



**PHYSICAL INSPECTION:
THE INTEGRAL PART OF VALUATION FOR TANGIBLE ASSETS**

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Physical Inspection of tangible assets is a very important support to compare and analyse the received data from documents with actual existing. As we all know valuation engagement, involves reliance on information supplied by other than the valuer. And based on the credible information consideration is taken to opine the Value. Not only in the valuation profession but other professionals also believe that physical inspection plays a major role in the valuation process.

IBC also advised for physical verification

IBC about Inspection:

□ IBC says in “Valuation of assets intended to be sold” in 7.4-4 in Liquidation Process “The registered valuer will independently estimate the realizable value of assets computed based on internationally accepted valuation standards after **physical verification** of inventory and fixed assets of corporate data”

But when we go through the IVS, there we have a confusion about inspection. IVS says about inspection but not specified the inspection is physical or Virtual.

IVS Appertain to Inspection and Investigation

In The IVS 2025, which will be applicable from 31.01.2025, the Inspection and Investigation chapter has been withdrawn as a General Standard which was previously seen in IVS 2022 and IVS 2020.

IVS 2025 about Inspection

IVS states the following about inspection within the General Standards, IVS 101, Scope of work.

□ **IVS 101 Scope of Work says:**

20.01 The scope of work must specify the following -

(i) The nature and extent of the valuer’s work and any limitations thereon: Any limitations or restrictions on the inspection, enquiry or analysis of the value must be

identified. If relevant information is not available because the conditions of the valuation restrict the investigation, these restrictions and any necessary assumptions or special assumptions (see **IVS 102** Bases of Value, paras 50.01-50.04) made as a result of the restriction must be identified.

(j) The nature and sources of information upon which the valuer relies:

The nature and source of significant information upon which the valuer relies and significant verification or controls to ensure the accuracy of that information.

In **IVS 400** for Real Property Interest, **IVS 300** for Plant and Equipment, and **IVS 410** for Property Development, it was mentioned that sufficient Investigation & inspection are must.

IVS 300 (in sections: 40.05, 40.06, 40.09 & 40.10), **IVS 400** (in sections: 40.02, 40.03, 40.06 & 40.07) and **IVS 410** (in sections: 40.01, 40.02, 40.05 & 40.06) say in Scope of work 40:

1. In addition to the requirements contained within IVS 101 Scope of Work, sections 20 and 30, **investigations made during a valuation engagement must be appropriate for the intended use of the valuation engagement and the basis (es) of value.**

2. Sufficient investigations and evidence must be assembled by means such as inspection, inquiry, research, computation or analysis to ensure that the valuation is properly supported. When determining the extent of Investigations and evidence necessary, professional judgment is required to ensure it is fit for the valuation.

3. The intended use of the valuation, the basis of value, the extent and limits on the investigations and any sources of information that may be relied upon are part of the valuation engagement's scope of work that must be communicated to all parties to the valuation engagement (see IVS 101 Scope of Work).

4. If, during the course of a valuation assignment, it becomes clear that the investigations or limitations included in the scope of work will not result in a credible valuation or information to be provided by third parties is either unavailable or inadequate, or limitations on investigations such as inspection are so substantial that it will not result in a valuation outcome that is adequate for the purpose of the valuation, the valuation must explicitly state that the valuation is not in compliance with IVS (see IVS 100 Valuation Framework, section 40 and IVS 101 Scope of Work, para 20.03).

□ **IVS 400 also says**

40.08 In addition to the requirements to state the extent of the investigation and the nature and source of the information to be relied upon in IVS 101 Scope of Work, the following matters should be considered:

- a) The evidence, if available, required to verify the real property interest and any relevant related interests,
- b) The extent of any inspection,
- c) Responsibility for information on the site area, site characteristics (e.g., ground condition), building characteristics or building floor areas,
- d) Responsibility for information on the area, characteristics (e.g., soil conditions) and productivity-generating attributes of land (e.g.m, fertility of the soil, plantationarea),
- e) Responsibility for confirming the specification and condition of any building,
- f) Responsibility for confirming the specification and condition of the plantation, vegetation, forest or crop,
- g) the extent of investigation into the nature, specification and adequacy of services and facilities,
- h) Responsibility for the identification of actual or potential environmental factors, and
- i) Legal permissions or restrictions on the use of the property and any buildings, as well as any expected or potential changes to legal permissions and restrictions.

□ **IVS 410 also says**

110.01 In the valuation of development property, it is necessary to establish the suitability of the real property in question for the proposed development. Some matters may be within the valuer's knowledge and experience but some may require information or reports from other specialists. Matters that typically need to be considered for specific investigation when undertaking a valuation of a development property before a project commences include:

- a) whether or not there is a market for the proposed development,
- b) **whether the proposed development of the highest and best use of the property in the current market,**
- c) **whether there are other non-financial obligations that need to be considered** (political, environmental or social criteria),
- d) legal permissions or zoning, including any conditions or constraints on permitted development,

- e) limitations, encumbrances or conditions imposed on the relevant interest by private contract,
- f) **rights of access to public roads or other public areas,**
- g) **geotechnical conditions, including potential for contamination or other environmental risks,**
- h) the availability of, and requirements to, **provide or improve necessary services, e.g., water, drainage, sewerage and power,**
- i) the need for any off-site infrastructure improvements and the rights required to undertake this work,
- j) **any archaeological constraints or the need for archaeological investigations,**
- k) sustainability and any client requirements in relation to green buildings,
- l) economic conditions and trends and their potential impact on costs and receipts during the development period,
- m) current and projected supply and demand for the proposed future uses,
- n) the availability and cost of funding,
- o) the expected time required to deal with preparatory matters prior to starting work, for the completion of the work and, if appropriate, to rent or sell the completed property, and
- p) **any other risks associated with the proposed development.**

120. Data and Inputs

120.01 In accordance with IVS 104 Data and Inputs, **the valuer must maximise the of relevant and observable data to the degree that it is possible.**

□ **As per IVS 104, Data & Inputs:**

10.04 **The valuer is responsible for assessing and selecting the data, assumptions and adjustments to be used as inputs in the valuation based upon professional judgement and professional scepticism.**

The IVS 2022 & IVS 2020 about Inspection

20.1. Investigations made during the course of a valuation assignment must be appropriate for the purpose of the valuation assignment and the basis(es) of value. References to a valuation or valuation assignment in this standard include a valuation review.

20.2. Sufficient evidence must be assembled by means such as inspection, inquiry, computation and analysis to ensure that the valuation is properly supported. When determining the extent of evidence necessary, professional judgement is required to ensure the information to be obtained is adequate for the purpose of the valuation.

20.3. Limits may be agreed on the extent of the valuer's investigations. Any such limits must be noted in the scope of work. However, **IVS 105** Valuation Approaches and Methods, para **10.7 requires valuers to perform sufficient analysis to evaluate all inputs and**

assumptions and their appropriateness for the valuation purpose. If limitations on investigations are so substantial that the valuer cannot sufficiently evaluate the inputs and assumptions, the valuation engagement must not state that it has been performed in compliance with IVS.

And now the question is The Inspection physical or Virtual?

IVS says about inspection but not mentioned the inspection physical or Virtual. In Covid time there was a limitation in Physical Inspection and the valuers who deal with tangible assets they had done their inspection by Virtual meeting and with the help of technologies.

By using Satellite, Live stream video, Google Street view, photography feed, Photography by GPS camera, unmanned aircraft (Drone) etc. we can get an overall view. Even with the help of some technologies like AI, 360° camera view by Avatour app, Look around of Apple maps etc. we can also take our consideration.

How do these **Virtual Inspections** help us? where

- Property has some access issue
- Client's requirement
- Natural and topographical obstructions
- Needs a Review
- For portfolio valuation
- Already physical inspection done previously
- The subject asset's area (mainly land) is too large to demarcate properly.
- For time saving and reduce the cost for physical Inspection.
- Enhance safety for Inspector in hazardous condition.

With these advantages we can go to some extent of inspection but when the question comes "Sufficient investigations and evidence must be assembled by means such as inspection, inquiry, research, computation or analysis to ensure that the valuation is properly supported" and "the valuer must maximise the characteristics of relevant and

observable data to the degree that it is possible” as we found in **IVS 2025, IVS 2022 and IVS 2020** , there we need the physical Inspection to overcome the valuation risk. Now if we go through the other standards ...

RICS about Inspection

A visit to a property or inspection of an asset, to examine it and obtain relevant information, in order to express a professional opinion of its value.

VPS 2 Inspections, investigations and records 1 Inspections and investigations

Inspections and investigations must always be carried out to the extent necessary to produce a valuation that is professionally adequate for its purpose. The valuer must take reasonable steps to **verify the information relied on in the preparation of the valuation.**

EVS about Inspection:

6.2 Property Inspection - As part of obtaining personal knowledge of the subject property, the valuer should make his own visual inspection of it. This will usually include

The interior of the buildings, the locality and the environment to record all matters which appear relevant to the value of the property. Exceptionally, if instructed or agreed by the client, there may be a more limited inspection or the valuer may be authorised to rely on an inspection report prepared by a third party but, in each case, this should then be recorded in the valuation report. A valuation relying on a third-party inspection carries risks as to the quality of that inspection and the interpretation that the valuer has made of it. **The valuer should draw attention to the fact that his conclusion may have been different if he had made a personal and proper inspection.**

The nature and scale of the property inspection(s) will depend on the purpose of the valuation and the basis agreed with the client. There may be circumstances, such as the provision of a portfolio valuation, where it is appropriate to restrict the inspection(s), for example, to the exterior and locality only or a desk valuation. If an inspection has not been made, or it was not carried out in a proper way to gather all necessary information, this fact and the reason for the restriction must be recorded in the valuation report or certificate as factors which could significantly affect the property's value may not have been identified.

Why Tangible Assets valuer needs Physical Inspection

- To identify the physical Existence of subject assets.
- To understand the valuation risk.
- To observe thoroughly the physical condition of assets.
- To compare the information received with real existing
- To verify the current and past use of the subject assets.
- To consider assumption and special assumption in a significant way.

As per IVS 400 **40.09** Typical examples of special assumptions that need to be agreed and confirmed in order to comply with IVS 101 Scope of Work, para 20.03 (k) and IVS 102 Bases of Value, para 50.04 include but are not limited to:

- a) That a defined physical change had occurred, e.g. a proposed building is valued as if complete at the valuation date,
- b) That there had been a change in the status of the property, e.g. a vacant building had been leased or a leased building had become vacant at the valuation date,
- c) That the interest is being valued without taking into account other existing interests,
- d) That the property is free from contamination or other environmental risks,

- To understand the obsolescence of the asset.
- To predict the expected future life.
- To measure the assets by qualitative and quantitatively by eye estimate.
- To identify major/minor defects
- To take the decision whether needs any critical inspection
- To identify the legal issues /threat for acquisition /demarcation and access issue etc.
- To assess the percentage of construction complete for under construction structure
- To get an idea of locality/surroundings
- To get an idea for upcoming/future development this may influence/impact on the bases of value.
- To get a clear picture regarding consideration of valuation assignment.

By physical inspection one can identify the disguised issue /complexity or whether there anyuncertainty. A physical Inspection always provides a comprehensive and hands on examination of the assets to evaluate the condition of assets as well as identify all concerns.

With the help of advanced technology definitely we are stepping to the fore. But by physicalinspection we can minimize the misconception of assignment related issues and create an understanding by means of reliance on information.

