

31 March 2023

# **Survey Findings Report**

## **Real Property Valuation for Financial Reporting**

## **About the Institute of Singapore Chartered Accountants**

The Institute of Singapore Chartered Accountants (ISCA) is the national accountancy body of Singapore. ISCA's vision is to be a world-class accountancy body of trusted professionals, contributing towards an innovative and sustainable economy. There are over 33,000 ISCA members making their stride in businesses across industries in Singapore and around the world.

Established in 1963, ISCA is an advocate of the interests of the profession. Complementing its global mindset with Asian insights, ISCA leverages its regional expertise, knowledge, and networks with diverse stakeholders to contribute towards the advancement of the accountancy profession.

ISCA is the Designated Entity to confer the Chartered Accountant of Singapore – CA (Singapore) – designation.

ISCA is a member of Chartered Accountants Worldwide, a global family that brings together the members of leading institutes to create a community of over 1.8 million Chartered Accountants and students in more than 190 countries.

For more information, visit [www.isca.org.sg](http://www.isca.org.sg).

## **About ISCA's Professional Standards Division**

As the national accountancy body, ISCA is committed in supporting our members in their careers as they progress and rise to challenges faced along the way. ISCA's Professional Standards Division provides technical support in areas of audit & assurance, financial reporting, sustainability reporting, ethics and specialised industries such as capital markets, banking and finance and insurance; and communicates insights and views to our members and the wider accountancy community. Through our technical committees that comprise representatives from various stakeholders in the corporate reporting eco-system, we hear issues from the ground and conceive initiatives to promote and enhance quality, consistency and best practices to uphold technical excellence.

## **About ISCA's Financial Reporting Committee**

ISCA's Financial Reporting Committee (FRC) comprises representatives from legal and accounting firms, corporate, regulators and academia in the financial reporting eco-system.

FRC's terms of reference include monitoring policy and implementation issues relating to the development of accounting standards internationally and in Singapore, and to identify, understand and address accounting issues faced by professional accountants in Singapore, and provide support through the issuance of guidances.

The terms of reference are executed through FRC with the support of two Sub-Committees, namely the Core Sub-Committee and the Valuation Sub-Committee.

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## 1. Background, objective and scope and approach to the survey

### 1.1 Background and objective of the survey

High-quality and reliable financial reporting are important to maintaining confidence in Singapore's capital markets and upholding Singapore's reputation as a trusted global business hub. Quality valuation is integral to quality financial reporting.

Figure 1 below highlights the important role of professional valuers in the valuation ecosystem.

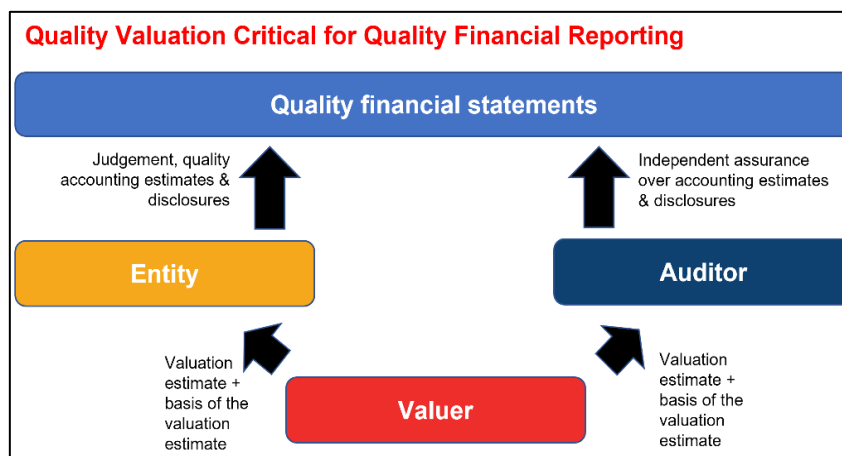


Figure 1

To facilitate the valuation process of real properties such as land and buildings, ISCA issued [ISCA Financial Reporting Guidance 1 \("FRG 1"\) Real Property Valuation for Financial Reporting – Best practices when engaging valuers: Considerations for Scope of Work \(SOW\) and Valuation Report \(VR\)](#) in November 2019. FRG 1 stipulates matters to be considered in the SOW and VR and sets out a recommended workflow of the engagement process among the reporting entity, the valuer and the auditor.

Despite the issuance of FRG 1, ISCA received feedback that auditors faced difficulties in auditing fair value estimates of real properties.

As SGX-listed entities in the real estate sector are significant users of property valuations, ISCA conducted a survey of the auditors of SGX-listed entities in the real estate sector to gain insights into the difficulties faced. The responses will serve as relevant inputs and reference points for future initiatives to be undertaken to further improve the property valuation ecosystem to make it more effective and efficient.

## 1.2 Scope and approach

The online survey was conducted in March-May 2022 and the participants of the survey were auditors of SGX-listed entities in the real estate sector.

Participants were surveyed on the following:

- (a) If the basis of value used in valuation reports is 'fair value' as defined in SFRS(I) 13
- (b) If the valuation reports contains sufficient information to enable auditors to audit the fair value estimates
- (c) If there are differences in the contents of valuation reports issued both for local and overseas properties
- (d) If auditors are able to appropriately evaluate the work of management's expert and auditor's expert (where applicable)
- (e) If appropriate level of audit personnel is involved in the audit of fair value estimates
- (f) If auditors require additional help or support in auditing this area
- (g) How FRG 1 is currently being applied

Respondents have submitted their responses anonymously. For respondents who are agreeable to be contacted for purposes of clarifying any information or responses provided, they can submit contact information before submitting their responses.

## 2. Key findings

We received a total of 37 responses, which represent 37 SGX-listed entities in the real estate sector. Of the 37 responses received, there were 35 entities with Singapore properties and 26 entities with overseas properties.

- (a) For valuation reports whose basis of value is not fair value, respondents noted that no action is typically taken to 'bridge the gap' due to the impression that market value is similar to fair value.**

### Entities with Singapore properties

- 29% and 3% stated that the basis of value used in valuation reports is 'market value' and 'others' respectively
- Of this, 27% stated\* that 'no action' was taken to bridge the gap between the stated basis of value and 'fair value'

### Entities with overseas properties

- 19% and 4% stated that the basis of value used in valuation reports is 'market value' and 'others' respectively
- Of this, 34% stated\* that stated that 'no action' was taken to bridge the gap between the stated basis of value and 'fair value'

\*Reasons provided by respondents include:

- Market value is similar to fair value
- Definition of market value is consistent with fair value as defined in SFRS(I) 13
- Valuation methods used is the same as SFRS(I) 13

- (b) Valuation reports do not contain relevant information on measurement basis / sufficient information for disclosure purposes.**

- (c) Expectation gap exists in that management is of the view that they do not need to be involved in discussions on valuations between auditor and valuer when valuation report does not contain the necessary information to be disclosed under SFRS(I) 13.**

### Entities with Singapore properties

- 11% stated that the valuation reports did not provide relevant information on the measurement basis
- 34% stated that the valuation reports did not contain sufficient information for disclosure purposes
- 67% stated that auditors liaised with the valuers in assessing the appropriateness of the property values in light of the 'missing information'

### Entities with overseas properties

- 4% stated that the valuation reports did not provide relevant information on the measurement basis
- 15% stated that the valuation reports did not contain sufficient information for disclosure purposes
- 50% stated that auditors liaised with the valuers in assessing the appropriateness of the property values in light of the 'missing information'

Top three missing information from the valuation reports were:

- Basis, percentages & rationale used to adjust transacted prices for comparable properties
- Workings &/or computation of fair value
- Basis, percentages & rationale used to weight results from different methods

**(d) Auditors are able to appropriately evaluate the work of management's expert and auditor's expert (where applicable).**

All respondents are able to identify appropriate procedures to evaluate the work of management's expert and auditor's expert (where applicable). The top 3 audit procedures performed are consistent between valuation reports obtained for Singapore properties and for overseas properties.

**(e) Junior auditors are not the main personnel involved in discussion with valuers.**

Entities with Singapore properties

- 97% stated that the main personnel involved in discussion with valuers is audit manager / partner / valuation specialist

Entities with overseas properties

- 96% stated that the main personnel involved in discussion with valuers is audit manager / partner / valuation specialist

**(f) Additional support for auditors in auditing property valuations could be helpful.**

43% stated that additional support for auditors in auditing property valuations could be helpful.

**(g) FRG 1 and the recommended workflow for engagement with property valuers was being applied by entities.**

More than 90% stated that the reporting entities applied the best practices set out in FRG 1 as well as the recommended workflow of the engagement process amongst the valuer, reporting entity and auditor in FRG 1. In addition, there are no major concerns about FRG 1. This suggests that FRG 1 is 'working as intended'.

### 3. ISCA's response to the survey findings

One key finding from the survey is that there are property valuations where the basis of value used is not 'fair value' as defined in SFRS(I) 13 *Fair Value Measurement*. In such instances, the basis of value used is 'market value' and respondents shared that no action is typically taken to 'bridge the gap' as they perceive 'market value' to be similar to 'fair value'. Although there are similarities between 'fair value' and 'market value', there are differences between the two concepts which might lead to differing results in certain situations.

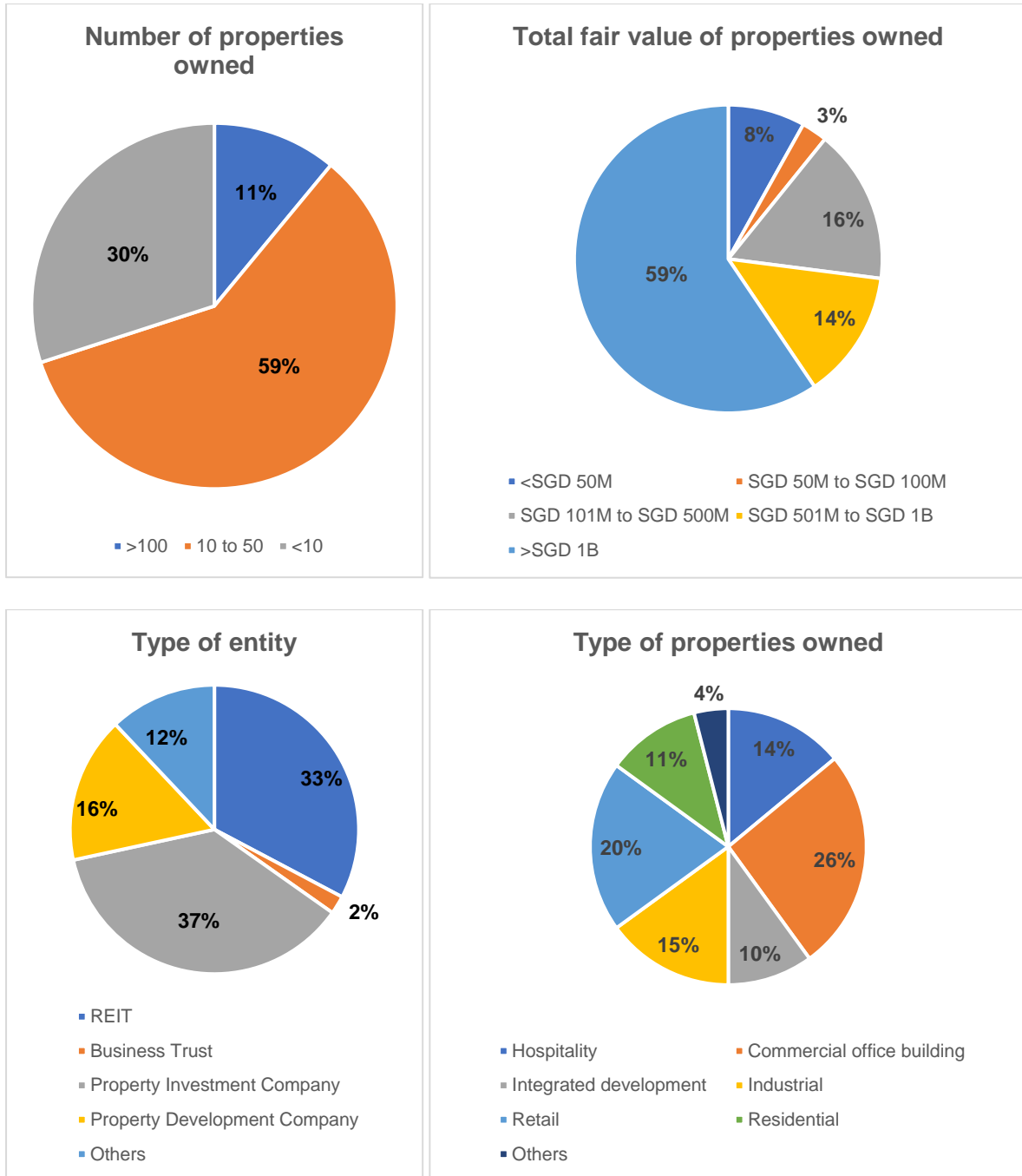
ISCA, through its Financial Reporting Committee (FRC), has issued [Financial Reporting Bulletin 10 Real Property Valuation for Financial Reporting – Fair Value Based on the Highest and Best Use](#) (FRB 10) to explain the concepts of 'fair value' and 'market value', and to highlight that the valuation premise required under SFRS(I) 13 is 'highest and best use'. If a different valuation premise is used in the valuation report, an assessment needs to be undertaken to determine if the resulting valuation is appropriate for financial reporting purposes. FRB 10 also includes an example to illustrate the application of highest and best use as the valuation premise.

ISCA would progressively address the other areas to further improve the valuation ecosystem.



#### 4. Respondent profile

The total number of responses is 37, which represents 37 SGX-listed entities in the real estate sector. Below are the property profiles of the listed entities.



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