Take Control
Financial Reporting and Insurance Valuations

ASSETVALUER PRO

VALUATION STRATEGIES

Before you start the valuation process you first need to determine the overall strategy

While the actual valuation methodology to be employed is critical to ensuring full compliance with the accounting standards the strategy that you use to undertake the valuation process is just as critical. It will determine whether the revaluation is cost effective and successful or fails to provide value-for-money.

Different strategies have different risks and entail different costs. Likewise, the best strategy to adopt will depend on the nature of the organisation, the size of the portfolio and the existing capability within the organisation.

There are five alternative strategies that an entity can employ, and each has its own pros as well as cons. It is important to select the approach that best suits your organisation. The strategies are summarised below and are further discussed later in this document.

	Quality	Cost	Timing	Compliance	Builds Capability	Outputs
100% External Valuer - specialist						
100% External Valuer - Non-specialist						
100% In-House (spreadsheets)						
DIY Software						
Collaboration (software and external consultants)						

100% External Valuer – Specialised

An important distinction for this option is the difference between a valuation firm that 'specialises in financial reporting valuations' and a 'non-specialist valuation firm'. Just as accountants tend to specialise in specific areas such as audit, tax, financial planning, insolvency and reconstruction so do valuers specialise in specific types of valuations. Some specialise in general residential and mortgage finance, some in commercial or highrise while a very small number specialise in the valuation of public sector assets under the accounting standards.

Using specialists ensures high quality and compliance. However, unless the procurement process for the valuation starts eight to nine months prior to financial year end there is a risk that the valuation will not be delivered in time. This is because the firms that specialise in this type of work normally are extremely busy for the six months leading into the financial year-end and for the few months that follow. To ensure delivery of projects on time the work needs to be scheduled well in advance and to enable sufficient time for internal and external audit review.

Using external valuers can of course be costly. Also, what is not often considered is that this approach is that it fails to build any capability within the organisation. As a result, entities become dependent on external consultants to deliver the valuations and over time this can become expensive as well as leading to inconsistencies in output/deliverables from year-to-year. This is exacerbated when different valuers are used for the subsequent valuations and they adopt methodologies or assumptions that are incompatible with those previously adopted.

100% External Valuer – Non-specialist

Unfortunately, many entities fall into the trap of appointing non-specialist valuers to undertake work that they are not qualified or experienced to undertake. The global valuation industry has been experiencing a downturn in some sectors and as a result some valuers are searching for work in areas outside of their areas of experience or expertise. For example – Generalist valuers used to do significant amounts of mortgage finance valuations for the banks but due to the banks developing their own modelling tools, the work available from banks for these valuers has essentially disappeared.

In order to win work they may quote a discounted fee. However often it is because they do not understand what is required or the outputs that the client needs. As a result, the quality and compliance is often done very poorly, the outputs are extremely limited and timeframes tend to be exceeded due the constant queries coming back from clients when reviewing the sub-standard outputs. The 'perceived value-for-money' from a low fee can quickly be consumed and overtaken by additional costs of in-house resources having to attend to issues that should have been properly delivered in the first place.

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100% In-House (spreadsheets)

Every organisation has access to tools such as Excel and as a result, in trying to save money, many will attempt to undertake their own valuations using spreadsheets. While on the face of it such a strategy appears to be a good 'value-for-money' choice - in reality, it is often one of the poorest choices.

This is because for this strategy to be successful it requires those involved to have high levels of spreadsheet skills as well as expert levels of knowledge regarding the accounting standards and concepts as well as valuation methodology. Even with these capabilities there is also the underlying risks associated with spreadsheets. As the complexity of the spreadsheets increases along with the number of rows of data and tabs within the spreadsheet the risk of error increases incrementally. The time taken to audit spreadsheets also is far greater than the time required to audit a proven database system.

While this method appears to be the lowest cost it usually results in low quality, non-complying values. Additionally, it only delivers the values whereas the outputs required from the valuation process also includes detailed methodology reports, valuation certificates, audit packages and disclosure notes. Every time there is a change to an input the spreadsheet requires updating which then has impacts on every other output. All of which need to be adjusted manually and are prone to inconsistent update or error.

DIY Software

Using DIY software, such as Asset Valuer Pro, provides the low cost solution of being able to undertake the valuation in-house but removes the risk of the users not having the necessary expertise and experience with the underlying prescribed requirements.

This is because the detailed methodology, algorithms, compliance requirements and framework are built within the system and the user only needs to enter the raw data. Just like products such as MYOB enable non-accountants to deliver financial statements and tax reports, Asset Valuer Pro enables any entity to deliver their own fully compliant financial reporting and insurance valuations.

Such an approach also delivers real 'value-for-money' because in addition to the pure financial reporting valuation figures and insurance figures Asset Valuer Pro also produces all the additional asset accounting requirements. These include –

- Valuation Summary Report which provides an overview of the entire job and portfolio analysis at both asset level and component level for all assets included in the valuation.
- Asset Class Methodology Report – essential for satisfying audit needs. Includes details of all assumptions and results summarised for analysis
- IFRS13/AASB13 disclosure note information includes quantitative information and details of valuation techniques and inputs
- Detailed analysis of the changes in values from opening balance to closing balance at asset class, asset level and component level. This enables the user to easily see the dollar value impact for each change in one of the inputs
- Audit package including guidance on how to efficiently audit the valuation using the in-built valuation tools
- Financial Statement figures for Depreciation Expense, Loss on Disposal via Renewal, Asset Revaluation Reserve adjustment and full year Movements Reconciliation.

However, Asset Valuer Pro also provides an extensive (and growing) range of detailed Asset Management outputs that many of the Asset Management Systems do not provide or only provide for a very high cost. These include –

- Auto-generation of a 50 years renewal program at asset class, asset and component level.
- 50 year renewal program presented graphically for ease of understanding
- High level portfolio analysis at asset level and by condition score as standard inclusions in the Valuation Summary Report
- Detailed portfolio analysis at asset or component level by condition score or value using a dynamic analytical tool that can be tailored by the user
- Mapping tool enabling display of asset or components filtered by value or condition score
- Detailed analysis of change in scores and values over a five-year period at asset class, asset or component level.

Collaboration (software and consultant)

This approach is best suited to those organisations that want to build internal capability and use DIY software but do not feel that they currently have the internal capability to do so.

Guidance, and support is provided by an accredited expert to train in-house staff on relevant accounting standards, methodology, operation of the system, design of asset hierarchy and framework, etc. The over-riding philosophy is to mentor rather than train.

It provides all the benefits of using the DIY software while leveraging off the expertise of external consultants to ensure the process is as smooth and efficient as possible.

To discuss these strategies or to find out which strategy would provide you with the best value-for-money please contact us by email or phone

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