Professional Excellence Bulletin

Information Sources

Appraisers commonly use information and expertise provided by others in an appraisal report, either as outright information included in the report, or as background information from which conclusions are drawn. When relying on other appraisers with whom you are associated in preparing the report, it is easy to protect yourself from being found solely liable for a report’s deficiencies. But how do you protect yourself if the information from a third party proves to be inaccurate?

First of all, who are the people whose information could cause problems? The list could be pages long, but a few are: engineer, architect, listing agent or selling agent, environmental technician, city planner, lawyer, mortgage broker, contractor, quantity surveyor, leasing agent, accountant, property manager. As you can see, the risk of being given incorrect information is considerable. But no matter who the outside person is with whom you consult, there are some basic rules to follow. They may not prevent a claim, but they certainly can deter claims.

Always reveal the source of your information

This rule is especially important if you have not carried out an independent verification of the information provided. If you didn’t measure the improvement, state that measurements were taken from the architectural drawings, for example. If you are relying on certain financial figures provided by the owners accountant, or if you have contacted an accountant to verify the reasonableness of financial information provided by the owner, say so. (Professional standards of course require disclosure of such reliance. A Practice Note on Scope provides suggested wording.)

Finally, don’t hide your sources of information in the assumptions and limiting conditions. Make sure your disclosures and disclaimers are up front in the letter of transmittal and in the main body of the report. Both are suggested, as our experience tells us that, as appraisal reports move around, they have a maddening tendency to become detached from the letter of transmittal and/or the limiting conditions.

If you have not verified the information provided, say so

Good appraisal practice requires that you make reasonable efforts to verify information on which you rely and that you maintain notes on that verification in your files. Sometimes an appraiser uses information which he/she does not have the expertise to verify, such as an environmental assessment or engineering report. In those cases, you must state whose information you relied upon and the fact that no verification of the information was undertaken. A statement such as the following should be used:

Engineer John Doe of Jones Doe and Smith reports that the crack in the foundation wall is due to settling and does not represent a structural problem. No independent verification of this fact has been made, and an error in the information provided by Mr. Doe could affect the value reported herein.

It is particularly important, when reporting to your client, that you state what you did not do, as well as what you did do.
If possible, ensure those professionals you consult are covered by their own liability insurance.

In most cases, this rule should not cause you any problem. While few, if any, industry sources like realtors or property managers carry individual errors and omissions policies, accountants, engineers, lawyers and other professionals are accustomed to being asked for proof of their coverage. Many people believe all professionals are required to have this insurance, but this is not the case. If you use information from others in a report, knowing they have insurance will not prevent you from being named in a claim, but it is more likely that the other professional will also be named.

If your source protests your enquiry, or cannot provide proof of coverage, you should seriously consider using another professional source or doing some serious verification of the information provided. Bear in mind, of course, that simply because these people have insurance when they do the work is no guarantee it will exist at a later date, when a lawsuit arises.

CUSPAP References

Scope of Work: Source of Information: Box 14.16.1

Verifying Third Party Information: Box 14.16.1

Responsibility: 7.27, 9.9, 11.11, 0, 14.39