

Impact of professional competency of valuers on accuracy of Fair Value for financial reporting

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Abstract

This study examined the impact of the competency of valuers (CV) on the accuracy of Fair Value (FV) assessment for Property, Plant and Equipment (PPE) for financial reporting. The objective of the study is to address gaps in the body of previous research by exploring the relationship between CV (independent variable) and accuracy of FV (dependent variable), with an emphasis on experience and qualification. It used a mixed method approach, combining a literature review and a survey of 50 chartered valuers and accountants followed by a quantitative analysis by SPSS, employing Pearson correlation test and Regression analysis. The correlation test found a moderate positive correlation ($r=0.422$) between CV and the accuracy of FV and revealed the relationship is significant with p-value of 0.002. The regression analysis also revealed that CV explained 17.8% (R square 0.178) variance in accuracy of FV while a one unit increase in CV is associated with a 44.2 increase in accuracy of FV. The significance of qualification and experience for increasing FV accuracy was reaffirmed by the qualitative analysis and it concludes that CV is a significant factor so greater competency in valuers leads to higher accuracy of FV assessment. Accordingly, it recommends enforcing qualifications and experience requirements in FV assessment, strengthening Continuous Professional Development, more investment in valuer education and training, putting quality assurance mechanism in place, and ensuring valuers to act ethically in FV assessment for financial reporting.

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Introduction

In the ongoing complex financial related reporting, guaranteeing the accuracy and unwavering quality of monetary identifying, especially as to Fair Value (FV) assessment, stays key. Valuers anticipate a basic part in this cycle, blessed with studying resources like Property Plant and Equipment (PPE) as per stipulated norms and rules (Alharasis, E. E., et.al., 2020). Inquiries regarding valuers' competencies and their relationship to the accuracy of FV appraisal emerge as monetary industry areas create, and monetary instruments become more perplexing (Barr-Pulliam, D., et.al., 2020). This study expects to address the issue, encompassing the relationship between valuers' competency and the accuracy of FV assessments for financial reporting purposes, especially for PPE. The assessment intends to uncover knowledge into the assorted thought of valuer competency and its ideas for FV accuracy by diving into the nuances of valuation practices (Doorgakunt, L. D. B. 2019).

This study acknowledges inherent limitations in its methodology and scope. It makes an effort to provide significant insights into the issue, but it may not cover all possible situations or variables (Gorman, R. F. 2023). Besides, the audit's accentuation on PPE could limit its generalizability to other asset classes or adventures (Nordlund, B., et.al., 2022). This paper intends to provide a nuanced understanding of the key factor that impact FV assessment accuracy by recognizing these limitations.

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Objectives of the Study

The key question of this study is: Is there a significant positive relationship between the competency of valuers and the accuracy of FV assessments for financial reporting? So, the study proposes two objectives (DeFond, M., et.al., 2020), (Fomina, O., et.al., 2022) to broadly answer this question: 1) To examine the relationship between valuers' competency and accuracy of FV and 2) To determine impact of valuers' competency on the accuracy of FV assessment. Accordingly, two hypothesis were set namely, **H1** : There is significant positive relationship between Competency of Valuer (independent variable) and accuracy of FV assessment (dependent variable), and **H2** : Competency of Valuer significantly impact of accuracy of FV assessment.

Literature Review

Fair value (FV) for Financial Reporting Purposes is defined as “the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date” (IVS 104, (2022), 90.1). A crucial component of financial reporting is that the FV assessment provides partners with fundamental information about an organization's financial well-being and performance. Principles standard for FV assessment incorporate International Financial Reporting Standards 13 which has built up a single system of standards, and guidance. Accordingly, Sri Lanka Financial Reporting Standards (SLFRS) 13 sets standards and directions for FV assessment of PPE for financial reporting purpose. These measures give a consistence system for conducting high-quality valuations and strengthen consistency, and integrity of FV appraisal.

The valuation accuracy is an important aspect that any property professionals and investment analysts must pay attention. (McAllister P., 2007). It is widely accepted that in any economy, the impact of inaccuracy on property valuation cannot be overstated (Hassan et., al., 2021). Accurate FV is crucial for anyone to make well-informed decisions. The valuation accuracy is the ability to value assets properly using suitable approaches, methods and techniques. In other words, it is a degree of gap between appraised price and transacted price, so smaller the gap, higher the accuracy (Dou, M., et., al., 2021). On the other hand, it is an outcome of using adequate and reliable information, with right competency. Better access to adequate, reliable, and relevant data and competent valuers should lead to more accurate estimates of FV.

Research by French, Crosby and Thorne, (2021), portrayed that the companies that are prone to a particular FV misstatements also engage in earnings and management practices. This inaccurate FV also can be strategically manipulated in reporting earnings, misleading the investors and the stakeholders. Further, it revealed that inaccurate fair value reporting can also lead to significant noncompliance. The research by Dufendach, (2020), also demonstrated a proper correlation between the FV that is in misstatements and also in the increasing regulatory checks, which can potentially result in legal ramifications also to financial penalties. Further, Research by Doorgakunt, (2019), stated that the companies with significant FV measurements can also experience a negative and an abnormal return in stock. This also indicates that the investors are penalized within the firms for an unreliable financial reporting.

In conclusion, it can be said that the negative impacts and challenges associated with inaccurate FV measurement are numerous and this also highlights the need for diligence in the overall process of valuation. Therefore, the effects of inaccurate FV measurements need to be kept in mind while mitigating the challenges (Mat Ridzuan, et al., 2022).

In this context, competency of valuers become very important. According to International Valuation Standards, “A “*valuer*” is an individual, group of individuals or individual within an entity, regardless of whether employed (internal) or engaged (contracted/external), possessing the necessary qualifications, ability and experience to execute a valuation in an objective, unbiased, ethical and competent manner. In some jurisdictions, licensing is required before one can act as a valuer”. (IVS, (2022), 30.1)

It is no doubts that key criterion of competency are Qualifications and Experience of Valuers. There is a significant connection between accuracy associated with FV measurement and competency of valuers. This is a subject of wide exploration in the academic literature. Numerous studies have been done to illuminate the links between qualification, skills and a significant experience of valuers that have an impact on their respective FV assessments. A fundamental requirement is the professional qualification which mainly consists of educational qualification and professional qualification. Valuers are more prepared to perform cautious and dependable FV evaluations when they have the principal instructive and able capacities, including both academic and professional.

Valuation Standards require that a Valuer must hold compulsory formal qualifications in Valuation. Royal Institution of Chartered Surveyors' (RICS) Global Standards stipulate that Valuer must hold necessary academic/professional qualifications in line with technical competencies required for performing a property valuation. The Standards mandates that "Members and firms must make sure that property valuations are performed by appropriately competent individuals who hold necessary expertise in valuation. They are having ensure that services are provided by competent individuals who holds the necessary expertise". (RICS Global Standards, (2022), PS2).

On the other hand, in order to practice as property valuers, those with educational credentials must be a member of an accredited body for property valuation. For example, RICS mandates that those interested in getting its membership must hold accredited academic qualifications mainly in real estate management and valuation in order to be eligible to proceed through the Assessment of Professional Competency (APC) to become a Chartered Valuation Surveyor. A study by Plotnikov and Plotnikova, (2019), discovered that appraisers with a professional qualifications and certificates mainly had a higher accuracy rate of 15% in FV assessment in compared to non-certified counterparts.

Experience is the proficiency and practical knowledge and skills that an individual has accumulated over years of performing a certain task or activity. Plotnikov and Plotnikova, (2019) further found that the appraisers with 10 or more years of experience mainly had a 10% lower error rate than in the value estimation of lower or less experience. Further, the research conducted by Rohmah et al., (2023), depicted a positive correlation ($r=0.75$, $p<0.05$) between the number of years of experience and with the accuracy of a FV estimation. This also indicates a significant implication on the experience and competency on FV accuracy. In valuation practice, the competency of valuers is certainly connected to the accuracy of FV assessment. Numerous studies demonstrate that highly skilled and experienced valuers typically produce FV estimates that are more precise and trustworthy (RICS, 2022). Exact proof reliably exhibits areas of strength for a relationship between valuer skill and the precision of FV assessments (IVS, 2022). Research by Dmitry, Venera and Gayaz, (2022), investigates that there is a significant impact of such professional certifications on the accuracy of FV. There is a meta-analysis that is being done by Cha, Hwang and Kim, (2019), who examined the impact of proper and formal education on the expertise of valuation to the professionals. The findings also revealed that there is an advanced degrees in finance that is related to exhibiting a higher level of competency and also increasing the accuracy in the overall measurements of FV.

In conclusion, it can be said that the competency of valuers is a dynamic concept that is of combination of skills, experience, and qualifications. The formal education, and affiliation to certified professional institution, and practical exposure & experience collective shape in the competency profile of valuers that impact on the accuracy of FV estimation. This also adheres to the industry standards for further underscoring of the pivotal role of valuer competency in the overall maintenance of the integrity of financial reporting (Nordlund, Lorentzon and Lind, 2022).

Methodology

The study begins with an extensive literature review, emphasizing how important valuers' competency is to ensuring accuracy of FV assessment for financial reporting. So, the examining the relationship between competency of valuers and the accuracy of FV assessment is the main objective

of the study. Clear objectives and hypothesis were established so as to address the research gap and the problem. Study's population constitutes chartered valuers and accountants within the Western Province of Sri Lanka where majority of chartered valuers and accountants comes from. Sample of 50 respondents were selected by using probability sampling and stratified random sampling technique.

Then, validated five scale questioner was used to collect data via an online google survey. The gathered data and information were run through reliability, adequacy, and validity check with data cleaning, by using SPSS, then analyzed by employing Pearson correlation and Regression analysis to examine the relationship between competency of valuer and the accuracy of FV assessment. To test the hypothesis and evaluate the impact of variables, the results of the survey and the literature review were critically reviewed. The findings then led conclusion and recommendations for filling in the research gap in ensuring accuracy of FV assessment for financial reporting.

Results and Discussion

Correlation Analysis

The correlation test, as shown in Table 1 below, shows the relationship between two variables: Competency of Valuers and the accuracy of FV assessment. The correlation coefficient stands at 0.422 indicating that there is a moderately positive relationship between two variables. Further, p-value is measured at 0.002 which is less than 0.01, suggesting that observed correlation is unlikely to be due to random chance. Accordingly, it can be concluded that there is a significant and positive relationship between two variables, meaning that improving valuer's competency can increase accuracy of FV assessment for financial reporting purpose.

Table 1 : Result of Correlations Test

		Mean CV	Mean FV
Mean_CV	Pearson Correlation	1	.422**
	Sig. (2-tailed)		.002
	N	50	50
Mean_FV	Pearson Correlation	.422**	1
	Sig. (2-tailed)	.002	
	N	50	50

** . Correlation is significant at the 0.01 level (2-tailed).

Source : Author (2024)

Regression Analysis

Table 2 below shows that R is 0.422 indicating moderate positive correlation between variables while R square at 0.178 suggest that approximately 17.8% of variance in accuracy of FV (DV) can be explained by competency of valuers (DV).

Table 2 : Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.422 ^a	.178	.161	.45966	1.776

a. Predictors: (Constant), Mean_CV, b. Dependent Variable: Mean_FV
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Source : Author (2024)

The ANOVA table 3 below indicates that the regression model is statistically significant ($p=0.002$), meaning there is a significant relationship between two variables and the F-statistic (10.403) suggests that the model explains a significant portion of variance in FV accuracy yet the other factors may contribute to the unexpanded variance.

Table 3 ; ANOVA^a

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	2.198	1	2.198	10.403	.002 ^b
Residual	10.142	48	.211		
Total	12.340	49			

a. Dependent Variable: Mean_FV, b. Predictors: (Constant), Mean_CV
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Source : Author (2024)

As per Table 4 below, Unstandardized coefficient for Mean CV is measured at 0.422, suggesting that one unit increase in competency of valuer leads to increase in accuracy of FV by 42.2% and the significance ($p=0.002$) shows that the impact of competency of valuer on accuracy of FV is statistically significant. Overall, findings suggest that competency of Valuer leads to more accurate FV assessment for financial reporting purpose.

Table 4 : Coefficients^a

Model		Unstandardized		Standardized	t	Sig.
		Coefficients		Coefficients		
		B	Std. Error	Beta		
1	(Constant)	2.224	.548		4.058	.000
	Mean_CV	.442	.137	.422	3.225	.002

a. Dependent Variable: Mean_FV

Source : Author (2024)

Further, the qualitative analysis revealed that experience and qualification are essential variables impacting the FV assessment so, solid qualifications, abilities and sufficient experience of valuers are essential to enhance FV accuracy. The discoveries highlight the significance of utilizing qualified and experienced professional in FV assessment to guarantee more accurate financial reporting. The theoretical analysis keeps in mind the power of affiliation to control FV accuracy. The results feature the criticality of having experienced and educated valuation experts to ensure more accurate FV assessment. As revealed by literature review, as far as possible, appropriately qualified valuers lead to a 20% higher FV accuracy, while valuers with more than 15 years of experience show a 15% higher accuracy rate.

Recommendations

The study clearly shows that the competency of valuer makes significant impact on accuracy of FV assessment, as such, following recommendations are put forward. to guarantee that valuers are duly competent and able in doing accurate FV appraisals across various property segments.

- Lay out clear guidelines on professional qualifications and work experience necessities for valuers to undertake FV assessment of PPE for financial reporting purpose.
- Valuers are urged to partake in continuous professional development programs according to standards set by professional Institutions for staying up to date on industry requirements, nuance standards, norms and good practices in FV assessment.
- Encouraged investment in further education and training for valuers thereby to find opportunities to expand their expertise and improve their ability and expertise to provide accurate FV assessments.
- Regulatory bodies to put a quality assurance mechanism that covers peer assessments, and standard audits which could assist with recognizing learning experiences and keep up with sound valuation rules.
- Strict adherence to ethical standards monitored by professional bodies to ensure accuracy of FV assessment by cultivating responsibility, receptiveness, and trust in the financial reporting.

Conclusion

The survey affirms significant positive relationship between the competency of valuer and the accuracy of FV assessments. Further it revealed that competency of valuer significantly impacts on accuracy of FV assessment. It also suggests that as valuers' competency improves, there is a significant increase in FV accuracy. In this context, the significance of qualifications and experience of valuers to ensure accuracy of FV assessment is highlighted stressing the necessity of employing duly competent valuers to perform FV assessment across diverse property segments and markets. Understanding the meaning of valuers' competency, professional bodies could focus on financing for continuous expert turn of events and preparing for their valuation members. By promoting ethical behaviour among valuation professionals and establishing solid frameworks for quality assurance, it is also possible to improve the accuracy and integrity of FV assessment processes for financial reporting purpose.

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