

Red book terms of engagement and valuation report suite

Guidance on use – August 2015



This suite of documents is aimed at the sole practitioner and small firm only. The chief aim is to facilitate compliance with the requirement for mandatory minimum content of terms of engagement (Red Book VPS 1) and report (Red Book VPS 3.7). Templates are provided for taking valuation instructions, creating terms of engagement and reports and associated covering letters.

All valuations are subject to PS 1 and PS 2 of Red Book. The valuer must also establish whether or not the valuation being carried out is subject to VPS 1 – VPS 4 of Red Book and must comply with those Statements as well as any other relevant mandatory section of Red Book. These templates do not tell the valuer what to say which remains at the valuer's professional and commercial discretion. The templates do, however, offer some guidance for their completion which must be read and applied along with the guidance already set out in the relevant sections of Red Book.

The valuer should be aware that all valuations are commissioned for a particular purpose and each purpose brings into play its own regulatory requirements. The valuer must therefore familiarise themselves with the various valuation applications covered by Red Book and comply accordingly.

The *terms of engagement* and *report* templates are parallel documents. Terms of engagement are primarily a memorandum of what has been agreed between the valuer and client for the avoidance of doubt and confusion. Red Book requires that much of the agreement set out in the terms of engagement is repeated in the report and the valuer will see that many of the headings in terms of engagement are repeated in the report.

Valuation instruction form

The valuer should begin with the *valuation instruction form* which has been designed to enable the valuer to obtain from the client all the information necessary in order to carry out the valuation instruction.

Terms of Engagement

The *terms of engagement template* has all the headings required for compliance with VPS 1 and should be completed based upon the information in the *valuation instruction form*.

The section of the *terms of engagement* template dealing with *assumptions and extent of investigations* follows the guidance to be found in VPS 4.2 of Red Book. The valuer must read and apply VPS 4.2. The vast majority of valuations are carried out based upon limited inspections and investigations, in other words with limited due diligence. This means that valuer is not in possession of the full facts about the property and therefore has to make assumptions. The limits in due diligence must be agreed with the client, clearly stated in then terms of engagement and covered by an agreed and reasonable assumption. It is recommended that the limits in the inspections and investigations and the consequent assumptions are stated together in the same section of the terms of engagement.

Report

The *report template* is set out to follow the list of minimum required content in VPS 3.7. This list closely follows the list in VPS 1 for terms of engagement underlining the point that terms of engagement are a memorandum of the agreed facts upon which the report is to be based. The principle is that the report should precisely mirror the terms of engagement. Thus the valuer can cut and paste many of the statements made in the terms of engagement directly into the report. This will save time and effort and will ensure that the *report* agrees with the *terms of engagement* and that there are no errors or ambiguities.

To report the facts about the property such as its location, description, accommodation etc. these can be reported under the Property to be Valued heading where suggested sub headings are given. The list of headings is not exhaustive.

The results of the inspections and investigations should be set out under the heading Assumptions and Extent of Investigations. The valuer should cut and paste what has been said under the same heading in terms of engagement to ensure consistency and to eliminate errors and ambiguities. Of course, in reporting, the past tense must be used.

The valuer then reports the findings of their inspections and investigations and states whether or not their assumptions remains valid or must be altered in the light of the findings.

The covering letters are examples only and may be adapted as required. The main point to note is that there are no terms of engagement included in the *instruction covering letter* and no advice in the *report covering letter*. Everything is contained within the terms of engagement and report.

Model Letters

The letters are suggestions only and the valuer may adjust and amend as they see fit. The principle is that the letters do not repeat anything which is said in the terms of engagement or report. This avoids unnecessary repetition and avoids having information split across two documents.