What Codon provides when an auditor reviews a valuation

A valuation of shares or options usually supports a figure in the accounts: the share-based payment expense under ASC 718, IFRS 2 or FRS 102 section 26. The company's auditor tests that figure, and auditing standards ask the auditor to evaluate the valuer as management's expert (ISA (UK) 500, paragraph 8, and the equivalent US standards).

What the audit team receives

1. **The report.**
   It states the purpose, the standard of value, the methods, each input with its source and date, and the calculation.
2. **The supporting schedules.**
   The capitalization table, the breakpoints, the allocation between share classes and the volatility data, in a form the audit team can re-perform.
3. **Written answers.**
   Codon answers the audit team's questions on the method, the inputs and the conclusion in writing.
4. **A call with the valuer.**
   The appraiser who prepared the valuation speaks to the audit team, with the company's permission.
5. **The reconciliation.**
   Where the company has an IRC 409A value and HMRC values, a written reconciliation states each difference between them.
6. **Information on the valuer.**
   The engagement team's credentials, the scope in the engagement letter and a statement of independence.

Questions auditors ask, and where the report answers them

Question	Where the report answers it
Why was this method chosen?	Valuation approach: why each approach was used or set aside
Does the equity value agree with the latest financing?	Equity value: the backsolve reproduces the investors' price
How was the volatility derived?	Inputs: the guideline public companies, the period and the calculation
How is the discount for lack of marketability supported?	Discounts: the models, their results and the discount concluded
How sensitive is the conclusion?	Sensitivity: the value at other terms and volatilities
Why do the 409A value and the HMRC value differ?	Reconciliation: each difference, with its amount per share
What happened after the valuation date?	Events considered between the valuation date and the report date

How the support works

- **The company is Codon's client.** Codon acts as the company's valuer. The audit team sends its questions through the company, or directly with the company's permission.
- **Support continues after delivery.** Codon gives reasonable support after delivery, including queries from the IRS, HMRC and the company's auditor.
- **The conclusion is Codon's own.** Codon revises a conclusion to correct an error or to reflect facts it did not have at the valuation date. A new valuation date is a new engagement.
- **Codon is independent.** Codon has no financial interest in any company it values, its fee does not depend on the value concluded, and it has no fee arrangement with any audit firm.

Credentials and standards

The engagement team's credentials are UK Chartered Accountant (ACA) and Accredited in Business Valuation (ABV), a credential of the American Institute of Certified Public Accountants (AICPA). IRC 409A valuations follow Treas. Reg. 1.409A-1(b)(5)(iv)(B), the AICPA Statement on Standards for Valuation Services (VS Section 100) and the AICPA Accounting and Valuation Guide for equity securities issued as compensation. HMRC valuations follow TCGA 1992, Part 8, Schedule 5 to ITEPA 2003 and HMRC's Shares and Assets Valuation Manual.

General information about Codon's service; not audit, tax or legal advice. The engagement letter sets the terms of each engagement.