made against accountants for tax-related services, but valuation-related claims tend to involve larger dollar amounts, according to John Raspante, director of risk ...

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Business valuation specialists live with the tension of running an efficient practice and limiting exposure to professional liability claims.

Standards, such as the AICPA's SSVS No. 1 (Statement on Standards for Valuations Services No. 1) provide guidance on best practices that can help professionals avoid liability while performing valuation services. Utilizing technology that automates processes and reduces opportunities for human error can also help generate accurate, defensible values in a timely manner, especially when the technology is modeled after professional standards.

In addition, simply being aware of common trouble spots in business valuations may help valuation professionals avoid common slips that might generate professional liability claims.

Professional liability claims against CPAs for valuations aren't as frequent as claims

Conflicts of interest. Trouble can arise when a business valuation professional represents both the buyer and the seller for an appraisal or valuation service related to determining the price for an agreement or contract. Raspante said valuation professionals should beware of this risk, and if they are representing both parties, they should have both parties sign a conflict of interest waiver form. Even when both parties waive the conflict, however, juries, judges, mediators and others might look negatively on the valuation professional if they perceive a conflict was present, making it more difficult to defend a claim, he said.

Impaired independence. Ethics Interpretation No. 101-3, Performance of Nonattest Services outlines guidance on ethics-related questions around nonattest services, including valuations. Raspante recommends reviewing the AICPA's FAQs as a helpful guide for maintaining independence for attest services when a client seeks assistance related to valuations.

1. Some practitioners are obtaining certifications related to valuation in an effort to beef up their expertise and networking opportunities with peers. Though certifications provide a leg up in many cases, professionals have to keep in mind that with each certification comes an added standard of responsibility in liability claims. Raspante recommends that professionals be ready to meet the added standards of the accrediting organization.
2. Accountants should only take on engagements for which they have the required skills or knowledge, according to the profession's standards. "Another major claim is the accountant who doesn't specialize or have a familiarization or track record of performing valuation work and takes on the engagement nonetheless," Raspante said. He encouraged firms to consider working with other professionals (joint ventures, specialists) as needed. He noted that one firm had a difficult time defending a liability claim because of a lack of experience in a particular industry –

even though it had performed hundreds of valuations over many years in other

Limitation of use/distribution. Beware that clients might utilize a calculation or valuation performed for one purpose and use it for another, such as a loan application or soliciting investors. This can lead to third-party claims. Raspante recommends valuation professionals include a stipulation limiting the use and distribution of the work – both in the engagement letter and in the report – in bold lettering or highlighted.

Limited/unreliable data. When a client hasn't been in business for a very long time or their industry has limited benchmarking data, valuation professionals should note the assumptions and limited conditions that influence their work. Raspante suggests that this simple action will protect against certain liability claims.

Subsequent events. When something material or significant happens to a business after a valuation is performed, it can obviously impact the accuracy of the previous valuation. Valuation professionals should be clear that their valuation report is valid as of the date it is performed. They should consider including a statement in the agreement letter (perhaps in bold font or initialized by the client) outlining that their responsibility for the work doesn't extend beyond that date.

The complete webinar featuring Raspante can be viewed here.

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