



## STRENGTHENING LEASEHOLDER PROTECTIONS OVER CHARGES AND SERVICES

Issued 9 October 2025

ICAEW welcomes the opportunity to comment on the Strengthening leaseholder protections over charges and services consultation, published by Ministry of Housing, Communities and Local Government on 4 July 2025, a copy of which is available from this [link](#).

This response of 7 October 2025 has been prepared by the ICAEW Audit and Assurance Faculty. Recognised internationally as a leading authority and source of expertise on audit and assurance issues, the faculty is responsible for audit and assurance submissions on behalf of ICAEW. The faculty has around 25,000 members drawn from practising firms and organisations of all sizes in the private and public sectors.

ICAEW is a world-leading professional body established under a Royal Charter to serve the public interest. In pursuit of its vision of a world of strong economies, ICAEW works with governments, regulators and businesses and it leads, connects, supports and regulates more than 172,000 chartered accountant members in over 150 countries. ICAEW members work in all types of private and public organisations, including public practice firms, and are trained to provide clarity and rigour and apply the highest professional, technical and ethical standards.

---

### ICAEW

Chartered Accountants' Hall Moorgate Place London EC2R 6EA UK  
T +44 (0)1908 248 250 F +44 (0)20 7920 0547 [icaew.com](https://www.icaew.com)

The Institute of Chartered Accountants in England and Wales (ICAEW) incorporated by Royal Charter (RC000246)  
Registered office: Chartered Accountants' Hall Moorgate Place London EC2R 6EA UK

Please note that in responding to this consultation, ICAEW is only responding to questions 70-75 inclusive.

## ANSWERS TO SPECIFIC QUESTIONS

**Question 70: Do you agree that accounts must include the following minimum information:**

**a) A balance sheet for the service charge fund which sets out the assets and liabilities of the block;**

**b) An income and expenditure account and explanatory notes;**

**c) Sinking fund or reserve funds statements (where applicable)**

**d) A statement of service charge collection deficits**

**[Yes / No]**

**If no, what should be different, why and in what circumstances (please be specific)?**

1. Yes. While we agree the service charge accounts must include the minimum information specified in the question, we make the following additional observations and suggested clarifications.
2. The explanatory notes should relate to balance sheet information as well as income and expenditure account information. For example, if not shown on the face of the balance sheet, the explanatory notes should provide a breakdown of debtors, prepayments, creditors and accruals. We would therefore anticipate Items c) and d) to be included as part of the explanatory notes rather than separate statements.
3. We note that, while question 70 does not indicate it, this approach is taken in Appendix F. We also note that in Appendix F, note 3 duplicates the information provided in the appendix as a reserve fund statement.
4. It is not clear in the consultation whether Appendix F is being proposed as a prescribed format for service charge accounts to be included in legislation or as an illustrative example of what would be required by the legislation.
5. We think the following points should be addressed in any prescribed format / illustrative example:
  - a) We support the inclusion of budgeted figures in the income and expenditure account. However, in line with Tech 03/11 *Residential Service Charge Accounts*, we think it good practice to also include comparative amounts so that leaseholders can readily compare current year's actual costs with those incurred last year and identify any significant variations.
  - b) As is convention when preparing accounts and to ease readability, the unit of account (ie, £ or £000s etc,) should be shown at the top of the column rather than be included on each line. Figures should be right-aligned.
  - c) In the income and expenditure account, income should be reported first followed by expenditure. This again is in line with accounting conventions and also in line with the illustrative example provided in Tech 03/11.
  - d) With regard to the cost classifications, it is not clear whether the classifications in Appendix F are intended to be a mandatory classification or simply a suggestion. To aid

© ICAEW 2025

All rights reserved.

This document may be reproduced without specific permission, in whole or part, free of charge and in any format or medium, subject to the conditions that:

- it is appropriately attributed, replicated accurately and is not used in a misleading context;
- the source of the extract or document is acknowledged and the title and ICAEW reference number are quoted.

Where third-party copyright material has been identified application for permission must be made to the copyright holder.

For more information, please contact: Audit and Assurance – [tdaf@icaew.com](mailto:tdaf@icaew.com)

comparability, we believe a degree of consistency is important and support some standardisation of cost headings. For example, and subject to comments in the points below, the primary level of cost headings in Appendix F such as Utilities, Security costs, Grounds maintenance, Health & Safety etc are sensible. However, we believe a degree of flexibility is required to allow estates to classify costs in a way that is most suitable to their particular circumstances. In any case, the presentation of budgeted costs in the proposed service charge demand form and the service charge accounts should be consistent with each other.

- e) We believe leaseholders should be able to clearly identify the costs payable to managing agents for their services as distinct from costs paid to other third parties for goods and services. We would anticipate the amount payable to managing agents for their services to equal the management fee category reflected in Appendix F. To illustrate, where the services of managing agents include the preparation of service charge accounts we would expect this to be reported as 'managing agents fees' rather than 'accountancy'. The cost category of 'accountancy' would then reflect the amounts paid to a third-party firm of accountants for the provision of their report on the accounts.
- f) Where costs are included on lines other than 'managing agents fees' we would expect the costs to be directly supported by appropriate evidence such as invoices. For example, if stationery and postage is reported as a separate line, the cost should reflect actual stationery and postage costs incurred rather than an apportionment of total costs incurred by a managing agent. Where stationery and postage charges are being levied to leaseholders on an apportionment basis by the managing agent, it would be reasonable for this to be reflected within the managing agents' fees.
- g) Due to the significance of insurance costs for many estates, we recommend insurance be a separately identifiable cost category in the income and expenditure account, with a breakdown of individual insurance policies (eg, buildings insurance, directors' and officers' insurance, engineering insurance being required either on the face or in the explanatory notes). On the basis that insurance premiums are payable to a third party, we would not expect them to be included under a 'management fee' heading as currently indicated in Appendix F.
- h) We would expect an accounting policies note to specify, at a minimum, that the accounts have been prepared on an accruals basis and under the historical cost convention. Without knowing the basis on which the accounts have been prepared, it would not be possible for an accountant to provide a meaningful report on those accounts.
- i) We think the note relating to bank balances should include the name of the bank at which the account is held, together with the account name and number.
- j) For the purpose of transparency, we believe related-party transactions should be required to be disclosed. This should include transactions with organisations that are a related-party of the managing agent as well as transactions with organisations deemed to be a related-party of a leaseholder.

**Question 71: Do you agree that, where there are multiple service schedules, a balance sheet should be provided with each schedule?**

**[Yes / No]**

**Please explain your answer**

- 6. No. A balance sheet reflects the financial position of the reporting entity at a point in time by presenting the assets and liabilities and reserve funds at that point in time. The statement reflects whether the reporting entity has sufficient assets to meet its liabilities. In the event of insolvency, the assets are liquidated to meet those liabilities.
- 7. In this context therefore, the boundary of the reporting entity should reflect the extent to which assets of one part could be used to meet the liabilities of another. This is likely to be determined by the requirements of the lease and the extent to which funds of a single estate are held in separate trusts. If funds are held in separate trusts, we would anticipate a separate balance sheet to be provided for each trust.
- 8. While a single balance sheet would be prepared for an estate, we recognise the estate may be comprised of multiple 'blocks', each with its own service schedule and budget giving rise to

separate flows of income and expenditure. In this scenario, an income and expenditure account should be prepared for each service schedule. This in turn, may necessitate the preparation of separate statements of reserve funds.

**Question 72: Do you agree that ISRS4400 should be the default reporting standard for assuring service charge accounts? [Yes/No]**

9. Yes, the International Standard on Related Services (ISRS) 4400 (Revised) *Agreed-Upon Procedures Engagements* ("ISRS 4400") should be the default reporting standard. We deem this to be the most proportionate and appropriate standard, and in line with other leaseholder reporting.
10. Under ISRS 4400 a report would be issued on the factual findings following procedures performed, with no overall conclusion given. Paragraph 30 of ISRS 4400, outlines what an agreed upon procedures report shall include.
11. The Leasehold and Freehold Reform Act 2025, Section 56, Paragraph (2)(2)(b) states that the *'landlord must provide the tenant with a written report... which includes a statement by the accountant, in a specified form and manner, that the report is a faithful representation of what it purports to represent'*.
  - a. Under ISRS 4400, a reporting accountant can agree to check that the report is extracted correctly from accounting records, for example, and that the report contains the items it is required to contain, and report if any errors are found.
  - b. Per paragraph 10 above, the accountant will then provide a factual report on this procedure but would not state that the written report provided by the landlord is a *faithful representation of what it purports to represent*.
12. To promote consistency and ensure mandatory procedures are performed, we encourage a minimum work programme be provided for the conduct of an engagement to report on factual findings in relation to service charge accounts.
13. We note that reference has been made to ICAEW's technical release, Tech 03/11. ICAEW is not a standard setter nor should any guidance issued by the Institute be treated as such. Tech 03/11 will be withdrawn once the secondary legislation and reforms come into force, as it will be incorrect and out of date. A replacement or update to the technical release cannot be guaranteed and should not be relied upon.

**Question 73: Are there any other reporting standards, such as ISRE 2400, that should be followed?**

**Please be specific, including what any threshold for use should be. [Free text]**

14. We consider ISRS 4400 to be the most appropriate standard for assuring service charge accounts.
15. While some leases require a full statutory audit, which would be completed under ISA 800 and gives reasonable assurance, this is not a proportionate requirement for the majority of service charge accounts. We note paragraph 148 within the consultation and agree with this statement.
16. It is understood that older leases use the word "audit" without understanding the true meaning. Some service charge accounts may therefore be, disproportionately, subject to a full statutory audit resulting in unnecessary costs for leaseholders. We recommend that there is an option for the leaseholder to override this and request an engagement under ISRS 4400 be performed instead.

**Question 74: Do you agree with the format of the statement of declaration (at Annex G)? [Yes/No]**

17. In answering this question, we have assumed that Annex G, and the declarations within, are intended to be completed by the reporting accountant.
  - a) **Section 1**

Factual – no comments.

b) **Section 2**

The personal information of the accountant isn't required. Reports are often signed in the name of the firm and not the individual. We therefore propose to have the contact details of the firm only.

c) **Section 3**

This is not a declaration that the reporting accountant would make. Please see paragraph 10 above.

***Question 75: Do you agree with the proposals to extend the number of qualified people who can prepare the written report? [Yes/No]***

***Explain your answer [Free text]***

18. Yes, we agree that it should be extended to include full members of an accredited professional body as the report does not have to be signed by a statutory auditor.

19. We recommend members of the following recognised supervisory and qualifying bodies:

- Institute of Chartered Accountants in England and Wales
- Institute of Chartered Accountants in Ireland
- Institute of Chartered Accountants of Scotland
- Association of Chartered Certified Accountants
- Association of International Accountants

20. The accountant should be independent of the landlord and managing agent.