

HOW TO SCALE A VALUATION PRACTICE WITHIN YOUR **ACCOUNTING FIRM**



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EXECUTIVE SUMMARY

Many public accounting firms are developing business valuation practices as a way to meet the needs of existing clients while distinguishing the firm with specialized services. Assuming your firm is on the path to offering business valuation services, this whitepaper describes best practices for building the program into one that satisfies clients and is financially rewarding. It covers four focus areas: compliance, quality control, efficiency and staffing.

How We Fit In

Sageworks provides a [web-based valuation solution](#) that helps valuation experts reduce error and save time. [Sageworks Valuation Solution](#) is modeled after AICPA SSVS No. 1 guidelines, enabling firms to follow the major approaches while saving time with document management, report writing and analysis. Designed for ease of use, Sageworks software can be integrated easily into existing firm processes.

INTRODUCTION

A best-in-class business valuation practice will ensure **compliance** with accounting standards and incorporate **quality controls** that ensure a superior analysis, superior report product and superior reputation for your firm.

The practice will have **efficiencies** built into the valuation process and will use tools that maximize senior staff time spent on value-added analysis and review, which can contribute to a favorable pricing model.

Finally, the business valuation practice will appropriately train **staff** and make best use of their strengths while encouraging product uniformity and staff development.

COMPLIANCE

The Internal Revenue Service requires that valuations be performed in accordance with accepted business appraisal standards, and the agency has recognized the American Institute of CPAs (AICPA), the National Association of Certified Valuators and Analysts (NACVA), the American Society of Appraisers (ASA) and the Institute of Business Appraisers (IBA) as having generally accepted business appraisal standards.¹

The AICPA notes that while no license is required to perform business valuations at this time, most state accountancy boards have adopted Statement of Standards for Valuation Services No. 1 ([SSVS No. 1](#)), “Valuation of a Business, Business Ownership Interest, Security or Intangible Asset,” and as a result, it applies to most CPAs performing valuation services.

SSVS No. 1 states that in developing a valuation, the valuation analyst “should consider the three most common valuation approaches”:

- the income-based approach
- the asset-based approach and
- the market-based approach.

¹ “IRS Oversight of CPAs Who Provide Valuation Services,” Michael Gregory and Renee Marino, The Tax Advisor, Nov. 1, 2013, http://www.aicpa.org/publications/taxadviser/2013/november/pages/gregory_nov2013.aspx

COMPLIANCE (CONT.)

Further, during the course of a valuation engagement, the analyst should consider whether valuation adjustments (discounts or premiums for marketability/liquidity or lack of control) should be made to a pre-adjustment value, the standards say.

A quality valuation practice complying with AICPA standards will utilize valuation methods that incorporate the consideration of these approaches while allowing valuation adjustments in a standardized, rigorous way. As the AICPA notes, several additional factors should be considered regarding valuation analysis tools used, whether they are templates developed in house or an automated business valuation platform like [Sageworks Valuation Solution](#), which helps CPA firms determine an accurate and legally defensible value for private companies. These factors include:

- whether the underlying computations are understandable
- whether tools can be modified to account for changes in industry knowledge and data sources
- whether tools can be used to train and develop staff and
- whether the tool allows you to control the quality of the work product.

COMPLIANCE (CONT.)

The web-based Sageworks Valuation Solution is updated continually as industry knowledge and as [benchmarking data](#) sources change, and it easily documents details of underlying assumptions and computations. Sageworks Valuation Solution also leads the valuation analyst to at least consider all three approaches to meet the SSVS No. 1 guidelines, but all three approaches are not required to use the software. At the same time, it gives firms flexibility to build customized templates or to import templates and tailor the data and format to the specific engagement throughout the process (not just during the report production).

QUALITY CONTROL

Quality control in the valuation process should be used to ensure a superior analysis, report and firm reputation. A major source of errors in final valuation reports are the spreadsheet templates used for financial analysis and calculations, according to the AICPA (Toolkit, p. 28). It can be time-consuming to alter these templates for a specific engagement or to adjust charts and graphs. And because spreadsheets are often used from engagement to engagement, or from analyst to analyst, they can sometimes “morph” into something unintended, according to the AICPA. Oversight of the analysis and the final product by practice leadership is critical.

One advantage of using an automated solution is that relevant information from the subject company and from industry comparisons can be imported into a standard, customized format quickly, minimizing errors and maintaining report uniformity across the practice.

Quality of the valuation product is also influenced by the amount of time available for senior valuation analysts to review the final product – both from a technical standpoint and an editorial one. It is ideal to have these more senior staff members spend more time on due diligence and analysis and on ensuring the final product is of professional quality and free of errors rather than on more administrative portions of the business valuation. Automating some of the administrative aspects of valuations can help provide time savings that can then be applied to these higher-value, more analytical tasks.

“If you have more time to spend analyzing and reviewing the valuation because you had something to streamline formalities, the quality of the valuation is going to be better,” said Sageworks Valuation Solution consultant Thomas Bryant.

EFFICIENCY

A best-in-class valuation practice has efficiencies built into the valuation process. Business valuation engagements are often quoted as a flat fee, rather than hourly billing, so efficiencies can more directly fall to the bottom line. One way to create such efficiencies is to utilize tools that automate lower level-analysis aspects of the engagement, which can free up senior analysts for higher level, value-added analysis and review.

Keep in mind that tools used in business valuations need to be flexible enough that the valuation analyst can incorporate his or her own expertise and experience into the process. “There’s no magic formula for valuing a business, so a canned report is simply undesirable,” said Bryant. “That said, a system like the one Sageworks supplies can be a great starting point. The more of the formalities an analyst can streamline, the more time they will have to tweak, edit and review their work to ensure quality.”

In addition to relying on software solutions, delegating less challenging aspects of the valuations to lower level staff members can also help create efficiencies and build a more scaleable business valuation practice. “Leveraging work down to lower level staff members has benefits, such as (1) minimizing fees, which can be a competitive advantage, and (2) developing an experienced team, which will help the practice grow,” according to the AICPA’s Toolkit.

A streamlined process for developing valuation analyses and reports means the practice may have more latitude in its cost structure to provide a competitive bid on the engagement. Or, the premium service line may more easily allow efficiencies to fall to the bottom line.

STAFFING

Appropriately training staff and making best use of their skills is another key component of a quality valuation practice. While some practices add staff, the AICPA notes that moving talented staff into the business valuation practice may have advantages. “It could prove to be cost-effective to use a few hours of employee time for BV while continuing to charge the remaining hours to some other aspects of your practice,” the AICPA says.

Bryant adds, “If you have those talented employees, being able to task them with new things that will bring revenue into the firm is a great way to encourage talent retention and give them something to work toward while freeing up your time for client development or other [value-added, premium billable services](#), such as [exit planning](#).”

He notes that a valuation tool can cut down on training time because it simplifies the process and walks the staff member through a uniform method of gathering the data and generating the report. Intuitive software that is easy to learn and standardized means the staff and you will have more time to review the work and fine-tune efforts, which are both especially important tasks when you’re ramping up valuation services in the firm.

STAFFING (CONT.)

Other methods for developing staff, according to the AICPA, are post-engagement reviews, sharing technical newsletters and holding regular meetings to discuss technical topics.

“BV staff should be encouraged to handle all parts of an engagement, including industry research, setting up the financial model, data entry, drafting a report, meeting with the client, performing the analysis, and file maintenance,” the AICPA says. “The more technical competence he or she develops, the more you can delegate and, in turn, grow your practice.”

CONCLUSION

Scaling business valuation services at an accounting firm is an excellent way to [deepen client relationships](#) and [develop new clients](#). Clients with employee stock option plans are required to have a valuation performed annually, which can be another opportunity to increase revenue at an accounting firm. Leveraging a web-based software solution will help a firm maintain consistent, reliable process as the organization grows. Tasks can be performed in less time, ultimately increasing profitability. Focusing on compliance, quality control, efficiency and staffing can help build a valuation practice that is beneficial not only to clients but also to your firm.

ABOUT SAGEWORKS

[Sageworks](#) provides private-company financial information and develops financial analysis solutions. By doing so, we give accounting and valuation firms, as well as banks, data they can understand and use, which helps them make better financial decisions. We currently work with thousands of financial institutions, private companies and accounting firms across North America. For more information about Sageworks, our financial database or our solutions, visit <https://www.sageworks.com/>.

ADDITIONAL RESOURCES

AICPA Statement on Standards for Valuations No. 1 Toolkit, AICPA (members only, fee),

<http://www.aicpa.org/interestareas/forensicandvaluation/resources/standards/pages/standards-valuation-services-toolkit.aspx>

“Breaking into Business Valuation,” Eddy Parker, Journal of Accountancy, March 2010, (accessed via website 3/19/2014),

<http://www.journalofaccountancy.com/Issues/2010/Mar/20092383.htm>

Internal Revenue Manual, Part 4, Chapter 48, Section 4, Business Valuation Guidelines, (accessed via website 3/19/2014),

http://www.irs.gov/irm/part4/irm_04-048-004.html

“Outlook is bright for forensic and valuation services,” Preston Wilcox, AICPA Forensic & Valuation Services Insider, (accessed via website 3/19/2014),

http://www.cpa2biz.com/Content/media/PRODUCER_CONTENT/Newsletters/Articles_2013/ForensicValuation/outlook-for-forensic-valuation-services.jsp

ADDITIONAL **RESOURCES** (CONT.)

“Valuation of a Business Ownership Interest, Security, or Intangible Asset,” Statement on Standards for Valuation Services No. 1, June 2007, AICPA Consulting Services Executive Committee, , (downloaded via website 3/19/2014),

http://www.aicpa.org/InterestAreas/ForensicAndValuation/Resources/Standards/DownloadableDocuments/SSVS_Full_Version.pdf

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