



# Common Errors and Issues in Review

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## When Must Reviews Comply with Standards?

The Appraisal Institute requires that Members conduct appraisal and review assignments in compliance with professional valuation standards. Professional valuation standards may be the Appraisal Institute Standards of Valuation Practice (SVP) or applicable national or international standards, such as USPAP or IVS. The only exception is when the individual is hired or engaged for reasons other than his or her appraisal expertise and independence— i.e., the client or employer does not expect the individual to be “acting as an appraiser,” someone with valuation expertise who is independent, unbiased, and objective. For example, an appraiser who is also an attorney and is hired as an attorney is not required to follow professional valuation standards.

The Appraisal Institute’s SVP defines “review” as “the act or process of developing and communicating an opinion to a client about the quality of another’s appraisal or review Report.” The SVP addresses review requirements in Standards B and C.

In USPAP, “appraisal review” is defined as “(noun) the act or process of developing an opinion about the quality of another appraiser’s work (i.e. , a report, a workfile, or some combination of these), that was performed as part of an appraisal or appraisal review assignment;(adjective) of or pertaining to an opinion about the quality of another appraiser’s work that was performed as part of an appraisal or appraisal review assignment.” For an appraiser subject to USPAP, appraisal review work is subject to Standards 3 and 4. An appraiser is subject to USPAP when required by law, regulation, or agreement with the client to comply with USPAP. For example, federal regulations require that an appraisal for a “federally related transaction” with a regulated lending institution be prepared according to USPAP. Also, state law may require that a state licensed or certified appraiser comply with USPAP for certain assignments.

**Note:** Reviewers should check with the state appraiser board in the state where the property appraised is located regarding state licensing/certification requirements when completing a review.

Making factual statements about the report (for instance, “the appraiser is licensed,” “the report is signed,” “the comparables are located within a mile of the subject,” or “the comparable sold within less than 6 months”) does not constitute an appraisal review or review. Under USPAP, such activities are not subject to Standards 3 and 4, but other parts of USPAP would still apply, notably the Ethics and Competency Rules. Also, to be an appraisal review report or review report under standards, the opinion about quality must be communicated (orally or in writing) to a client. Giving feedback solely to the appraiser, such as in the case of peer review, does not constitute a review subject to standards.

## **Problem Identification and Scope of Work**

The reviewer has development and reporting requirements as outlined in the review standards (e.g., Standards 3 and 4 of USPAP) just as the appraiser has obligations under the appraisal standards (e.g., Standards 1 and 2 of USPAP). For example, the reviewer has an obligation to identify and report the client, other intended user(s), and intended use for the review, and these may be different from the appraiser's client, intended users, and intended use. The reviewer's purpose and scope of work are different. The effective date of the reviewer's opinion of value (if provided) may be the same or different from the effective date of the opinion of value in the work under review. The reviewer's opinion of value (if provided) may be subject to the same, or different, assignment conditions. These key assignment elements need to be reported by the reviewer and be distinguished from those in the work under review.

The reviewer is responsible for determining the scope of work for the review but must carefully consider input from the client (if any) as well as what the reviewer's peers' scope of work would be in a similar review assignment. The reviewer's scope of work needs to be explained in the review report just as the appraiser's scope of work is explained in the appraisal report. By reading the scope of work discussion in the review report, the intended user(s) should understand what work was completed by the reviewer. It is important for the reviewer to report enough about his or her scope of work so that the intended user understands what was done. Has the property been inspected? Is data developed separately from or in addition to the appraisal? Has the reviewer prepared a separate analysis and developed his or her own opinion of value? The review report must provide the intended user(s) with a clear idea of the reviewer's scope of work.

The reviewer may or may not analyze different data from that used in the appraisal and may or may not develop his or her own opinion of value. If the reviewer does develop his or her own opinion of value, the reviewer might rely on the appraiser's data and may incorporate it into the reviewer's own work using an extraordinary assumption. In other cases, the reviewer will research additional or different data to supplement the reviewer's analyses and conclusions.

## **Identification of the Client, the Intended Users, and the Intended Use of the Review**

Identification of the client, intended users, and intended use is a significant and necessary step in the review process. Making these identifications defines the parties to whom you as the reviewer are responsible, and why. The reviewer's client, intended users, and intended use may be completely different from the appraiser's.

When you prepare a report, you are writing or talking to your client and intended users. They are the audience for your discussion and conclusions. And you are writing to the intended users about the particular problem they wish to resolve—a question about the value of a property or about the quality of the work of another appraiser, for example.

It is a misconception that the "addressee" named in the report is necessarily the client. A very common mistake is to assume it is understood that the addressee is the client. This may or may not be the case. Standards require that you specifically identify the client.

The concept of intended user is widely misunderstood. To be an intended user of a review, the reviewer must intend for that party to rely on the assignment results. An intended user is not simply anyone who “intends to rely” or “will rely” on assignment results. Further, receiving a copy of a report does not mean that a party must be identified as an intended user.

The intended use is the key driver in determining the appropriate scope of work for the assignment. Why the review is needed, what the value issues are, what effective date of review is required, and what interests are to be considered are among factors that make up the intended use/intended user/scope of work decision. Your client might not fully understand the review process, the reporting requirements, or the complexities of the appraisal process. Your identification of these elements can help you provide your client with a valuation service that is appropriate and meaningful.

## **Review Reporting Requirements**

For reviews subject to USPAP, Standard 4 outlines the reviewer’s reporting requirements, particularly Standards Rule 4-2. For reviews subject to the SVP, the reporting requirements are in Standard C-2(b).

A review report should be succinct. It does not need to summarize the appraisal report under review unless the client specifically requests such a summary. The review report needs to be very clear about whether information from the appraisal is being repeated in the review report or whether it is the reviewer’s own information. For example, when intended use is stated in the review report, is it the appraiser’s intended use for the appraisal or the reviewer’s intended use for the review?

The review report should avoid talking about “the appraiser” and instead talk about the work under review. The reviewer is reviewing the work, not the person. The reviewer’s opinions about the quality of the work must be presented in a clear manner, and with support.

Review forms and formats must be used with caution. It is essential for reviewers to be current with their knowledge and understanding of the standards that apply to their work, as well as the standards that apply to the work under review. When standards change, it is important to implement the changes even if it means enhancing the forms or formats with additions or supplemental data. Do not assume that a form or format is current or addresses all necessary information.

## **Certification Statements and AI Standards**

We commonly see errors in reviews associated with certification statements. These errors are also the easiest to avoid. The key is to remain cognizant of current certification requirements in the applicable standards (e.g., in USPAP, Standards Rule 4-3 for appraisal review reports) as well as the requirements of the Certification Standard of the Appraisal Institute.

Appraisal Institute Members are subject to requirements of the Appraisal Institute, which include the Certification Standard.

Certification requirements may change from time to time. It is incumbent on the appraiser to provide a certification that is contemporary with the appraisal date. To assist you with this, the Appraisal Institute provides sample certifications for appraisal review assignments on our website. These are

Word documents that can be downloaded and copied directly into your own reports. They include both the statements required by USPAP and the statements required by the Appraisal Institute for its Designated Members and Associate Members. A sample certification statement for a written appraisal review report is available to Members on the Appraisal Institute website. When the Word document comes up, save it to your hard drive.

The USPAP certification does not have to be exactly the same as that in Standards Rule 4-3, but it must be similar in content. (The Appraisal Institute certification statements **MUST** be verbatim.) You must be careful not to deviate from the intent of the language if you do not use the USPAP certification language exactly. You may make additions if they are relevant to the assignment.

If you use form reports, be careful. The certification included in your software may be out of date or not comply with Appraisal Institute requirements or with your state appraisal law. Except for the Appraisal Institute AI Reports® forms, the certification provided in a form report does not include the required Appraisal Institute certification statements, which must be added to be compliant. It does not matter where these additions go in the report, just as long as they are included somewhere. If they cannot be added to the certification page, they should be put in a logical place.

If you have created your own certification template, it is helpful to put a version date on it so you can easily tell whether it is current.

The value conclusion need not be included in the certification. The certification need not be dated (except in the case of the certification retained in the workfile for an oral report).

Note that the proper nomenclature is “certification,” not “certificate,” “certificate of value,” or “certification of value.” The certification statements relate to the entire assignment and the manner in which it was completed, not just the value conclusion.

Finally, keep in mind that the certification is a very important part of an appraisal review report. Only an appraiser can make such a statement. Avoid burying the certification in the back of the report or in the addenda or putting it in tiny or unclear print. Let your reader know you are sincere about these statements and proud to be able to make them.

## **Extraordinary or Special Assumptions**

It is essential that extraordinary or special assumptions needed for the assignment be clearly and conspicuously stated in both appraisal and review reports, along with stating that their use might have affected the assignment results.

In performing a review assignment, it is important for a reviewer to understand that when an extraordinary/special assumption proves to be contrary to the truth, it does not mean the appraisal report was “wrong.” The appraiser must ascertain that the use of the extraordinary/special assumption is appropriate given the client’s intended use of the assignment results. Then, unless agreed upon with the client at the time of the assignment, the appraiser is under no obligation to “fix” or “correct” an appraisal upon learning that the premise—the reason for the extraordinary/special assumption—is false. A value opinion is always developed within the context of the assignment as defined by the scope of work and other assignment parameters such as the

date of value and the type of value, as well as stated hypothetical conditions and extraordinary/special assumptions. If an extraordinary/special assumption made in an appraisal subsequently turns out to be false, the appraiser could accept a new assignment that would reflect the different underlying premise.

While the appraisal report must detail extraordinary or special assumptions upon which the appraisal is based, the review report must detail extraordinary assumptions upon which the reviewer's opinions and conclusions are based. Let's say the reviewer provides his or her own opinion of value, either by agreeing with the opinion of value in the appraisal under review or by disagreeing and providing an alternative. Let's say the reviewer relies on the data, property description, and other information in the appraisal report without doing his or her own independent investigation of that information. In such a case, the reviewer is making assumptions about the accuracy of that information. Such extraordinary or special assumptions must be properly disclosed in the review report.

## Miscellaneous – Theory and Practice

Following are common errors related to valuation theory and practice:

- Talking about the appraiser as opposed to the appraiser's work (the report).
- Reiteration of too much appraisal report content in the review report.
- Neglecting to use appropriate language in a review report when not providing an opinion of value, such as the following:
  - “the value opinion stated in the appraisal report is (or is not) adequately supported;”
  - “the value conclusion is (or is not) appropriate and reasonable given the data and analyses presented;” (see Advisory Opinion 20 for more examples)
- Lack of or inappropriate use of Extraordinary Assumptions/Special Assumptions in a review when the reviewer provides their own opinion of value.
- Use of hypothetical conditions in review. There is no reason for a hypothetical condition in a review of another appraiser's work. The only time that a reviewer would have a hypothetical condition is if the reviewer is providing their own opinion of value based on a hypothetical condition.
- Not providing up to date Appraisal Institute Member Certifications that are verbatim.

## Resources and References

The Appraisal Institute Code of Professional Ethics and Standards of Professional Practice are available on the Appraisal Institute Web site at [www.appraisalinstitute.org](http://www.appraisalinstitute.org).

See also the following Appraisal Institute publications:

- *Review Theory and Procedures*

If you have additional questions or need more information, contact:

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