sales Comparison Method.

Summary

The analysis associated with the use of the Cost Approach is unacceptable and not appropriate due to three critical problems within the Valuation under Review. As discussed, the condition of the assets is not considered, the age / life analysis does not reflect the true normal useful life of the Subject Assets, and the concluded value of items held for sale inappropriately include installation costs. Based on this information our opinion is that the value conclusion is not appropriate and logical given the data and analyses presented and therefore the VUR is possibly misleading.

Assumptions & Limitations

Specific Assumptions and Limitations

The Review analysis is based solely on examining the Valuation Report and the related workfile. Information in the workfile is assumed to be complete and accurate. We have not inspected Subject Assets valued in the Valuation report or performed any market research. Had we done so different conclusions may have been reached.

Key Assumptions

Our Review did not extend to any business valuation or economic obsolescence study. We have therefore made the express assumption that the Subject Assets will continue in operation as part of an ongoing, profitable business.
Assumptions about asset ages are based on other relevant asset data dated 20XX.
Given the specialized nature of the Subject Assets, there is not a readily available market for these assets.

Bibliography

2022 International Valuation Standards

The Saudi Machinery and Equipment Valuation Manual (“M&E Manual”) published by TAQEEM IFRS Standards (The International Financial Reporting Standards Foundation)

American Society of Appraisers. Valuing Machinery and Equipment: The Fundamentals of Appraising

Appendix 1: Valuation Under Review

Transmittal Letter

Mr. Client
ABC Services, Inc.
Al Nakhil Street
Riyadh, Saudi Arabia

Valuation of (15) custom made Galaxi Star 1500 KW installed generators located at King Fahad Industrial Port, Jubail in relation to the acquisition of The Company, Inc.

Dear Sirs:

In accordance with your instructions, we have commenced the work set out in our engagement agreement with ABC Services, Inc. ("ABC", "you" or "Client") dated XXX (the "Engagement Agreement"). We are pleased to present the following initial report ("Report") in connection with the valuation of (15) custom made Galaxi Star 1500 KW installed generators (Subject Assets) in relation to the acquisition of Tanmiyah Company, Inc. ("Target" or "Company") tentatively to be completed on XX/XXXX. A valuation date of XX/XXXX ("Valuation Date") has been used as instructed by you on the basis of IFRS Fair Value, in accordance with ABC.

Purpose of our initial report and usage:

This initial information Report has been prepared on the specific instructions of and solely for use by ABC ("Management.").

This report has been prepared in compliance with IVS guidance and TAQEEM regulations.

This initial information Report and its contents may not be quoted, referred to or shown to any other parties except as provided in the Engagement Agreement. We accept no responsibility or liability to any person other than to ABC.

Notwithstanding anything contained herein to the contrary, ABC and its officers, directors, employees, representatives, agents and advisers may freely disclose to any and all persons (without limitation) any tax advice, including the tax treatment and tax structure of any transaction, provided to XXX by XXX, together with all facts that may be relevant to understanding the proposed tax treatment of any transaction and any materials provided by XXX related to such tax treatment and tax structure Based on our initial valuation analysis, assumptions and methodologies employed as described, our opinion of fair value is in the range of SAR ########.

We appreciate the opportunity to provide our services to ABC. Please contact us regarding any questions.

Yours faithfully,

TAQEEM authorised valuer

Conclusion and Overview:

Tangible Assets

- As outlined in the scope of work, we have reviewed the technical list of assets supplied by ABC from the ABC data room and the PME information in the XXX presentation dated XXX (the “Subject Assets”), as well as supplementary data supplied by XXX Management.
- We have also carried out a one day site inspection of the subject Machinery and Equipment (M&E) assets at King Fahad Industrial Port, Jubail
- We made calculations in order to determine current IFRS related fair value ranges for the subject assets, based upon IVS and TAQEEM valuation principles and guidance. We have indicated a likely value range relative to underlying cost and market value data obtained through our research and discussions with market sector parties (insofar as is possible.)
- The primary valuation approach was the cost approach, utilizing the Depreciated Replacement Cost method.
- Intangible assets, real estate and wider business valuation considerations were excluded from this valuation.
- The following sections of the draft interim report provides an overview of the plant as well as the assumptions.
- Key assumptions and limitations are documented in the Appendices.

ref	Net book value	Fair Value	
Currency: SARm		Lower limit	Upper Limit
(15) custom made Galaxi Star 1500 KW installed generators			
Sub Total:			
Valuation Amount			

assumptions and limitations:

• We understand that ABC is purchasing the plant in an asset deal in the range of SAR XXX m. The transaction will include the subject M&E. Based on the list of assets provided by Management we understand the transaction is an asset deal only, and we have not considered any intangibles assets.

• The analysis is based on the Asset List as of XXXX and supplementary information obtained from a one day site inspection and our own research.

Principal Equipment

• The major equipment on site includes (15) custom made Galaxi Star 1500 KW installed generators
• Market Analysis

Analysis

• We were provided with a list of the assets on site and we have contacted dealers in the US and Europe on a discreet basis, performed internet research and utilized our sector knowledge.

ref	Fair Value Range (SARm)	
Asset Class	Lower	Upper
XXX		
Total		

Valuation Methodology and Application

• Given the size and specialized nature of the M&E we believe the Depreciated Replacement Cost (DRC) and market method in part, provide an appropriate valuation methodology on the express assumption (as agreed) that the assets are or can be used as part of a wider, profitable commercial undertaking. Key inputs to the valuation are outlined as below.

• Modern Equivalent Asset (MEA)

• We understand that the site is fully operational and fully utilised. Our valuation is therefore based on the express assumption that the MEA would comprise a facility of the same size as the current plant.

• Gross Replacement Cost

• On the basis of the assumptions made above our Gross Replacement Cost reflects an amount of SAR XXX –SAR XXX (SAR XXX – SAR XXX)

• Obsolescence (Functional and Physical)

• Our obsolescence adjustment is based purely on physical obsolescence. As previously referenced, we have not yet been provided with sufficient detail to assess the utilisation of the current assets and therefore no functional adjustment was made.

• Physical deprecation is allowed for on a straight line basis assuming a target life of 15 years.

• Our lower value GRC provides for a DRC value of SAR XXX (SAR XXX) representative of XX% of GRC.

• The upper value DRC increases the remaining lives to XX years. Applying this to our higher value GRC provides for a DRC value of SAR XXX (SAR XXX) representative of XX% of GRC.

Key Assumptions

• Our brief did not extend to any business valuation or economic obsolescence study. We have therefore made the express assumption that the Subject Assets will continue in operation as part of an ongoing, profitable business.

• Assumptions have been about asset ages based on other relevant asset data dated XXX.

• Given the specialised nature of the particular xxx assets, there is not a readily available market for these assets, and therefore we have adopted the Depreciated Replacement Cost method of valuation.

• We did not, except to such extent as you requested and we agreed in writing, seek to verify the accuracy of the data, information and explanations provided by yourselves, and you are solely responsible for this data, information and explanations. We therefore relied on the information provided by you to be accurate and complete in all material respects.

• For the valuation we have considered the associated installation, construction, delivery and taxes (where applicable).

• We have assumed that where date information is available, this is a proxy for the historical capitalisation dates for the Subject Assets and also a reasonable approximation for their Year of Manufacture (“YOM”).

Three approaches should be considered when determining the value of tangible assets:

- The market approach;
- The income approach; and
- The cost approach.

The nature and characteristics of the asset indicates which approach (or approaches) is most applicable for valuation purposes. These approaches are detailed below:

Market approach

The market comparison approach seeks to determine the current value of an asset by reference to recent comparable transactions involving the sale of similar assets. Adjustments may need to be made to those recorded transactions to take account of differences in the context, usage, timing, location, background and subject matter of the recorded transactions as compared to the assets being appraised.

Income approach

The income approach seeks to determine the current (present) value of anticipated future economic benefits associated with the asset. The net cash flows projected over the appropriate period are discounted back to a net present value using an appropriate discount rate that reflects cost of capital, risk and required return. This process can only be adopted where core assets generate significant and separately identifiable cash flows. If it is not considered possible to accurately determine cash in-flows and out-flows that apply to individual assets then accordingly it is not considered appropriate to apply an income approach to determine the value of individual assets.

Cost approach

The cost approach is an accepted method of valuation used to estimate a value for specialized assets, where lack of suitable market evidence exists. The adoption of a cost estimate assumes the subject entity has adequate potential profitability, but subject to agreement may have to be adjusted for economic obsolescence.

Application of the market approach

The value of an asset is estimated by comparing it to similar assets that have recently been sold or are being offered for sale in the open market, to the extent that such evidence is relevant to the subject assets' usage and to extent such data is available. The process is essentially that of comparison and correlation to the subject assets with adjustments being made for imperfect comparability.

Application of the cost approach

The first step in the cost approach is to determine the Replacement Cost New or Current Replacement New (collectively referred to as "RCN") of a modern equivalent asset of similar capacity/utility. The RCN generally includes the base cost of the asset and certain contributory costs such as sales tax, freight and handling charges, installation, general contractor's costs, and engineering and design costs.

The RCN is then adjusted to reflect the anticipated effective working life of the asset from new, the age of the asset and the estimated residual value at the end of the asset›s working life, based on the following:

Physical depreciation - a reduction in value caused by wear and tear, decay, deterioration due to age, and loss not prevented by current maintenance.

Functional obsolescence - the loss in value or usefulness of a property caused by inefficiencies or inadequacies of the property itself when compared to a more efficient or less costly replacement property. This can be due to new technologies that result in the specified asset suffering from excess operating costs, excess construction costs, over-capacity, inadequacy, or lack of utility.

Economic obsolescence - the loss in value caused by adverse conditions external to the property, such as poor market demand for the product, industrial reorientation, unavailability of transportation, and excessive governmental regulations.

Basis of valuation

Our advice has been provided on the basis of IFRS related Fair Value defined in IFRS 13 (ASC 820): Fair Value Measurement as:
"The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date"

Attachments

- Asset Register
- Asset Age analysis

7

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Closing Letter

21 February 2XXX

ABC Services Inc.
Al Nakhil Street
Riyadh, Saudi Arabia

RE: Tanmiyah Inc, Oliyah Street, Riyadh

Dear [Mr. Client]:
Further to our letter of engagement dated 30 January 20XX, we are pleased to submit the attached final report of our valuation of the machinery and equipment, as of 31 December 20XX. The report presents our opinion of market value along with supporting data and analyses which form the basis of our opinion, in accordance with IVS and TAQEEM guidance and regulations.

The value opinion reported is qualified by certain definitions, limiting conditions, and certifications which are set forth on pages 6 through 8 of the report. We particularly draw your attention to the special assumption disclosed on page 8 of the report, dealing with the deficiencies in data regarding the assets as discussed.

The report was prepared for and our professional fee billed to ABC Services Inc. The report is intended only for use by your internal management, your auditor, and relevant regulatory authorities. It may not be distributed to or relied upon by other persons or entities without our written consent.

The machinery and equipment was inspected by Ibrahim Mohamed, provisional member of TAQEEM, and the valuation was developed by Mr. Ibrahim and Mshari Abdullah, Accredited Fellow of TAQEEM.
If you have any questions concerning the report, please contact Mr. Hashi at [Tel].

Sincerely,

Mshari Abdullah, FR TAQEEM
Managing Partner