Guidance on the selection of valuation services

Financial Reporting Direction 103 *Non‑Financial Physical Assets* (FRD 103) requires that entities which consider that an exceptionally material change (greater than or equal to 40 per cent) in the fair value of a class of non‑current physical assets has occurred must inform their Chief Reporting Officer (CRO), who will examine the evidence and will, if appropriate and required, refer the entity to an Approved Valuer for further assessment. The CRO may, after consultation, approve the use of a valuer or specialist other than the Valuer‑General Victoria (VGV), if the entity makes such a request.

This guidance provides further information on matters to be considered by a CRO when deciding on the use of alternative valuation or specialist services.

FRD 103 *Non-financial physical assets* requires that, once a potential movement in asset values is indicated as exceptionally material (greater than or equal to 40 percent), entities will be referred to an Approved Valuer, which will manage any additional valuation procedures required, by either providing the required services or engaging services on behalf of entities. Note that referral to an Approved Valuer is not a requirement for right-of-use assets for which an exceptional material change occurred, but is not prohibited either.

# Valuer‑General Victoria

Valuer‑General Victoria (VGV) is the Victorian State Government’s independent valuation agency, which provides valuation services to the whole of the Victorian Public Sector via in‑house valuers and a panel of valuers. VGV’s asset valuation team can arrange comprehensive Financial Reporting valuations if given sufficient time and proper instructions.

Refer to https://www.propertyandlandtitles.vic.gov.au/valuation/valuer-general-victoria for more information about VGV.

In the case of land, the fair value assessment conducted by an entity on land assets – to obtain an indication on whether the fair value may have changed materially from the carrying amount – uses land value indices supplied by VGV. The VGV also provides indicators of fair value movements for buildings.

VGV is therefore presumed to have a significant knowledge about Victorian Government physical assets and financial reporting valuation requirements. For example, VGV is normally involved in valuing the purchase, sale and lease of high‑value land properties for government. This means that VGV will generally have been involved with the initial purchase of land for government entities.

Unless otherwise approved by the CRO (in accordance with the requirements of FRD 103 *Non‑financial physical assets*), the Approved Valuer for the purposes of FRD 103 is the VGV.

# Consistency of valuations

Consistency of valuation methodologies and processes, as well as high professional standards and independence, is considered crucial for quality financial reporting of asset values. The selection of valuers to conduct revaluations is, consequently, of great importance.

# Alternative approved valuers

There may be occasions when individual entities will seek to engage another valuer for the conduct of a revaluation. In such circumstances, the CRO will need to consider this in the context of the benefits of engaging VGV for the revaluation (for example: local knowledge of Victorian state assets, consistency of valuations).

It would not normally be acceptable for valuers – other than those of equal professional standing (and expertise relevant to Victoria) to that of VGV – to be used as Approved Valuers. Alternative valuers of equal professional standing to VGV include other State Governments’ independent valuation agencies or offices.

If an entity wishes to use a valuer other than those listed above, under FRD 103 *Non-financial physical assets* that entity will be required to produce evidence, to the satisfaction of the CRO that the requested valuer’s work cannot be satisfactorily provided by VGV (or the valuers listed above).

In deciding on a request for any alternatives to VGV, the CRO is required to consult with the relevant audit team and VGV, and also give due consideration to the level of local knowledge and expertise that is appropriate to such an engagement.

DTF and the relevant audit team must also be advised of any engagement not involving VGV or an alternative valuer listed above.

# Specialised assets and valuers

If an entity considers that certain assets are specialised in nature and consequently would be more appropriately valued by a specific type of professional not available to VGV, prior written approval from the CRO to use that specialist will be required. The CRO will consult with VGV, and also the relevant audit team, to confirm that the additional specialist services required cannot be procured by VGV on a reasonable basis. The CRO should also seek advice from VGV on the process required for their procurement.

DTF and the relevant audit team must also be notified of such engagements.

It is expected that in most cases, an Approved Valuer will be able to procure such specialist services and so maintain independent management over the valuation process.

# Use of panel members and agents

The Approved Valuer makes use from time to time of a pool or panel of pre‑qualified valuers to perform valuation services. Approved Valuers may have similar arrangements. FRD 103 *Non‑financial physical assets* allows the use of such panel valuers in the performance of an interim or scheduled revaluation.

However, for another valuer to qualify as an agent, an Approved Valuer must be the party which contracts with the entity to perform the valuation and therefore oversee the work of these valuers. The Approved Valuer must also be responsible for the selection of the valuation procedures to be used by such agents. This oversight function will ensure the quality, consistency and independence of valuations. If an external valuer is appointed to perform a valuation, it will be important to ensure that VGV is notified and the valuation to be provided is reviewed to ensure that the scope of the valuation is consistent with VGV processes and procedures.