

INTRODUCTION

This document should be read in conjunction with the information provided in NCAP 3 Valuation of Assets (including the Appendices). In particular, it should be read together with Appendix 3.3 Content Required from Valuers (or Other Relevant Professionals).

PRESCRIBED REQUIREMENTS

The revaluation of property, plant and equipment is provided for in AASB 116 *Property, Plant and Equipment* and section 23 of the *Financial and Performance Management Standard 2009*.

Queensland Treasury (QT)'s *Non-Current Asset Policies for the Queensland Public Sector* outlines the measurement basis to be used in recognising assets. Asset classes measured at fair value are required to be assessed for revaluation on an annual basis – whether by appraisals undertaken by an independent professional valuer (or other relevant professional) or internal expert, or by the use of appropriate and relevant indices.

FAIR VALUE BASIS

Assets that are required to be revalued must comply with the fair value principles and guidance in AASB 13 *Fair Value Measurement* and QT's *Non-Current Asset Policies*, including the principles about the principal or most advantageous market, market participant assumptions, and highest and best use that is physically possible, legally permissible (taking into account any restrictions) and financially feasible.

The valuations/revaluations must maximise the use of relevant market based (i.e. 'observable') information and select valuation techniques that are appropriate to the assets being valued.

REVALUATIONS CONDUCTED BY INDEPENDENT PROFESSIONAL VALUER (OR OTHER RELEVANT PROFESSIONAL)

The party engaged should be professionally qualified and acting at 'arm's length' e.g. qualified valuers, engineers or quantity surveyors. For some assets, valuations based on in-house expertise may be undertaken where sufficient controls are in place to ensure the integrity and independence of the valuations and the probability of over or under valuation is small. A combination of external and in-house expertise may be appropriate in particular circumstances.

The valuation of land must be undertaken by a valuer who is registered under the Queensland *Valuers Registration Act 1992* and be experienced in valuation approaches for financial reporting for the purposes of AASB 13.

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CONDUCT OF AN EFFICIENT AND EFFECTIVE REVALUATION PROCESS

To ensure the revaluation process is conducted efficiently and effectively the following should be considered:

- use of sample valuation techniques for homogeneous assets*;
- application of 'desktop' valuations (where appropriate for the asset class); and
- valuation of a class of assets on a progressive basis.

* Subject to consultation with the Queensland Government Statistician's Office regarding an appropriate sampling technique.

OTHER ASSET INFORMATION REQUIREMENTS

When undertaking the valuation process, agencies should consider the broader information requirements needed for asset management and asset reporting purposes and identify cost-effective opportunities that may exist to gather this information at the same time. For example, agencies should consider combining the condition assessment process with asset revaluations where this may be undertaken under the one agreement. Generally this will be provided in a partnership arrangement e.g. valuation firm and quantity surveying firm.

When assessing the level of information to be maintained, agencies should be mindful also of their auditor's requirements.

To achieve valuations and supporting information to meet the requirements of AASB 13 and the *Non-Current Asset Policies*, instructing agencies should provide, at a minimum, the following information to the valuer (or other relevant professional) in respect of each asset to be valued:

- the intended purpose of the valuation i.e. whether the valuation is for recognition or only disclosure purposes;
- identifying details including its location, age, current valuation (or original cost, as applicable), physical attributes, current use, latest condition assessments and other relevant information e.g. from register searches;
- legislative, contractual (e.g. lease) and/or other restrictions and details thereof (if applicable) e.g. contamination, environmental requirements, heritage listings etc;
- the asset's revenue and operating expenses; and
- recent maintenance/capital expenditure.

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RESPONSIBILITY FOR THE INFORMATION

The accountable officer or chief executive officer of the reporting agency (or appropriately delegated officer) is responsible for ensuring that valuations used in annual financial statements provide a true and fair view. If a reporting agency does not agree with data contained in the professional's report it must take measures to verify and validate the information by other means. For example, if the professional has provided an estimate of an asset's fair value but the reporting agency does not believe they have appropriately considered the highest and best use of the asset in light of AASB 13 principles, it would need to verify the information another way. The reporting agency should allow for any additional costs involved in verification or validation of the professional's reports.

When an agency appoints another agency to act as an agent to coordinate the revaluation process, e.g. a department appoints its shared service provider to be its agent then, for the purposes of this policy, the appointed agent will be the instructing agency. Where a reporting agency delegates responsibility for revaluations to an agent the extent and level of delegation must be fully documented and agreed between the parties, e.g. in an operating level agreement.

Accountable officers or chief executive officers are responsible for the reported values – this cannot be delegated.

CONTENT OF VALUATION INSTRUCTIONS

To avoid confusion and ambiguity involving valuation issues or problems it is appropriate that instructions be in writing, i.e. letter or contract for services. Variations to the originally agreed instructions must also be confirmed in writing. Instructions or variations to the instructions should be on official letterhead and signed by the accountable officer or chief executive officer or an appropriately delegated officer. For the purposes of this guidance, email is not considered appropriate for providing the final set of, or major variations to, instructions.

The letter or contract should detail the purpose of the valuation, the valuation basis sought, the effective date of valuation, the assets to be valued, the quantity and quality of information available, and the outputs required. Ensuring as much information as possible on the assets to be valued is collated for the professional prior to the process should reduce the time and costs to undertake the valuation process.

Instructing agencies should liaise with their auditors on proposed valuation methodologies.

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VALUATION PROCESS

Instructing agency representatives

Instructing agencies should ensure that they have at least two representatives to liaise with the professional throughout the valuation process. A representative should be available for:

- asset inspections;
- discussing and clarifying information on the assets;
- monitoring of progress reports;
- reviewing and confirming valuations and key assumptions; and
- ensuring that the report has been prepared in accordance with the agency's instructions and the relevant accounting standards and policies.

Written confirmation from valuer (or other relevant professional)

It is important that professionals provide confirmation in writing (i.e. formal letter on official letterhead) of the terms on which they will be acting. The letter should include information about charges, payment of expenses and how they will be calculating expenses and disbursements.

When valuations are made by an internal professional, specific disclosure must be made in the valuation report of the existence and nature of the relationship between the professional and the agency controlling the asset.

Email communication

Email is acceptable for day to day communication, including for regular progress reporting, between the instructing agency and the professional. All progress reports should be monitored and followed up by the instructing agency representatives where necessary. The instructing agency should ensure appropriate records are kept of any email communications regarding the valuation.

When valuation reports are transmitted electronically, the agency should ensure the professional has taken all reasonable steps to protect the integrity of the data and text in the report and to ensure that no errors occur in transmission. The expected steps are set out below:

- identification of the origin, date and time of the sending as well as the destination, date and time of receipt;
- rendering the electronic report as 'read-only' to all except the author; and
- ensuring the digital signature(s) is/are protected and fully under the professional's control.

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Meetings

It is common practice to meet with the professional to discuss preliminary valuations prior to production of the final report. Such meetings are beneficial to understanding the evidence gathered and the conclusions drawn. They also provide an opportunity to clarify any areas of concern. External professionals should be asked to cover any costs involved in meeting attendance in their initial fee proposal.

Steering Committees

When the valuation process is complex in nature and/or there are large volumes of assets to be valued, a steering committee should be established to oversee and monitor the process. Representation should include, at minimum, a member of the audit committee and of senior management of the instructing agency. It would be anticipated the steering committee regularly report to senior management. External professionals should be asked to provide details of any costs involved in steering committee attendance in their initial fee proposal.

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