



# PERSPECTIVES

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## **Navigating The Professional Standards For Performing Forensic Accounting And Valuation Services**

Our perspectives feature the viewpoints of our subject matter experts on current topics and emerging trends.

## INTRODUCTION

Financial experts are engaged to perform forensic accounting and valuation services for a number of reasons. Forensic accounting services are most often performed as part of a litigation or investigation. Valuation services are generally performed for transaction, litigation, compliance, or taxation purposes. Each of these services involves the application of special knowledge and skill and may, at times, overlap.

Forensic accounting and valuation practitioners spend years developing the specialized knowledge and proficiency required to be experts in their chosen fields. Part of this process often involves obtaining professional designations. Such designations generally necessitate minimum college education requirements, professional experience requirements, rigorous examinations, annual reporting, and continuing education.

Each professional designation is regulated by a governing body which oversees the requirements, rules, and regulations applicable to the designation. For example, the American Institute of Certified Public Accountants (“AICPA”) creates and enforces the rules to become and remain a Certified Public Accountant (“CPA”). Such organizations also create professional standards for performing these services.

While various (and potentially conflicting) professional standards may be complex and confusing, it is vital that forensic accounting and valuation services experts understand and adhere to the relevant standards. Failure to do so may result in your work being disregarded or your testimony excluded by the trier of fact.

This discussion begins by defining and discussing some of the forensic accounting and valuation industries’ more common professional organizations and the designations they offer. This is followed by an analysis of those organizations’ professional standards. Finally, it offers some considerations where multiple standards may apply.

## ORGANIZATIONS AND DESIGNATIONS

There are numerous accounting and valuation professional organizations in the United States and abroad. This discussion focuses on the major organizations in the United States. Each financial expert should ensure that he or she adheres to their professional standards.

### AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS (AICPA)

The AICPA is a non-profit professional organization that represents CPAs in the United States. With more than 400,000 members, the AICPA sets standards in the areas of professional ethics, business valuation, financial statement auditing, attestation services, and firm quality control. The AICPA also oversees the testing requirements for a number of professional designations including the following:

#### *Certified Public Accountant (CPA)*

The CPA designation is provided to licensed professional accountants by the Board of Accountancy for each individual state. To become a CPA, you must successfully complete [the Uniform CPA examination](#) and meet certain education and work requirements – including holding a bachelor’s degree in business administration, finance, or accounting. To maintain the CPA license, you must meet strict continuing education requirements.<sup>1</sup> Experts should check with the relevant state board of accountancy and / or local counsel for guidance.

#### *Accredited in Business Valuation (ABV)*

The [ABV designation](#) is awarded to AICPA members who demonstrate knowledge, skill, and experience in the field of business valuation. The ABV examination covers the business valuation process, professional standards, qualitative and quantitative analysis, valuation analysis, financial reporting, and litigation.

<sup>1</sup> Important note: If you are a licensed CPA in one state (e.g., Georgia), you may not be recognized as a CPA by a trier of fact in another state (e.g., North Carolina).

## *Certified in Financial Forensics (CFF)*

The [CFF designation](#) is awarded to holders of a valid CPA license who successfully pass the CFF examination. Upon successfully passing the examination, CFF candidates must have a minimum of 1,000 hours of business experience in forensic accounting within the five-year period preceding the date of the CFF application and meet strict continuing education requirements.

## THE APPRAISAL FOUNDATION

The Appraisal Foundation is the leading authority on the valuation profession and is responsible for setting and publishing congressionally authorized standards and qualifications for real estate appraisers and guidance for all valuation professionals. The Appraisal Foundation also publishes the Uniform Standards of Professional Appraisal Practice (“USPAP”) and offers the National Uniform Licensing and Certification Examination to real estate appraisers. However, this organization does not offer a certification or designation to the business valuation profession. Additional details may be found [here](#).

## AMERICAN SOCIETY OF APPRAISERS (ASA)

The ASA is a United States-based nonprofit organization which serves as a professional affiliation of appraisers of all disciplines including appraisal review and management, business valuation, gems and jewelry, machinery and technical specialties, personal property, and real property. The ASA also oversees the testing requirements for a number of professional designations including the following:

### *Accredited Member (AM)*

The ASA offers the AM designation in six appraisal disciplines and is available to professional appraisers who have met their discipline’s educational requirements, report requirements, and have at least two years of

full-time appraisal experience. Additional details may be found [here](#).

### *Accredited Senior Appraiser (ASA)*

The ASA offers the ASA designation in six appraisal disciplines and is available to professional appraisers who have met their discipline’s educational requirements, report requirements, and have at least five years of full-time appraisal experience. Additional details and checklists may be found [here](#).

## NATIONAL ASSOCIATION OF CERTIFIED VALUATION ANALYSTS (NACVA)

The vision of NACVA is to maintain leadership in the United States and globally as the premier developer of training and resources for consulting professionals by providing services in the areas of business valuation, growing value, litigation consulting, and financial forensics. NACVA oversees the testing requirements for a number of professional designations including the following:

### *Certified Valuation Analyst (CVA)*

NACVA offers the CVA designation for both CPA and non-CPAs with various requirements and exceptions. Additional details may be found [here](#).

### *Master Analyst in Financial Forensics (MAFF)*

NACVA offers the MAFF designation for candidates with relevant educational and professional experience along with testing and recertification requirements. Additional details may be found [here](#).

## CFA INSTITUTE

The CFA Institute serves investment management professionals and engages with the investment industry to advance ethics, market integrity, and professional standards of practice. Furthermore, in its core values,

the CFA Institute endorses high ethical principles and professional standards essential to positive outcomes, and rules and regulations.<sup>2</sup> The CFA Institute oversees the following professional designations:

#### *Chartered Financial Analyst® (CFA®)*

A CFA charter is a designation given to those who have completed both the CFA Program and acceptable work experience requirements. The [CFA Program](#) is a three-part exam that tests the fundamentals of investment tools, valuing assets, portfolio management, and wealth planning. CFA charter holders are qualified to work in senior and executive positions in investment management, risk management, asset management, and more.

#### *Certificate in Investment Performance Measurement (CIPM®)*

The [CIPM program](#) leverages the expertise of the CFA Institute to deliver practice-based approaches and develop skills for effective investment performance evaluation and manager selection.

## PROFESSIONAL STANDARDS

Each professional organization has its own set of professional standards. In fact, some organizations have different professional standards for different types of services but common standards (e.g., ethical standards) across all service lines. For example, the AICPA has separate professional standards for forensic accounting and valuation services with general standards applicable to all AICPA members. To further complicate matters, the professional standards set forth by the AICPA for forensic accounting services are targeted toward litigation and investigation engagements. A retained expert may ask: “What if a business valuation is performed as part of a litigation?” and “Which professional standards apply in that instance?”

AICPA members and CPAs are perhaps the largest contingent working in the forensic accounting and valuation services fields. Furthermore, the professional standards promulgated by the AICPA are likely the most

complex and voluminous. Therefore, we begin our professional standards analyses with the AICPA.

## THE AICPA’S PROFESSIONAL STANDARDS

The AICPA promulgates professional standards in the areas of audit and attestation, governmental, taxation, and forensic accounting and valuation services. This discussion focuses on the forensic accounting and valuation services professional standards.

According to the AICPA, CPAs (and AICPA members who are non-CPAs) engaged to perform forensic accounting, business valuation, litigation, and other engagements must follow the pertinent laws, rules, and standards. The following standards apply to AICPA professionals who provide forensic accounting and valuation services:

- AICPA’s Code of Professional Conduct (the “AICPA Code”)
- Statement on Standards for Forensic Services (“SSF5”)
- Statement on Standards for Consulting Services (“SSCS”)
- Statement on Standards for Valuation Services (“SSVS”)

#### *AICPA Code of Professional Conduct*

The AICPA Code<sup>3</sup> is an extensive document (over 180 pages as of this writing) and applies to all members of the AICPA. The code consists of principles and rules as well as interpretations and other guidance. The AICPA bylaws require that members adhere to the rules of the AICPA Code and must be prepared to justify departures from these rules.

Within the Principles of Professional Conduct section, the AICPA Code outlines a number of member responsibilities, including:

- The Public Interest – Members should accept the obligation to act in a way that will serve the public interest, honor the public trust, and demonstrate a commitment to professionalism.

<sup>2</sup> <https://www.cfainstitute.org/en/about/vision>

<sup>3</sup> <https://us.aicpa.org/research/standards/codeofconduct.html>

- Integrity – To maintain and broaden public confidence, members should perform all professional responsibilities with the highest sense of integrity.
- Objectivity and Independence – A member should maintain objectivity and be free of conflicts of interest in discharging professional responsibilities. A member in public practice should be independent in fact and appearance when providing auditing and other attestation services.
- Due Care – A member should observe the profession’s technical and ethical standards, strive continually to improve competence and quality of services, and discharge professional responsibility to the best of the member’s ability.
- Scope and Nature of Services – A member in public practice should observe the Principles of the AICPA Code of Professional Conduct in determining the scope and nature of the services to be provided.

The remaining portions of the AICPA Code are general principles, rules, and interpretations divided into three sections – Members in Public Practice, Members in Business, Members not in Public Practice and not in Business. The Members in Public Practice group consists of the performance of professional services for a client by a member or member’s firm. Generally, expert work in forensic accounting and valuation services would fall in the category of public practice. The Members in Business category may include roles such as chief financial officers of corporate entities or board of director positions. The final section of the AICPA Code addresses Members not in Public Practice and Not in Business which includes retired or unemployed members.

The AICPA Code outlines a conceptual framework for the various rules and interpretations for each member type and includes sections on the following:

- Independence Issues
- General Standards
- Compliance with Standards
- Accounting Principles
- Acts Discreditable

- Fees and other Types of Remuneration
- Advertising and Solicitation
- Confidential Information
- Form of Organization and Name

It is imperative that forensic accounting and valuation services practitioners and experts (who are AICPA members) have a working knowledge of the rules and interpretations contained in the AICPA Code.

### *AICPA Statement on Standards for Forensic Services (SSFS)*

The AICPA’s SSFS<sup>4</sup> is effective for engagements accepted on or after January 1, 2020, for a member providing services to a client as part of either a litigation or investigation. The term forensic is defined as “used in, or suitable to, courts of law or public debate.”<sup>5</sup> According to the AICPA, forensic accounting services generally involve the application of specialized knowledge and investigative skills by a member to collect, analyze, and evaluate certain evidential matter, and to interpret and communicate findings.

SSFS defines litigation and investigation as follows:

- Litigation – An actual or potential legal or regulatory proceeding before a trier of fact or a regulatory body as an expert witness, consultant, neutral, mediator, or arbitrator in connection with the resolution of disputes between parties. The term litigation as used herein is not limited to formal litigation but is inclusive of disputes and all forms of alternative dispute resolution.
- Investigation – A matter conducted in response to specific concerns of wrongdoing in which the member is engaged to perform procedures to collect, analyze, evaluate, or interpret certain evidential matter to assist the stakeholders (for example, client, board of directors, independent auditor, or regulator) in reaching a conclusion on the merits of the concerns.

If an engagement meets either of the definitions above, SSFS applies, and the SSCS *does not* apply.<sup>6</sup> SSFS does apply for valuation services under the SSVS as part of a litigation or investigation engagement.

<sup>4</sup> <https://www.aicpa-cima.com/resources/download/statement-on-standards-for-forensic-services>

<sup>5</sup> Bryan A. Garner, ed. Black’s Law Dictionary, 10 ed., St. Paul, MN: Thompson West Publishing Co., 2014.

<sup>6</sup> Important note: We frequently see expert reports issued in litigations where CPA practitioners list the Statement on Standards for Consulting Services as the relevant professional standards even after the January 2020, effective date.

The following general standards are required for all AICPA members, including forensic services:

- Professional competence – Undertake only those professional services that the member or the member’s firm can reasonably expect to be completed with professional competence.
- Due professional care – Exercise due professional care in the performance of professional services.
- Planning and supervision – Adequately plan and supervise the performance of professional services.
- Sufficient relevant data – Obtain sufficient relevant data to afford a reasonable basis for conclusions or recommendations in relation to any professional services performed.

Practitioners and experts should make themselves aware of all sections of the SSFS (all provisions of SSFS are not covered in this discussion), but the two final sections are especially important. First, generally, members engaged as an expert witness in a litigation engagement **may not** provide opinions pursuant to a contingent fee arrangement.<sup>7</sup> Second, according to SSFS, the ultimate decision regarding the occurrence of fraud is determined by the trier of fact. Therefore, a member performing forensic services is prohibited from giving an opinion regarding the ultimate conclusion of fraud. This does not apply when the member is the trier of fact. A member may provide expert opinions relating to whether evidence is consistent with certain elements of fraud, or other laws based on objective evaluation.

### *Statement on Standards for Consulting Services*

The SSCS<sup>8</sup> is effective for engagements accepted on or after January 1, 1992, for CPA services to clients involving advice on accounting-related matters, technical disciplines, industry knowledge, and consulting skills. Such services are often referred to as management consulting services.

Given the fact that SSCS does not cover forensic accounting and valuation services, the remaining sections of the SSCS are outside the scope of this discussion.

### *Statement on Standards for Valuation Services*

The SSVS<sup>9</sup> was effective as of June 2007, and includes the valuations of businesses, business ownership interests, securities, or intangible assets. According to the AICPA, such valuations include the following:

- Transactions (or potential transactions), such as acquisitions, mergers, leveraged buyouts, initial public offerings, employee stock ownership plans and other share-based plans, partner and shareholder buy-ins of buyouts, and stock redemptions.
- Litigation (or potential litigation) relating to matters such as marital dissolution, bankruptcy, contractual disputes, owner disputes, dissenting shareholder and minority ownership oppression cases, and employment and intellectual property disputes.
- Compliance-oriented engagements, including (a) financial reporting and (b) tax matters such as corporate reorganizations; S-corporation conversions; income, estate, and gift tax compliance; purchase price allocations; and charitable contributions.
- Planning-oriented engagements for income tax, estate tax, gift tax, mergers and acquisitions, and personal financial planning.

The SSVS establishes standards for members who are engaged to – or as part of another engagement – **estimate the value** of a business, business ownership interest, security, or intangible asset and culminates in the expression of either a conclusion of value or a calculated value. As part of this process, the analyst utilizes valuation approaches<sup>10</sup>, valuation methods, and the use of professional judgment.

SSVS also provides a number of exceptions. Specifically, SSVS is not applicable in the following scenarios:

- To a member who participates in estimating the value of a subject interest as part of performing an attest engagement.

<sup>7</sup> Important note: Outstanding engagement fees may be viewed by some as contingent fee arrangements

<sup>8</sup> <https://www.aicpa-cima.com/resources/download/statement-on-standards-for-consulting-services-no-1>

<sup>9</sup> <https://www.aicpa-cima.com/resources/download/statement-on-standards-for-valuation-services-vs-section-100>

<sup>10</sup> SSVS defines three valuation approaches: income (income-based approach), asset (asset-based approach) also known as cost approach, and the market (market-based) approach.



- When the value of a subject interest is provided to the member by the client or third party, and the member does not apply valuation approaches and methods.
- For internal use assignments from employers to employee members not in public practice.
- For engagements that are exclusively for the purpose of determining economic damages (for example, lost profits) unless those determinations include an engagement to estimate value.
- Mechanical computations do not rise to the level of an engagement to estimate value; that is, when the member does not apply valuation approaches and methods and does not use professional judgment.
- When it is not practical or not reasonable to obtain or use relevant information; as a result, the member is unable to apply valuation approaches and methods.
- (Jurisdictional Exception) If any part of SSVS differs from published governmental, judicial, or accounting authority, or such authority specifies valuation development procedures or valuation reporting procedures, then the valuation analyst should follow the applicable published authority or stated procedures with respect to that part applicable to the valuation in which the member is engaged.

SSVS does provide benefits to AICPA members, including:<sup>11</sup>

- Guidance on “best practices” within the professional valuation and business communities.
- Reducing the uncertainty of the type of analysis to be performed and the content of the appropriate report.
- Comfort to members when defending valuation work during a challenge because it is prepared in accordance with SSVS.
- Establishing common vocabulary for professionals, clients, and other non-member parties to communicate effectively and efficiently with each other.
- Guidance to generally accepted valuation approaches.

- SSVS provides guidance to documents and documentation to be considered in the valuation process.

*When do I know when certain standards apply?*

As an example, suppose you are a CPA and have the ABV designation. Additionally, suppose you are asked to prepare an opinion of economic damages based on the lost value of a business where two valuations are performed, pre-damages date and post-damages date. The opinion will be prepared for litigation.

It is likely that both SSFS and SSVS would apply. SSFS because you are preparing your opinion for a litigation and SSVS because you are performing a valuation analysis as part of your measurement of damages. However, it is ultimately up to the practitioner to recognize the appropriate standards to apply based on their certifications and the scope and purpose of the assignment.

*When do I know if a report is required?*

Report requirements are typically set by the court that will hear your opinion. For example, the federal courts stipulate a report that follows Rule 26 requirements. State courts vary from no reporting requirements to similar requirements as Rule 26. It is up to the practitioner to get instructions from counsel as to the applicable state requirements.

## THE APPRAISAL FOUNDATION'S PROFESSIONAL STANDARDS<sup>12</sup>

The Uniform Standards of Professional Appraisal Practice (“USPAP”) are the generally recognized ethical and performance standards for the appraisal profession in the United States. USPAP was adopted by Congress in 1989, and contains standards for all types of appraisal services, including real estate, personal property, business, and mass appraisal. Compliance is required

<sup>11</sup> AICPA SSVS No. 1 Fact Sheet, p.2

<sup>12</sup> Unless otherwise noted excerpts in this section are taken from <https://appraisalfoundation.org/imis>

for state-licensed and state-certified appraisers involved in federally related real estate transactions.

Specifically, USPAP states that it “is essential that appraisers develop and communicate their analyses, opinions, and conclusions to intended users of their services in a manner that is meaningful and not misleading.”<sup>13</sup>

USPAP addresses the ethical and performance obligations of appraisers through the following sections: (1) Definitions, (2) Rules, and (3) Standards. The definitions “establish the application of certain terminology in USPAP.”<sup>14</sup> Next, the rules set forth requirements and obligations for appraisers conduct before, during, and after an assignment. Finally, the standards “establish requirements for appraisal and appraisal review and the manner in which each is communicated.”<sup>15</sup>

USPAP sets forth the following rules:<sup>16</sup>

- Ethics Rule – sets forth requirements for integrity, impartiality, objectivity, independent judgment, and ethical conduct.
- Record Keeping Rule – establishes the work file requirements for appraisal and appraisal review assignments.
- Competency Rule – presents pre-assignment and assignment conditions for knowledge and experience.
- Scope of Work Rule – presents obligations related to problem identification, research, and analyses.
- Jurisdictional Exception Rule – preserves the balance of USPAP if a portion is contrary to law or public policy of a jurisdiction.

USPAP sets the standards and establishes the following development and communication requirements:<sup>17</sup>

- Standards 1 and 2 – a real property appraisal.<sup>18</sup>
- Standards 3 and 4 – an appraisal review.<sup>19</sup>
- Standards 5 and 6 – a mass appraisal.<sup>20</sup>
- Standards 7 and 8 – a personal property appraisal.<sup>21</sup>
- Standards 9 and 10 – a business or intangible asset appraisal.<sup>22</sup>

The Appraisal Foundation is not a governing authority that enforces USPAP standards. Rather, it promulgates standards and provides resources to organizations, corporations, and governing agencies. Within USPAP there is no provision that governs who or which assignments must comply with the definitions, rules, and standards of USPAP. It is up to the organizations, corporations, and agencies that require USPAP compliance to govern its use.

## THE AMERICAN SOCIETY OF APPRAISERS PROFESSIONAL STANDARDS

The ASA “Principles of Appraisal Practice and Code of Ethics” (the “ASA Code”) were meant to “provide guidance to appraisers and to provide a structure for regulating conduct of members of the [ASA] through disciplinary actions.”<sup>23</sup>

Specifically, according to Section 1.3 of the ASA Code, the ASA Code is promulgated to:<sup>24</sup>

*Inform those who use the services of appraisers  
what constitutes competent and ethical appraisal*

<sup>13</sup> USPAP 2020-2021 Edition, page 1.

<sup>14</sup> USPAP 2020-2021 Edition, page 1.

<sup>15</sup> USPAP 2020-2021 Edition, page 1.

<sup>16</sup> USPAP 2020-2021 Edition, page 1.

<sup>17</sup> USPAP 2020-2021 Edition, page 1.

<sup>18</sup> USPAP defines real property as: the interests, benefits, and rights inherent in the ownership of real estate.

<sup>19</sup> USPAP defines appraisal review as: (noun) the act or process of developing an opinion about the quality of another appraiser’s work (i.e. a report, part of a report, a work file, or some combination of these), that was performed as part of an appraisal or appraisal review assignment; (adjective) of or pertaining to an opinion about the quality of another appraisers works that was performed as part of an appraisal or appraisal review assignment.

<sup>20</sup> USPAP defines mass appraisal as: the process of valuing a universe of properties as of a given date using standard methodology, employing common data, and allowing for statistical testing.

<sup>21</sup> USPAP defines personal property as: any tangible or intangible article that is subject to ownership and not classified as real property, including identifiable tangible objects that are considered by the general public as being “personal” such as furnishings, artwork, antiques, gems, jewelry, collectables, machinery and equipment, and intangible property that is created and stored electronically such as plans for installation art, choreography, emails, or designs for digital tokens.

<sup>22</sup> USPAP defines Intangible assets as: nonphysical assets, including but not limited to franchises, trademarks, patents, copyrights, goodwill, equities, securities, and contracts as distinguished from physical assets such as facilities and equipment.

<sup>23</sup> The ASA Code, page 4.

<sup>24</sup> The ASA Code, pages 6 and 7.



*practice; serve as a guide to its own members in achieving competency in appraisal practice and in adhering to ethical standards; aid in the accomplishment of the mandate of the [ASA]...provide means, auxiliary to those used in examining applications for admission to the grades of Member, Senior Member, and Fellow of the Society, for judging their skill, competence, and understanding of ethical principles; epitomize those appraisal practices that experience has found to be effective in protecting the public against exploitation.*

The ASA Code is organized into the following sections:

- Objectives of Appraisal Work — This section sets forth the various reasons an appraisal may be conducted (e.g., develop an opinion of value of a property, estimate the monetary amount of damages to a property, forecast the monetary earning power of a property, etc.) and the objective nature of appraisal results.<sup>25</sup>
- Appraiser’s Primary Duty and Responsibility — This section delineates an appraiser’s obligation to (a) ascertain the appropriate standard of value for a given assignment, (b) accurately develop their value conclusions or opinions, (c) avoid providing false value conclusions and opinions, (d) attain professional competency and practice ethically, and (e) clearly define the intended users of the appraisal or appraisal report.<sup>26</sup>
- Appraiser’s Obligation to His / Her Client — This section discusses the appraiser’s obligations with regard to (a) confidentiality, (b) competent service, (c) providing unbiased and supportable testimony, (d) avoiding conflicts of interest when serving clients, and (e) adhering to provisions of client contracts.<sup>27</sup>
- Appraiser’s Obligation to Other Appraisers and to the Society — This section outlines the appraiser’s obligations related to the protection of the professional reputation of other appraisers and

upholding the ethical principles included in the Code.<sup>28</sup>

- Appraisal Methods and Practices — This section sets forth standards regarding (a) the selection of appraisal methods, (b) contingent and limiting conditions affecting said appraisal, (c) data limitations and extraordinary assumptions during the course of an appraisal, (d) the communication of conclusions via a range or single concluded value, and (e) collaboration between appraisers and other professionals during the course of an appraisal engagement.<sup>29</sup>
- Unethical and Unprofessional Appraisal Practices — This section puts forward various unethical and unprofessional practices which include, but are not limited to, contingency fees, disinterested appraisals, and client advocacy.<sup>30</sup>
- Appraisal Reports — This section provides specific, required language that members of the ASA must include in their appraisal reports prior to issuance.<sup>31</sup>
- Cause for Disciplinary Action by the American Society of Appraisers — This section outlines the six categories of violations which would result in disciplinary action taken by the ASA.<sup>32</sup>

ASA members are required to remain current with USPAP and conduct themselves and their appraisals within the parameters set forth in the standards.

## NATIONAL ASSOCIATION FOR CERTIFIED VALUATORS AND ANALYSTS PROFESSIONAL STANDARDS

The NACVA Professional Standards were developed to “provide guidance to members and other valuation

<sup>25</sup> The ASA Code, page 8.

<sup>26</sup> The ASA Code, pages 9 and 10.

<sup>27</sup> The ASA Code, pages 11 and 12.

<sup>28</sup> The ASA Code, page 13.

<sup>29</sup> The ASA Code, pages 14 through 16.

<sup>30</sup> The ASA Code, pages 17 through 19.

<sup>31</sup> The ASA Code, page 20.

<sup>32</sup> The ASA Code, page 21.

professionals performing valuation services.”<sup>33</sup> The current version of the NACVA Professional Standards is effective for engagements accepted on or after August 1, 2015. Specifically, the NACVA Professional Standards “are applicable when valuing a business, business ownership interest, security, or intangible assets.”<sup>34</sup>

The NACVA Professional Standards begin with a discussion of “General and Ethical Standards” with which the valuation professionals shall comply when performing professional services. These “General and Ethical Standards” include guidance related to the following topics: (a) integrity and objectivity, (b) professional competence, (c) due professional care, (d) understandings and communications with clients, (e) engagement planning and supervision, (f) the reliance on sufficient relevant data, and (g) confidentiality, among others.<sup>35</sup>

Next, the NACVA Professional Standards set forth the “Scope of Services” which outlines the contexts in which the NACVA Professional Standards apply, the definition of valuation and other services, and any jurisdictional exceptions to valuation professionals performing services in accordance with the NACVA Professional Standards.<sup>36</sup>

Subsequently, the NACVA Professional Standards set forth “Development Standards” which govern any “conclusion of value or a calculated value” determined by a member.<sup>37</sup> This section outlines obligations of the valuation professional regarding specific activities performed during the a valuation engagement such as: (a) the appropriate expression of conclusions and calculations, (b) disclosures regarding data relied upon, (c) the reliance on third-party specialists in order to form opinions or complete calculations, (d) the appropriate valuation approaches and methods a professional may rely upon, (e) the definition of assignment and the determination of the scope of work, and (f) the

applicable information a valuation professional must obtain and analyze in order to put forth a conclusion of value.<sup>38</sup>

Additionally, the NACVA Professional Standards set forth “Reporting Standards” with the objective being “to ensure consistency and quality of valuation reports issued by members of NACVA. The purpose of these reporting standards is to establish minimum reporting criteria.”<sup>39</sup> They also include guidance on the form of the report, contents of the report, and specific standards for reports prepared during the course of litigation engagements.<sup>40</sup>

Finally, the NACVA Professional Standards set forth similar standards as outlined above but for valuation review engagements. Specifically, the NACVA Professional Standards include discussion of *Business Valuation Review*, *Review Engagement Development Standards*, and *Review Engagement Reporting Standards*. The NACVA Professional Standards defines a business valuation review as “the act of process of developing and communicating a member’s opinion regarding the credibility of the work product of another valuation analyst. It is a type of service, whether in written or oral form, intended to provide to identified users that the report is credible.”<sup>41</sup>

Attached as an appendix to the NACVA Professional Standards is the *International Glossary of Business Valuation Terms* which was developed “to enhance and sustain the quality of business valuations for the benefit of the profession and its clientele...”<sup>42</sup> The glossary was developed and adopted by the following organizations:

- AICPA
- ASA
- Canadian Institute of Chartered Business Valuators
- NACVA
- The Institute of Business Appraisers.<sup>43</sup>

<sup>33</sup> NACVA Professional Standards, page 4.

<sup>34</sup> NACVA Professional Standards, page 5.

<sup>35</sup> NACVA Professional Standards, pages 4 and 5.

<sup>36</sup> NACVA Professional Standards, pages 5 and 6.

<sup>37</sup> NACVA Professional Standards, page 6.

<sup>38</sup> NACVA Professional Standards, pages 6 through 8.

<sup>39</sup> NACVA Professional Standards, page 8.

<sup>40</sup> NACVA Professional Standards, pages 8 through 10.

<sup>41</sup> NACVA Professional Standards, page 11.

<sup>42</sup> NACVA Professional Standards, page 16.

<sup>43</sup> NACVA Professional Standards, page 16.

## THE CFA INSTITUTE PROFESSIONAL STANDARDS<sup>44</sup>

According to the CFA Institute: “Professions can only exist within an industry when those acting with transparency, integrity, candor, and trust reach a critical mass. CFA Institute has long championed these values through its *Code of Ethics and Standards of Professional Conduct*.”<sup>45</sup> All CFA Institute members, CFA Program candidates, and CIPM Program candidates are required to follow the CFA Institute Code of Ethics and Standards of Professional Conduct (*Code and Standards*).

The Code of Ethics portion of the Code and Standards sets forth six actions with which all parties (referenced above) must comply:

- “Act with integrity, competence, diligence, and respect and in an ethical manner with the public, clients, prospective clients, employers, employees, colleagues in the investment profession, and other participants in the global capital markets.”
- “Place the integrity of the investment profession and the interests of clients above their own personal interests.”
- “Use reasonable care and exercise independent professional judgement when conducting investment analysis, making investment recommendations, taking investment actions, and engaging in other professional activities.”
- “Practice and encourage others to practice in a professional and ethical manner that will reflect credit on themselves and the profession.”
- “Promote the integrity and viability of the global capital markets for the ultimate benefit of society.”
- “Maintain and improve their professional competence and strive to maintain and improve the competence of other investment professionals.”

The Standards of Professional Conduct portion of the Code and Standards provides best practices and requirements in seven areas for the aforementioned parties:

- “Professionalism” which includes sub-standards on: (a) Knowledge of the Law, (b) Independence and Objectivity, (c) Misrepresentation, (d) Misconduct, and (e) Competence
- “Integrity of Capital Markets” which outlines standards related to (a) Material Nonpublic Information and (b) Market Manipulation
- “Duties to Clients” which includes discussions of (a) Loyalty, Prudence, and Care; (b) Fair Dealing; (c) Suitability; (d) Performance Presentation; and (e) Preservation of Confidentiality
- “Duties to Employers” includes provisions regarding (a) Loyalty, (b) Additional Compensation Arrangements, and (c) Responsibilities of Supervisors
- “Investment Analysis, Recommendations, and Actions” with the following detailed sections: (a) Diligence and Reasonable Basis, (b) Communication with Clients and Prospective Clients, and (c) Record Retention
- “Conflicts of Interest” which includes the following specific topics (a) Avoid and Disclose Conflicts, (b) Priority of Transactions, and (c) Referral Fees
- “Responsibilities as a CFA Institute Member of CFA Candidate” which outlines (a) Conduct as Participants in CFA Institute Programs and (b) Reference to CFA Institute, the CFA Designations, and the CFA Program.

## PROFESSIONAL STANDARDS COMPARISON CONSIDERATIONS

Generally, the standards stated by the abovementioned organizations address the same issues and do not conflict with one another. However, there are differences

<sup>44</sup> CFA Institute Code of Ethics and Standards of Professional Conduct.

<sup>45</sup> <https://www.cfainstitute.org/en/ethics-standards>.

in how each organization addresses certain topics. Some of those topics are briefly discussed in the following section.<sup>46</sup>

## *General and Ethical Standards*

The first such instance of divergence is related to general and ethical standards. General and ethical standards describe the standards for which the member shall perform professional services in compliance with certain principles. The following paragraphs provide specific examples of some of the common differences between organizations' general and ethical standards.

## *Understanding and Communications with Clients<sup>47</sup>*

Guidance included in the NACVA standards and SSVS is aligned regarding the fact that the member should establish an understanding of the nature, scope, limitations of services, and responsibilities of each party. USPAP, on the other hand, states that the appraiser is responsible for determining the scope of work and should disclose it in the report.

In addition, AICPA, USPAP, and NACVA all address communications to the client regarding reservations concerning the scope or findings during the course of an engagement. However, the ASA standards do not address these issues directly.

## *Planning and Supervision<sup>48</sup>*

SSVS and NACVA directly address planning and supervision. While both standards generally state that a member should adequately plan and supervise the performance of services, SSVS adds that the analyst should also be aware of governmental regulations and other professional standards applicable in the engagement.

The ASA does not address planning and supervision but does require a member to comply with USPAP standards. USPAP indirectly addresses planning in the

*Scope of Work Rule.*

## Scope of Services

Scope of services standards describe applicability, services, and jurisdiction. We discuss some of the common differences between organizations' scope of services standards in the following section.

## *Applicability<sup>49</sup>*

The scope of services standard is generally the same among ASA, NACVA, and SSVS and states that these standards are applicable when valuing a business, business ownership interest, security, or intangible asset. In addition, general and ethical standards apply to those providing professional services by members of each respective organization.

USPAP requires that an appraiser must comply with USPAP standards when either the service provided, or appraiser is required to do so by law, regulation, or agreement with the client.

## Development Standards

Development standards include general compliance with the standard, expression of value, reliability of data, the use of a third-party specialist, accepted valuation approaches and methods, identification of the assignment, and fundamental analysis to accomplish the assignment. The standards generally agree on all these topics with the exception of approaches and methods.

## *Approaches and Methods<sup>50</sup>*

The approaches and methods standards generally state that valuation methods are commonly categorized in the three generally excepted approaches. These include the asset-based approach, market approach, income approach, or a combination of these approaches.

<sup>46</sup> The Code and Standards set forth by the CFA Institute is primarily related to actions in global capital markets. Therefore, we did not include a discussion of the Code and Standards in this section. However, the professional designations issued by the CFA Institute provide analysts with important technical financial knowledge that can be used for forensic accounting or valuation analyses.

<sup>47</sup> Excerpts in this section are from USPAP Scope of Work Rule (402-412) and Ethics Rule (174-183), AICPA SSVS – VS. Sec. 100(.03/.13/.16/.17), ASA Ethics Handbook (4.5,46, and 6.5) and NACVA Professional Standards (p.4).

<sup>48</sup> Excerpts in this section are from USPAP Scope of Work Rule (342-412), AICPA SSVS – VS. Sec. 100 (.03), and NACVA Professional Standards.

<sup>49</sup> Excerpts in this section are from USPAP Preamble (1-57), ASA Business Valuation Standards (General Preamble, BVS-I Preamble and Secs. II A and B), AICPA SSVS – VS. Sec. 100 (.01), and NACVA Professional Standards.

<sup>50</sup> Excerpts in this section are from USPAP Standards Rule 9-1(a), ASA Business Valuation Standards (BVS-1), Statement on ASA Business Valuation Standards (1 & 2), AICPA SSVS – VS. Sec. 100 (.31-314), and NACVA Professional Standards.

The rule of thumb<sup>51</sup> method can be applied but should not be independently relied on. SSVS states that “a rule of thumb is typically a reasonableness check against other methods used and should generally not be used as the only method to estimate the value of the subject interest.”<sup>52</sup> In addition, when a rule of thumb is applied, any data sources used and a description of how it was applied should be disclosed.<sup>53</sup>

In addition, the standards agree that professional judgement is used to select the approaches and methods to be used. However, the SSVS adds that when performing a calculation engagement, the analyst should consider any methods agreed upon with the client.

#### Business Valuation Review<sup>54</sup>

One specific instance in which a valuation analyst will cite the applicability standards and development standards discussed above is in a business valuation review.

Generally, a business valuation review is the act or process of developing and communicating a member’s opinion regarding the credibility of the work product of another valuation analyst.

The applicability of this standard depends on the member organization and whether or not the member provides an opinion of value. If the member is providing an opinion of value, the related professional standards apply as discussed earlier. However, if the member is not providing an opinion of value, then the following discussion applies.

NACVA states that if the member does not provide an opinion of value as part of the review, the member need only provide an opinion, including the basis and reason for the opinion, as to whether the report under review is appropriate and not misleading, stating the reasons for any disagreement. The member can provide this opinion in a written or an oral report.

The ASA follows USPAP, which states that in developing an appraisal review, an appraiser must identify the

problem to be solved, determine the scope of work necessary to solve the problem, and correctly complete research and analysis necessary to produce a credible appraisal review.

The AICPA Valuation Standards Subcommittee states that a valuation analyst can perform a review of an opposing expert’s valuation analysis and report, and that such a review and critique assignment is not covered by SSVS. In fact, a valuation analyst can perform a USPAP-compliant review appraisal and not violate SSVS. However, if the valuation analyst reaches his or her own valuation conclusion, then the SSVS valuation engagement standards do apply.

## REPORTING STANDARDS

The objective of reporting standards is to ensure consistency and quality of reports issued by members of the organization.

#### *General Standards*<sup>55</sup>

Generally, the standards state that a member should comply with reporting standards when expressing an opinion of value in a report. However, each organization refers to certain types of reports.

NACVA and the SSVS general reporting standards apply when the member is expressing a conclusion of value or a calculation of value. A valuation analyst typically expresses a conclusion of value in a valuation engagement and a calculation of value in a calculation engagement. Each of these engagements have guidelines set forth by the member organization.<sup>56</sup>

The ASA refers to the application of USPAP for all written or oral reports that result in a conclusion of value and for those that do not result in a conclusion of value.

<sup>51</sup> SSVS defines the Rule of thumb as: a mathematical formula developed from the relationship between price and certain variables based on experience, observation, hearsay, or a combination of these; usually industry specific.

<sup>52</sup> SSVS – VS. Sec. 100 (.39)

<sup>53</sup> SSVS – VS. Sec. 100 (.45)

<sup>54</sup> Excerpts in this section are from USPAP Standards Rule 3, AICPA memorandum published April 29, 2008, and NACVA Professional Standards. The ASA requires members to follow USPAP.

<sup>55</sup> Excerpts in this section are from USPAP Standards Rule 10, ASA Business Valuation Standards (BVS-I), AICPA SSVS – VS. Sec. 100 (.73-.78 and .47-.49), and NACVA Professional Standards.

<sup>56</sup> SSVS – VS. Sec. 100 (.21) and NACVA Professional Standards.

USPAP states that each written report for an interest in a business or intangible asset must be prepared in accordance with the guidelines for either an appraisal report or a restricted appraisal report.

### *Contents of Report*<sup>57</sup>

There are some differences in the types of reports for which the reporting standards outline the contents of a report. Each type of report and what is to be included is outlined by the respective organizations.

The SSVS and NACVA state that a report expressing a conclusion of value should be either a detailed report, summary report, or calculation report and the type of the report should be disclosed.

As previously discussed, USPAP requires the analyst to prepare either an appraisal report or a restricted appraisal report. In addition, USPAP states that the intended user should be disclosed in a restricted appraisal report.

### *Litigation Engagements Reporting Standards*<sup>58</sup>

Some organizations provide for whole or partial exemptions from their reporting standards when the valuation is for litigation purposes.

The SSVS and NACVA standards allow for valuations performed for a matter before a court, an arbitrator, a mediator or other facilitator, or a matter in a governmental or administrative proceeding, to be exempt from the reporting provisions. The reporting exemption applies whether the matter proceeds to trial or settles and exemption applies only to the reporting provisions.

When providing litigation support an analyst must comply with USPAP if required by law, regulation, or agreement, and should comply with USPAP when acting as an appraiser. The ASA provides additional procedural guidelines for analyses prepared in the context of litigation support.

## CONCLUSION

Professional standards promulgated by their respective authoritative organizations can be inherently difficult to navigate. This is especially true when the professional is an accredited member of multiple organizations. While this discussion has covered many of the larger forensic accounting and valuation authoritative organizations there are many more domestic and international organizations that provide forensic accounting and valuation-related credentials. However, ultimately it is up to the practitioner to determine which standards are applicable to an assignment given the credential they hold.

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<sup>57</sup> Excerpts in this section are from USPAP Standards Rule 10, ASA Business Valuation Standards (BVS-VIII), AICPA SSVS – VS. Sec. 100 (.73-.78 and .47-.49), and NACVA Professional Standards.

<sup>58</sup> Excerpts in this section are from ASA Procedural Guideline (PG-1), AICPA SSVS – VS. Sec. 100 (.47/.50), and NACVA Professional Standards. USPAP does not have a reporting exemption for litigation.



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