



ACCOUNTANTS' REPORTS ON COMMERCIAL PROPERTY STATEMENTS OF SERVICE CHARGE EXPENDITURE

TECHNICAL RELEASE 09/14BL

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This technical release was originally issued in 2014. It was substantially revised and updated in March 2026 by the Audit and Assurance Faculty of the Institute of Chartered Accountants in England and Wales.

This guidance has been prepared by a working party of ICAEW commercial property specialist independent reporting accountants. The accounting framework applied in this guidance is that published by the Royal Institution of Chartered Surveyors (RICS) in its [Professional Standard, 2nd Edition, Service Charges in Commercial Property \(the Standard\)](#) and has been developed by a working party of property industry bodies.

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INTRODUCTION

The Royal Institution of Chartered Surveyors (RICS) issued the [Professional Standard, 2nd Edition, Service Charges in Commercial Property \(the Standard\)](#) on 25 June 2025 (revised 8 October 2025). It is designed to improve general standards and promote best practice, uniformity, fairness and transparency in the management and administration of service charges in commercial property. Section 4.5 of the Standard is headed 'Financial controls and competencies' and sets out best practice recommendations for the preparation of the annual Statement of service charge expenditure. Appendix B to the Standard provides an example Statement of service charge expenditure and accompanying notes. The Standard represents best practice and contains mandatory provisions for RICS members and so provides an accounting framework for the preparation of the annual Statement of service charge expenditure against which the independent reporting accountant can report.

Paragraph 4.5.3.5 of the Standard notes that annual statements of service charge expenditure should be reviewed by an independent reporting accountant unless the cost of such a review would be disproportionate to the assurance obtained, for example in relation to smaller properties. The nature of the report depends on the terms of the relevant lease or leases. The independent reporting accountant reports the findings of their work to the party that has engaged them, usually the Landlord of the property or the Landlord's agent. The Independent Accountant's Report is then issued with the annual Statement of service charge expenditure as part of the service charge accounts that is given to the Tenants of the property to communicate the nature, type and cost of services provided.

The Standard outlines the differences between an audit and an Independent Accountant's Report but does not prescribe the form of report to be given or the procedures to be undertaken in making the report. There are no statutory or regulatory provisions for the external review of annual Statements of service charge expenditure for commercial property, so the form of external review undertaken for a particular property will depend on the provisions of the lease.

There has historically been widespread inconsistency in the wording of Independent Accountants' Reports and Tenants of commercial properties may have been confused as to what underlying procedures were performed and may not have understood what assurance they could take from an independent reporting accountant's review of the annual Statement of service charge expenditure.

Paragraphs 6 to 14 of this Technical Release describe the different types of reporting engagement that can be undertaken, depending on the terms of the relevant lease or leases. A review engagement carried out in accordance with International Standard on Review Engagements (ISRE) 2400 (Revised) is considered to be the most appropriate engagement where an audit is not required, because it provides a degree of assurance on the financial information under review, based on the professional judgment of an independent reporting accountant. The fact that this form of engagement is subject to an international standard also means that there will be consistency in reporting.

The purpose of this Technical Release is, therefore, to set out best practice in the conduct of a review engagement in the context of a report on the annual Statement of service charge expenditure so that there is greater consistency in procedures and reporting. This should in turn lead to greater levels of Tenant satisfaction.

Scope of guidance

This Technical Release applies to Independent Accountants' Reports on the annual Statement of service charge expenditure and supporting notes in relation to commercial properties. It is not intended to apply to engagements relating to properties containing only residential accommodation (dwellings) because these are subject to Landlord and Tenant legislation, which governs the operation of service charges and protection of service charge monies. Guidance on the preparation of and reporting on residential service charge accounts is given in Technical Release 03/11 published by ICAEW in conjunction with the Association of Chartered Certified Accountants (ACCA), the Institute of Chartered Accountants of Scotland (ICAS), the RICS and the Association of Residential Managing Agents (ARMA). The RICS has issued separate guidance on the issues of managing mixed use buildings and estates. The nature of the reporting engagement to be undertaken in respect of a mixed use property is a matter for agreement with the property Manager (who may be the Landlord or managing agent acting for the Landlord – see Glossary).

Effective date

The effective date for implementation of this guidance is from 31 December 2025.

Joint statement of the RICS and ICAEW

The RICS and ICAEW have agreed a transition for the application of the revised RICS Professional Standard and Technical Release 09/14 Accountants' Reports on Commercial Property Statements of Service Charge Expenditure (TECH 09/14 BL). The application of both the Professional Standard and TECH 09/14, may have regard to the version that was in place at the commencement of the service charge period under review. Whilst the RICS supports early adoption of the RICS Professional Standard it appreciates that some of these new provisions cannot be retrospectively implemented for service charge years that commenced prior to 31 December 2025. For clarity, the RICS expects the provisions to be fully in place and adopted in service charges with 31 December 2026 year ends and beyond.

GLOSSARY

Entity

There is no 'entity' in the sense normally used in financial reporting standards. The reporting engagement concerns the service charge account that is prepared for a property in accordance with the terms of its lease. The term 'entity' is used in this Technical Release in the context and the requirements of ISRE 2400 (Revised) make such use necessary. Those involved in the management, ownership or occupation of the property are related parties of the entity, for the purposes of considering the independence of the independent reporting accountant. For the purposes of obtaining an understanding of the entity as required by ISRE 2400 (Revised), the term includes the system for managing, administering and accounting for the property, whether operated by the Manager or the Landlord.

ISRE 2400 (Revised)

International Standard on Review Engagements (ISRE) 2400 (Revised): Engagements to review historical financial statements, (ISRE 2400 (Revised)) is issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC).

Landlord

The term 'Landlord' is used in Landlord and Tenant legislation in respect of residential leases, to denote the person or company which owns and rents or leases a flat or house. The person or company may own the freehold or may have a superior leasehold interest in the property themselves. The definitions in s30, of the Landlord and Tenant Act 1985 (LTA 1985) state that 'in the provisions of this Act relating to service charges 'Landlord' includes any person who has a right to enforce payment of a service charge'. In the context of commercial property, in this Technical Release, and per the Standard (p.117), the 'Landlord' is 'The person who receives or is entitled to receive the rent. This person is usually responsible for the provision, management and administration of the services and the service charge. Also referred to as the 'owner'".

Manager

The term 'Manager' is used by the Standard to denote the suitably qualified firm or person that budgets, forecasts, procures, manages and accounts for the services that comprise the service charge, whether they are the Landlord, an in-house team, management company or a managing agent (including any wholly or partly related companies). The term 'Manager' is used in this sense throughout this Technical Release, except where the context or quotation from another source requires use of a more specific term, such as 'Landlord'.

Management

The term 'Management' is used in this Technical Release when the text is based on, or quotes, ISRE 2400 (Revised), and refers to staff or others carrying out and in control of the day-to-day operations.

Statement of service charge expenditure

The Statement of service charge expenditure is the Service Charge Expenditure Report (which may include a balance sheet), the Service Charge Certificate and related notes. Commercial leases usually provide for an annual Statement of service charge expenditure to be issued to Tenants following the end of each service charge period. The Statement may be issued to Tenants by the Manager with other documents, such as an operational report, but these other documents are outside the scope of the independent reporting accountant's review. There are circumstances, for example, the first service charge period, where the Statement of service charge expenditure might be for a period other than a year.

Tenant

The term 'Tenant' is used in Landlord and Tenant legislation to describe any person (physical or legal) who owns the leasehold interest in a residential property (flat or house) and is liable to pay the service charge under the terms of the lease. In the context of commercial property in this Technical Release, and per the Standard (p.120), the 'Tenant' is 'A person in possession or occupation of premises and usually responsible for payment of the service charge to the Landlord. Also often referred to as 'occupier' or 'customer'.

PREPARATION OF THE STATEMENT OF SERVICE CHARGE EXPENDITURE

BACKGROUND

1. The Standard states that 'it is usual for leases to provide for service charge year end accounts to be issued to Tenants following the end of each service charge period; this would normally include a summary of the costs and expenditure incurred in the provision of the services and a calculation of the service charge due (paragraph 4.5.3.1).'
2. The Standard recommends as best practice that this annual Statement of service charge expenditure be certified by the Landlord's Manager to confirm that it represents a true and accurate record of expenditure incurred in supplying the services to the building, and that the expenditure that is being recovered is in accordance with the terms of the occupational leases. [Appendix B]
3. The Standard sets out recommended best practice for the disclosures and information that Managers should provide to the independent reporting accountants appointed to carry out an independent review of the Statement of service charge expenditure.
4. The Standard includes guidance on information to be provided about the service charge allocation and apportionment and a comparison between budgeted and actual expenditure. The information referred to in the sample report under 'Operational review' (B6) is best practice to meet the core principles for communication and transparency as set out in the Standard as to the nature, type and cost of services provided. The operational review, service charge allocation and apportionment, and general notes are outside of the scope of the independent reporting accountant's review.
5. The contents of the Manager's report on service charge expenditure set out in Appendix B to the Standard are:
 - Introduction
 - The Management team
 - Service Charge Expenditure Report
 - The Independent Accountant's Report
 - Service Charge Certificate (provided by the Landlord's surveyor)
 - Notes to the expenditure report
 - Operational review (including service charge allocation and apportionment)
 - General notes.

REPORTING ON ANNUAL STATEMENTS OF SERVICE CHARGE EXPENDITURE

TYPES OF REPORTING ENGAGEMENT

6. Commercial leases usually provide for an annual Statement of service charge expenditure to be issued to Tenants following the end of each service charge period, giving a summary of the costs and expenditure incurred in the provision of the services and of the calculation of the service charge. Paragraph 4.5.3.1 of the Standard states that 'many leases will set out the procedures regarding the preparation of the service charge accounts and will often require that they are formally approved by the Landlord or on the Landlord's behalf, for example, by the Manager'.
7. Some leases require the annual statement to be 'audited'. It is essential that contractual requirements in the lease are followed. Compliance with the requirements and procedures set down in the lease may be a 'condition precedent' and case law has determined that where a lease sets down specific requirements and procedures, failure to comply may adversely prejudice the Landlord's ability to recover such sums. An approved Statement of service charge expenditure, along with the other items required in Appendix B of the Standard, which fall outside of the scope of the Independent Accountant's Report, should be distributed to the occupiers within four months of the service charge year end.
8. However, the terminology governing annual statements of service charge expenditure, particularly in older leases, may be quite general, and auditing standards and practice have changed fundamentally since the publication of the first Auditing Standards and Guidelines in April 1980. The work effort required by the International Standards on Auditing (UK) (ISAs (UK)) that are now in force is unlikely to be what was anticipated when some leases were drawn up, especially where the original lease dates back many years.
9. In practice, therefore, there is scope for the Manager to consider whether the terms in the lease may be construed according to the meaning given to those terms at the time when the lease was drawn up. Whereas the term 'audit' in a lease made before 1980 would not have involved any particular procedures beyond those needed to assist in the preparation of the accounts, for an auditing professional or other qualified, practising accountant to state now that an audit has been undertaken requires the professional to conduct the work in accordance with the ISAs (UK).
10. Where a lease that has been drawn up since 1980 refers to an audit the Manager will need to consider whether an audit of the annual Statement of service charge expenditure should be undertaken, or whether the Tenants will accept another type of examination, for example on the basis that the cost of an audit would be disproportionate to their need for assurance on the annual Statement of service charge expenditure.
11. In accordance with the Standard, the Manager will need to agree with the Tenants that an audit is not required and, when engaging an independent reporting accountant to carry out another form of reporting assignment, confirm that the Manager does not consider an audit to be necessary.
12. If the terms of the lease require, or are construed as requiring, an audit, or the Manager requires an audit to be carried out, the International Standard on Auditing

800 (ISA 800) *Special Considerations – Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*, provides a framework for the audit of the annual Statement of service charge expenditure. Guidance on the application of ISA 800 to the audit of residential service charge accounts is given in Technical Release 03/11 published by the professional accountancy bodies with the RICS and the ARMA: the same principles will apply in the audit of the annual Statement of service charge expenditure for commercial properties.

13. Where an audit is not required, the type of reporting engagement that is usually undertaken in relation to annual statements of service charge expenditure is a review engagement in accordance with the International Standard on Review Engagements (ISRE) 2400 (Revised) – *Engagements to review historical financial statements*. A review engagement carried out in accordance with ISRE 2400 (Revised) is considered the most appropriate engagement where an audit is not required, because it provides a degree of assurance on the financial information under review, based on the professional judgment of an independent reporting accountant. Engagements subject to international standards encourage consistency in reporting.
14. Alternative reporting approaches may apply in certain circumstances. However, engagements to perform agreed-upon procedures and engagements to compile financial information do not result in a report giving assurance to users. Further, the underlying work carried out by the independent reporting accountant will vary according to the terms of the engagement with the Landlord/Manager of the property. Where an alternative approach is taken, the independent reporting accountant should be prepared to justify this if challenged.

CONDUCT OF A REVIEW ENGAGEMENT IN ACCORDANCE WITH ISRE 2400 (REVISED)

15. The engagement should be carried out in accordance with [International Standard on Review Engagements \(ISRE\) 2400 \(Revised\), Engagements to Review Historical Financial Statements](#). ISRE 2400 (Revised) requires compliance with all of its requirements except those that are not relevant to the review engagement because the circumstances addressed by the requirement do not exist. The following paragraphs summarise the requirements of ISRE 2400 (Revised).

Ethical requirements

16. ISRE 2400 (Revised) requires the independent reporting accountant to comply with relevant ethical requirements, including those pertaining to independence. The fundamental principles are:
 - (a) Integrity;
 - (b) Objectivity;
 - (c) Professional competence and due care;
 - (d) Confidentiality; and
 - (e) Professional behaviour

Independence

17. In the case of an engagement to review financial statements, the International Ethics Standards Board for Accountants (IESBA) Code requires that the reporting accountant be independent of the entity whose financial statements are reviewed. The IESBA Code (which is similar to the ICAEW Code of Ethics¹) describes independence as comprising both independence of mind and independence in appearance. The reporting accountant's independence safeguards the reporting accountant's ability to form a conclusion without being affected by influences that might otherwise compromise that conclusion. Independence enhances the reporting accountant's ability to act with integrity, to be objective and to maintain an attitude of professional scepticism. In the context of a review of an annual Statement of service charge expenditure, the independent reporting accountant should not be an employee or director or associate of the Landlord or Manager of the property concerned or of any associate or agent of the Landlord or Manager.

Professional scepticism and professional judgement

18. ISRE 2400 (Revised) requires the independent reporting accountant to plan and perform the engagement with professional scepticism, recognising that circumstances may exist that cause the financial statements to be materially misstated, and to exercise professional judgement in conducting the engagement.

Quality management

Firm level quality management: relationship between ISRE 2400 (Revised) and ISQM1

19. ISRE 2400 (Revised) explains that its provisions regarding quality control at the level of individual review engagements are premised on the basis that the firm is subject to International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, or requirements that are at least as demanding.
20. ISQC 1 has now been replaced by the International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or other Assurance or Related Services Engagements*. ISQM 1 deals with the firm's responsibilities to design, implement and operate a system of quality management. References in ISRE 2400 (Revised) to ISQC 1 should be read as referring to ISQM 1, per the *Conforming and Consequential Amendments to the IAASB's Other Standards as a Result of the New and Revised Quality Management Standards*.

Engagement level quality management

21. ISRE 2400 (Revised) requires the engagement partner to possess competence in assurance skills and techniques, and competence in financial reporting, appropriate to the engagement circumstances and to take responsibility for:

¹ Part 4A of the ICAEW Code of Ethics is applicable to review engagements.

- (a) the overall quality of each review engagement to which that partner is assigned;
 - (b) the direction, supervision, planning and performance of the review engagement in compliance with professional standards and applicable legal and regulatory requirements;
 - (c) the accountant's report being appropriate in the circumstances; and
 - (d) the engagement being performed in accordance with the firm's quality control policies (which includes the maintenance of appropriate documentation).
22. Given the level of knowledge and competence required by ISRE 2400 (Revised), the independent reporting accountant should be a member of one of the four recognised supervisory bodies (RSBs). A list of eligible bodies is contained in Appendix 6. In accordance with the competence requirement of professional ethics (see paragraph 16(c) above), the independent reporting accountant should have knowledge and understanding of the commercial property sector appropriate to the size and complexity of the commercial property for which the annual Statement of service charge expenditure has been prepared.
23. ISRE 2400 (Revised) and ISQM 1 contain a number of requirements for the acceptance or continuance of a review engagement. The underlying principles are the same as for other reporting engagements and are therefore not covered in this guidance.
24. ISRE 2400 (Revised) requires the independent reporting accountant to agree the terms of the engagement with management or those charged with governance, as appropriate, prior to performing the engagement, and to record the agreed terms of engagement in an engagement letter or other suitable form of written agreement. In the case of an engagement to review an annual Statement of service charge expenditure, the terms of engagement will therefore normally be agreed with the Manager. The engagement letter should include:
- (a) The intended use and distribution of the annual Statement of service charge expenditure, and any restrictions on use or distribution where applicable. Guidance on agreeing the terms of engagement is contained in ICAEW helpsheet [Managing professional liability](#), and Technical Release [TECH 09/15BL Managing the Professional Liability of Accountants](#). In the context of an engagement to report on an annual Statement of service charge expenditure, the engagement letter states that the purpose of the report is to enable the Manager to attach the report to the annual Statement of service charge expenditure ;
 - (b) Identification of the applicable financial reporting framework or accounting policies adopted. The Standard contains mandatory provisions for RICS members and if the Manager decides not to follow the sample report in Appendix B, or be selective in what is included in the report, the independent reporting accountant will consider whether to modify their conclusion on the basis that the accounting framework has not been followed;
 - (c) The objective and scope of the review engagement;
 - (d) The responsibilities of the independent reporting accountant;
 - (e) The responsibilities of the Manager;
 - (f) A statement that the engagement is not an audit, and that the independent reporting accountant will not express an audit opinion on the financial statements; and

- (g) Reference to the expected form and content of the report to be issued by the independent reporting accountant, and a statement that there may be circumstances in which the report may differ from its expected form and content.
25. Example paragraphs for use in an engagement letter for an engagement to review an annual Statement of service charge expenditure are set out in Appendix 3.

PERFORMING THE ENGAGEMENT

26. The following paragraphs include practical examples of how the requirements of ISRE 2400 (Revised) may be applied in the context of a review of an annual Statement of service charge expenditure for commercial property. More detailed practical examples are contained in Appendix 2.

Materiality in a review of financial statements

27. The independent reporting accountant is required to determine materiality for the annual Statement of service charge expenditure as a whole, and apply this materiality in designing the procedures and in evaluating the results obtained from those procedures. The materiality level should be revised if information becomes available during the review that, if available at the outset, would have caused the independent reporting accountant to have determined a different amount.

Obtaining an understanding of the management of the property and service charges

28. ISRE 2400 (Revised) requires the independent reporting accountant to obtain an understanding of the entity for which the accounts have been prepared, and of the entity's environment, the financial policies and principles applied in preparation of the accounts and the entity's accounting systems and records. In the context of an annual Statement of service charge expenditure for a commercial property, the 'entity' may be a single building or property, an estate or a group of properties. The understanding should be sufficient to identify areas in the annual Statement of service charge expenditure where material misstatements are likely to arise. A clear understanding of the entity's systems and processes should be obtained during the initial acceptance and continuance procedures. Per A76 of ISRE 2400 (Revised), this understanding should be reviewed on an iterative basis during the performance of the engagement, which will include discussions with management, to identify any changes and enable effective testing approaches to be designed. Consideration should be given to the type of property management system used (ISRE 2400 (Revised) para. A78). The independent reporting accountant should exercise professional judgement in determining the exact procedures to be undertaken.
29. The terms of the leases that govern the charges in respect of which the annual Statement of service charge expenditure is made are clearly relevant to the independent reporting accountant's understanding, but there may be many and/or complex leases covering the occupancy of a building. The independent reporting accountant should therefore use professional judgment about the extent to which it is appropriate to rely on any summary of key provisions of relevant leases prepared by

the Manager or Landlord of the property.

30. The VAT treatment of mixed-use properties can be complex and may necessitate the use of an expert by the Manager. The independent reporting accountant should consider the possibility of any material misstatement resulting from any inappropriate treatment of VAT.

Designing and performing procedures

31. ISRE 2400 (Revised) requires the independent reporting accountant to design and perform inquiry and analytical procedures to address all material items in the annual Statement of service charge expenditure that are subject to review, including disclosures, and to focus on addressing areas in the annual Statement of service charge expenditure where material misstatements are likely to arise.

Fraud and illegal acts

32. ISRE 2400 (Revised) requires specific consideration of the possibility that the subject matter under review may have been affected by fraud or illegal acts or non-compliance with provisions of laws and regulations that are generally recognised to have a direct effect on the determination of material amounts and disclosures in the financial statements. Fraud or illegal acts that may be of particular relevance in the management of a commercial property include, but are not limited to, the acceptance of inducements in return for awarding maintenance contracts, the engagement of staff who are not entitled to work in the UK or the payment of subcontractors without deduction of tax. The independent reporting accountant should therefore consider and assess the risk that the annual Statement of service charge expenditure may have been affected by the occurrence of fraud, etc.

Related party transactions

33. ISRE 2400 (Revised) requires the independent reporting accountant to remain alert during the review for arrangements or information that may indicate the existence of related party relationships or transactions that management has not previously identified or disclosed. However, there is no industry or legislative requirement for the disclosure or consideration of related party transactions, so this is not a standard requirement in a review of annual Statements of service charge expenditure. If, however, the independent reporting accountant becomes aware of circumstances that indicate that the Manager may have exploited the potential to profit from related party transactions the independent reporting accountant should ask management for an explanation of the circumstances and consider whether, in the light of management's response, any modification is needed to the Independent Accountant's Report.

Going concern

34. ISRE 2400 (Revised) also requires consideration of the entity's ability to continue as a going concern. However, annual Statements of service charge expenditure are concerned with past expenditure and costs: they do not concern an entity as such. The obligation to provide future services lies with the Landlord. This means that the normal

concept of going concern is not applicable to the review of annual Statements of service charge expenditure.

Use of work performed by others

35. In performing the review, it may be necessary for the independent reporting accountant to use work performed by other independent reporting accountants, or the work of an individual or organisation possessing expertise in a field other than accounting or assurance. If the independent reporting accountant uses work performed by another independent reporting accountant or an expert in the course of performing the review, the independent reporting accountant should take appropriate steps to be satisfied that the work performed is adequate for the purposes of the review.

Reconciling the financial statements to the underlying accounting records

36. The independent reporting accountant is required to obtain evidence that the annual Statement of service charge expenditure agrees with, or reconciles to, the underlying accounting records maintained by the Manager.

Additional procedures when the independent reporting accountant becomes aware that the financial statements may be materially misstated

37. ISRE 2400 (Revised) requires that, if the independent reporting accountant becomes aware of a matter(s) that causes them to believe that the annual Statement of service charge expenditure may be materially misstated, they should design and perform additional procedures sufficient to enable them to conclude that the matter(s) is not likely to cause the statement to be materially misstated; or determine that the matter(s) does result in material misstatement. In the context of an annual Statement of service charge expenditure, a material misstatement could arise if, for example, a major item of expenditure was included in respect of works carried out on another property. If such a misstatement is corrected, no modification is needed.

Written representations

38. The independent reporting accountant is required by ISRE 2400 (Revised) to request management to provide a written representation that management has fulfilled its responsibilities described in the agreed terms of engagement. The independent reporting accountant should use professional judgment to decide at what level and by whom the representations should be made. This will depend on whether managing agents have been appointed, as well as the operational structure and accounting systems established by the Manager. For example, the representation letter may refer to a single property, or to an estate, or to a part of a managing agent's portfolio comprising properties all belonging to one Landlord with the same accounting year end. The Standard specifies certain points to be included in the representation letter and these are set out below. They are adapted to an annual Statement of service

charge expenditure for commercial property. Appendix 4 contains example paragraphs for inclusion in a letter of representation:

- (a) the responsibility to prepare the annual Statement of service charge expenditure in accordance with the Standard has been fulfilled by the Manager who has provided the independent reporting accountant with all relevant information and access to information as agreed in the terms of the engagement;
 - (b) all transactions relating to the period have been recorded and are reflected in the annual Statement of service charge expenditure;
 - (c) the Manager has disclosed to the independent reporting accountant:
 - I. the identity of the Manager's related parties and details of all the related party relationships and transactions of which the Manager is aware;
 - II. significant facts relating to any frauds or suspected frauds known to the Manager that may have affected the annual Statement of service charge expenditure;
 - III. known actual or possible non-compliance with laws and regulations for which the effects of non-compliance affect the annual Statement of service charge expenditure;
 - IV. that all events occurring subsequent to the date of the Statement of service charge expenditure and for which the accounting policies adopted require adjustment or disclosure, have been adjusted or disclosed; and
 - V. whether there are any material commitments, contractual obligations or contingencies that have affected or may affect the annual Statement of service charge expenditure, including disclosures.
39. Where separate accounts are not produced for the residential and commercial elements of a mixed-use property, the independent reporting accountant should consider including a representation to confirm that it is management's responsibility to determine whether the independent review should follow the commercial or residential ICAEW and the RICS property guidance. This approach will not determine the treatment of VAT in the service charge expenditure report.
40. The independent reporting accountant should consider requesting a written representation to confirm, where applicable, that the following agreements have been sent to Tenants to confirm the treatment of costs. The representation should confirm that no objections have been received and that the treatment has been disclosed to the independent reporting accountant:
- Agreement to retain monies included in a budget and already collected but where work has been deferred to a subsequent service charge period;
 - Agreement to forward fund the cost of future work; and
 - Agreement to defer the recovery of costs incurred by the Landlord over future periods, known as a payment plan.
41. If management does not provide the written representations, or if the independent reporting accountant concludes that there is evidence that casts doubt on the representations, or on management's integrity, such that the written representations provided may not be reliable, the independent reporting accountant should discuss the

matter with the Manager, including the implications for the accountant's report, such as disclaiming a conclusion on the annual Statement of service charge expenditure or, if appropriate, withdrawing from the engagement.

Date of and period(s) covered by written representations

42. ISRE 2400 (Revised) requires that the date of the written representations be as near as practicable to, but not after, the date of the Independent Accountant's Report. The written representations should be for all annual statements of service charge expenditure and period(s) referred to in the Independent Accountant's Report.

Subsequent events

43. ISRE 2400 (Revised) requires that, if the independent reporting accountant becomes aware of events occurring between the date of the annual Statement of service charge expenditure and the date of the Independent Accountant's Report that require adjustment of, or disclosure in, the annual Statement of service charge expenditure, the accountant should request management to correct those misstatements. An example in the context of an annual Statement of service charge expenditure might be if an accrual or major works expenditure was materially overstated and was not corrected in the light of the actual invoice(s) received from the contractor after the year end.
44. ISRE 2400 (Revised) does not require the independent reporting accountant to perform any procedures regarding the annual Statement of service charge expenditure after the date of the Independent Accountant's Report, but if something emerges that, had it been known to the independent reporting accountant at that date, may have caused the independent reporting accountant to amend the report, the independent reporting accountant should discuss the matter with the Manager with a view to determining whether the annual Statement of service charge expenditure needs to be amended.

Evaluating evidence obtained from the procedures performed

45. The independent reporting accountant is required to evaluate whether sufficient appropriate evidence has been obtained from the procedures performed and, if not, to perform other procedures as necessary to form a conclusion on the annual Statement of service charge expenditure.
46. If the independent reporting accountant is not able to obtain sufficient appropriate evidence to form a conclusion, the independent reporting accountant will discuss with the Landlord/Manager, as appropriate, the effects such limitations have on the report.

Forming the conclusion on the Statement of service charge expenditure

47. IRSE 2400 (Revised) requires the independent reporting accountant to evaluate whether the annual Statement of service charge expenditure adequately refers to or describes the reporting framework. In addition, the independent reporting accountant is required to consider whether, in the context of the requirements of the applicable financial reporting framework and the results of the procedures performed:

- the terminology and disclosures are appropriate;
 - the accounting policies selected and applied are consistent with the applicable financial reporting framework (that is, the provisions of the Standard) and are appropriate to the circumstances of the property;
 - the accounting estimates made by management appear reasonable;
 - the information presented in the annual Statement of service charge expenditure appears relevant, reliable, comparable, and understandable; and
 - the annual Statement of service charge expenditure provides adequate disclosures to enable the intended users to understand the effects of material transactions and events on the information conveyed.
48. The report should express an unmodified or modified conclusion. An unmodified conclusion should be reported when the independent reporting accountant has obtained limited assurance to be able to conclude, based on the procedures performed and the evidence obtained, that nothing has come to the independent reporting accountant's attention that causes the independent reporting accountant to believe that the Statement of service charge expenditure is not prepared, in all material respects, in accordance with the applicable financial reporting framework. A modified conclusion should be expressed where the independent reporting accountant concludes, based on the procedures performed and the evidence obtained, that the Statement of service charge expenditure is materially misstated or where the independent reporting accountant has not been able to obtain the level of assurance required. Very occasionally there may be circumstances in which ISRE 2400 (revised) requires the independent reporting accountant to withdraw from the engagement, for example:
- management does not provide the representations required by the independent reporting accountant (para.64);
 - there is evidence that casts doubt on the representations, or on management's integrity, such that the written representations provided may not be reliable (para.64);
 - management imposes a limitation of scope on the independent reporting accountant's review (para.82).

Contents of the report

49. ISRE 2400 (Revised) requires the Independent Accountant's Report for the review engagement to be in writing, and to contain the following elements:
- (a) a title, which should clearly indicate that it is the report of an independent reporting accountant for a review engagement;
 - (b) the addressee(s), as required by the circumstances of the engagement; an introductory paragraph that:
 - I. identifies the financial statements reviewed, (this will be the annual Statement of service charge expenditure) and the date and period covered by the statement;
 - II. refers to the summary of significant accounting policies and other explanatory information; and

- III. states that the annual Statement of service charge expenditure has been reviewed;
- (c) a description of the responsibility of the Manager for the preparation of the annual Statement of service charge expenditure, including an explanation that the Manager is responsible for:
 - I. the preparation of the Statement of service charge expenditure in accordance with the applicable financial reporting framework;
 - II. such internal control as the Manager determines is necessary to enable the preparation of the Statement of service charge expenditure that is free from material misstatement, whether due to fraud or error;
- (d) [because the annual Statement of service charge expenditure and notes are special purpose financial statements] a description of the purpose for which the Statement of service charge expenditure is prepared and, if necessary, the intended users, or reference to a note in the Statement of service charge expenditure that contains that information;
- (e) a description of the independent reporting accountant's responsibility to express a conclusion on the annual Statement of service charge expenditure based on the procedures performed and the evidence obtained, and of the scope of a review of the annual Statement of service charge expenditure, including:
 - I. a reference to ISRE 2400 (Revised) and, where relevant, applicable law or regulation;
 - II. a description of a review of an annual Statement of service charge expenditure in accordance with ISRE 2400 (Revised), as being a limited assurance engagement in which the procedures performed consist primarily of making inquiries of management and others within the entity as appropriate and applying analytical procedures, and evaluating the evidence obtained. The report should explain that the procedures performed in a review are substantially less than those performed in an audit conducted in accordance with the ISAs (UK), and, accordingly, the reporting accountant does not express an audit opinion on the Statement of service charge expenditure;
- (f) a paragraph under the heading 'Conclusion' that contains:
 - I. the independent reporting accountant's conclusion on the annual Statement of service charge expenditure as a whole;
 - II. a reference to the applicable financial reporting framework used to prepare the annual Statement of service charge expenditure;
- (g) [when the independent reporting accountant considers it necessary to draw users' attention to a matter presented or disclosed in the Statement of service charge expenditure that they consider to be of such importance that it is fundamental to users' understanding of the statement] an Emphasis of Matter paragraph, immediately after the paragraph that contains the independent reporting accountant's conclusion on the annual Statement of service charge expenditure, under the heading 'Emphasis of Matter', or other appropriate heading;

- (h) [when the independent reporting accountant's conclusion on the annual Statement of service charge expenditure is modified]:
- I. a paragraph under the appropriate heading that contains the independent reporting accountant's modified conclusion; and
 - II. a paragraph, under an appropriate heading, that provides a description of the matter(s) giving rise to the modification;
- (i) a reference to the independent reporting accountant's obligation under ISRE 2400 (Revised) to comply with relevant ethical requirements;
- (j) the date of the Independent Accountant's Report. This should not be earlier than the date on which the independent reporting accountant has obtained sufficient appropriate evidence as the basis for the conclusion on the annual Statement of service charge expenditure, which means not earlier than the date on which the Manager has approved the Statement of service charge expenditure;
- (k) the independent reporting accountant's signature (this will be in the name of the independent reporting accountant's firm, unless the appointment is personal); and
- (l) the location in the jurisdiction where the independent reporting accountant practices.

Basis of accounting, and restriction on distribution and use

50. ISRE 2400 (Revised) states that, if the independent reporting accountant considers it necessary to communicate a matter other than those that are presented or disclosed in the financial statements under review that, in the independent reporting accountant's judgement, is relevant to users' understanding of the review, the independent reporting accountant's responsibilities or the report itself and this is not prohibited by law or regulation, the independent reporting accountant should do so in a paragraph in the report with the heading "Other Matter" or other appropriate heading. Such a paragraph is appropriate in the context of the report on the annual Statement of service charge expenditure, because the statement is prepared in accordance with the Standard.
51. As explained in paragraph 24(a) above, the engagement letter sets out the purpose of the report and restrictions on its agreed use and distribution, parties.
52. In accordance with the illustrative example in the Appendix to ISRE 2400 (revised), the explanation of this arrangement and statement that the independent reporting accountant does not accept or assume responsibility to any third party are set out in the final paragraph of the report, after any emphasis of matter paragraph.
53. Appendix 5 contains an example Independent Accountant's Report on the annual Statement of service charge expenditure for a commercial property, with illustrative example paragraphs for an emphasis of matter, restrictions on distribution and use of the Independent Accountant's Report and modified conclusions.

Documentation

54. ISRE 2400 (Revised) requires the review work performed as the basis for the conclusion to be documented in a timely manner, sufficient to enable an experienced independent reporting accountant, having no previous connection with the engagement, to understand the:
- (a) nature, timing, and extent of the procedures performed to comply with ISRE 2400 (Revised);
 - (b) results obtained from the procedures, and the independent reporting accountant's conclusions formed on the basis of those results; and
 - (c) significant matters arising during the engagement, the independent reporting accountant's conclusions thereon, and significant professional judgments made in reaching those conclusions.
55. In documenting the nature, timing and extent of procedures performed under ISRE 2400 (revised), the independent reporting accountant is required to record:
- (a) who performed the work and the date such work was completed; and
 - (b) who reviewed the work performed for the purpose of quality control for the engagement, and the date and extent of the review.
56. The independent reporting accountant is also required to document discussions with management and others, relevant to the performance of the review of significant matters arising during the engagement, including the nature of those matters. If, in the course of the engagement, the independent reporting accountant identified information that is inconsistent with the independent reporting accountant's findings regarding significant matters affecting the annual Statement of service charge expenditure, the independent reporting accountant should document how the inconsistency was addressed.

Appendix 1: The accounting framework

Appendix B to the Standard, with Annexes B1 to BF, provide a service charge accounting sample report of which the annual Statement of service charge expenditure and Independent Accountant's Report thereon forms part. Only items B3, B4 and B5 - the Service Charge Expenditure Report, the Service Charge Certificate and the notes to the expenditure report – are covered by the Independent Accountant's Report.

The contents of the sample report are:

- Introduction
- The Management team
- Service Charge Expenditure Report
- The Independent Accountant's Report
- Service Charge Certificate (provided by the Landlord's surveyor)
- Notes to the expenditure report. The following notes are dealt with specifically:
 - accounting policies, including whether the accounts are prepared on an accruals basis or cash basis, best practice being an accruals basis;
 - independent reporting accountant's review or audit;
 - insurance claims – how they are accounted for, with best practice being to recognise income in the service charge period where confirmation has been received from the insurers that the claim will be settled. The associated costs are charged in the period that they are incurred;
 - waiver of exemption from VAT or not (and therefore whether expenditure is stated exclusive or inclusive of VAT);
 - sinking fund/reserve fund – purpose of and movements on fund(s);
 - depreciation charges;
 - agreed retention of funds already collected (where work has been deferred until a subsequent service charge period);
 - banking - statement to be provided as to whether service charge monies are held in one or more discrete bank accounts and whether interest earned is credited to the service charge account;
 - accruals - large round sum provisions intended to spread the cost of significant works over a period of time are not accruals as they do not represent a liability at the end of the period. Accordingly, they should not be included as accruals but should be considered as contributions towards reserve or sinking funds and reported accordingly;
 - prepayments and security deposits;
 - commercialisation - how and to where costs and income generated from services and activities in the property are allocated;
 - marketing and promotions; and
 - total cost of management;

This section may also be used to provide further details in respect of other accounting principles adopted in preparing the annual Statement of service charge expenditure. For example, details of Landlord contributions to the service charge or information regarding agreed contributions to future works and landlord forward funding.

- Operational review - the information referred to in the sample report in the Standard under 'Operational review' (B6) is best practice to meet the core principles for

communication and transparency as set out in the Standard as to the nature, type and cost of services provided. The operational review, service charge allocation and apportionment and general notes are outside of the scope of the independent reporting accountant's review of service charge allocation and apportionment - this section includes information about empty units and concessions granted to Tenants. The information presented in this section is normally outside the scope of the independent reporting accountant's review;

- General notes -any other information considered relevant to the Tenants and is outside the scope of the Independent Accountant's Report.

If a balance sheet is included within the Statement of service charge expenditure, this will be within the scope of the independent reporting accountant's review, along with any accompanying notes.

Appendix 2: Example procedures for undertaking a review of an annual Statement of service charge expenditure

As stated in paragraph 15, the review engagement should be carried out in accordance with ISRE 2400 (Revised). The following paragraphs set out some of the practical considerations and provide examples of inquiry and analytical procedures in the context of a review of an annual Statement of service charge expenditure for a commercial property.

General procedures

Accepting the engagement: form of engagement

ISRE 2400 (Revised) requires the independent reporting accountant to determine the acceptability of the financial reporting framework applied in the preparation of the financial statements. In a review of a Statement of service charge expenditure, therefore, the independent reporting accountant is required to obtain an understanding of:

- (a) The purpose for which the Statement of service charge expenditure is prepared;
- (b) The intended users of the Statement of service charge expenditure; and
- (c) The steps taken by the Manager (see Glossary) to determine that the applicable financial reporting framework is acceptable, i.e., the Statement of service charge expenditure has been prepared on an appropriate basis (accruals or cash) that is clearly explained in the accompanying notes, and reflects the requirements of the lease and any additional accounting policies specified in the notes.

The purpose of the Statement of service charge expenditure is to show Tenants how the service charges that they have paid have been spent.

The intended user of the report is the Manager.

The purpose of a report made in accordance with ISRE 2400 (Revised) is to provide limited assurance to the Manager that nothing has resulted from the Independent Reporting Accountant's work to indicate that the Statement of service charge expenditure has not been prepared in all material respects in accordance with the stated accounting framework or accounting policies. The Manager in turn attaches the report to the Statement of service charge expenditure that is sent to all Tenants.

As explained in paragraph 24(b), best practice is for the Statement of service charge expenditure to be prepared in accordance with the provisions of the Standard. If the Manager has adopted a different accounting framework or policies, the accountant considers whether the report should be modified.

Engagement specific procedures

Obtaining an understanding

The independent reporting accountant is required to obtain an understanding of how the Statement of service charge expenditure has been prepared, the property or group of properties to which it relates, and the applicable financial reporting framework, sufficient to identify areas in the Statement of service charge expenditure where material misstatements are likely to arise.

Relevant information, which may be obtained by asking the Manager's staff (or checking that existing information on file is up to date) includes:

- the nature of the property (e.g., type and number of Tenants and size of individual units);
- the terms of the leases that govern the charges in respect of which the annual Statement of service charge expenditure is prepared;
- the extent and use of common areas;
- the terms of relevant industry requirements, for example the preparation of service charge information in accordance with the Standard;
- how the property is managed;
- the accounting systems and accounting records including whether the data from the Manager's accounting system and accounting records are adequate for the purpose of performing the analytical procedures;
- the accounting policies in accordance with which the Statement of service charge expenditure is prepared.

Establishing a frame of reference based on understanding

Procedures include ascertaining how the stated accounting policies and any terms in the relevant leases that affect the amount or allocation of service charges are applied. Points to note if applicable are:

- whether the Statement of service charge expenditure is prepared under the accruals or cash basis;
- basis and operation of sinking/reserve funds;
- the basis on which common parts expenditure is allocated between areas of the building;
- the basis of Landlord contribution to common parts expenditure;
- the treatment of non-service charge receipts such as car parking fees and shopping mall revenues;
- the basis for allocation of income and costs relating to commercialisation income;
- other policies or terms.

Design and performance of analytical and other substantive procedures

Procedures that may be performed to address all material items in the annual Statement of service charge expenditure, including disclosures, and areas in the annual Statement of service charge expenditure where material misstatements are likely to arise include the:

- detailed review of material transactions (the review may consist of comparison to prior periods or budgeted amounts, estimates, and/or correspondence, as applicable);
- identification and review of items outside the date range of the Statement of service charge expenditure;
- review of expenditure for completeness which may consist of comparison to prior periods and/or budget, or checking that the full number of periodic transactions due to take place in the course of the accounting period have been recorded;
- review of expenditure for duplicate transactions;

- review of a random sample of transactions

Types of procedure that may be performed, depending on the circumstances, include inspection, re-calculation, re-performance, observation and confirmation.

Inquiries could include asking the Manager or Manager's staff whether there have been any significant, unusual or complex transactions or events that have affected or may affect the service charge expenditure in the period under review, for example:

- changes to any of the leases;
- significant journal entries.
- disproportionate changes in the amounts of commercialisation income or level of Landlord contributions to common parts expenditure;
- significant transactions occurring or recognised near the end of the reporting period.

An inquiry that should always be made of relevant staff and representatives of the Manager or Landlord (if different) is to ask them to confirm whether they are aware of the existence of any actual, suspected or alleged:

- fraud or illegal acts affecting the Statement of service charge expenditure;
- non-compliance with provisions of the applicable lease or leases or applicable laws and regulations that could have a direct effect on the determination of material amounts and disclosures in the Statement of service charge expenditure.

Examples of fraud or illegal acts that may be of particular relevance in the management of a commercial property and affect the Statement of service charge expenditure include, but are not limited to, the acceptance of inducements in return for awarding maintenance contracts, the engagement of staff who are not entitled to work in the UK or the payment of subcontractors without deduction of tax.

Appendix 3: Example paragraphs for engagement letters

General

In view of the importance of ensuring that there is no misunderstanding about the work to be undertaken, independent reporting accountants are advised to consider the following points when agreeing terms of engagement:

- engagement letters should indicate the reasons for, and objective of, the engagement;
- engagement letters should clearly indicate that the work to be undertaken is not an audit;
- engagement terms should specify to whom the report is to be made available, that it should not be made available to any other individual without the firm's consent; and
- the report should fully describe the scope of the work and, unless an audit is being carried out, it should avoid use of the word 'audit' except to clarify that this word does not apply to the engagement undertaken.

The engagement letter will normally be addressed to the managing agent or the Landlord of the property, depending on which is party to the contract with the independent reporting accountant. The references to addressee in the letter should be adapted accordingly.

If the engagement is to be with the Landlord of the property, the engagement letter will need to be addressed to the managing agent as well as the Landlord, to acknowledge the role of the agent in arranging for the accountant's reporting service to be provided. The reporting framework and principles for tri-partite engagements are outlined in ICAEW Technical Release Audit 10/12, [Reporting to Third Parties](#).

The following paragraphs are designed to be included in the standard letter of engagement used by the firm, in the client-specific section of the engagement letter that sets out the details of the services to be provided. The terms and conditions of business attaching to an engagement governed by the engagement letter are a matter for individual firms and are not covered in this guidance.

To [Name of managing agent]/[Name of Landlord] ('the Manager')

Re: [Property] ('the property')

Dear.....

[In accordance with the terms of the lease(s) of the property a] [A] summary of the costs and expenditure incurred in the provision of the services and of the calculation of the service charge payable in each service charge year (Statement of service charge expenditure) is to be provided to all Tenants. [You consider that the lease [does not require] / [is construed as not requiring] an audit of the Statement of service charge expenditure.] [You have agreed with the Tenants that an audit of the Statement of service charge expenditure is not required and do not consider an audit to be necessary.] Accordingly, this letter sets out the basis on which we are to review and report on the Statement of service charge expenditure for (property) for the year ended [date], and the respective responsibilities of ourselves (the Accountant) and you (the Manager).

1 You are responsible for the preparation of the Statement of service charge expenditure.

- 1.1 You are responsible for the proper application of the terms of all the leases that are relevant to [this Statement of service charge expenditure] / [the statements of service charge expenditure included in this engagement]. You are responsible for the allocation and apportionment of expenditure to Tenants in accordance with the terms of their leases. You are also responsible for providing us with a summary of the service charge provisions of all leases relating to the property.
- 1.2 You have undertaken to make available to us, as and when required, all the accounting records and related financial information, including minutes of management meetings, which we need to do our work. You will provide us with all information and explanations relevant to the preparation of the Statement of service charge expenditure, and you will disclose to us all relevant information in full, including additional information that we may request from the Manager for the purpose of the review. You will provide us with unrestricted access to persons working for the Manager from whom we determine it necessary to obtain evidence.
- 1.3 You are responsible for ensuring that, to the best of your knowledge and belief, the information relating to the preparation of the Statement of service charge expenditure is accurate and complete. You are responsible for such internal control as the Manager determines is necessary to enable the preparation of the Statement of service charge expenditure that is free from material misstatement, whether due to fraud or error.
- 1.4 In accordance with the Standard, you are responsible for the preparation of the Statement of service charge expenditure and will approve and sign it in order to acknowledge responsibility for the statement.

2 Our responsibilities as independent reporting accountants

- 2.1 Our review will be conducted with the objective of expressing our conclusion on the Statement of service charge expenditure. Our conclusion, if unmodified, will be in the form;

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the Statement of service charge expenditure is not prepared, in all material respects, in accordance with section 4.5 of the Standard.

- 2.2 We will conduct our review in accordance with the International Standard on Review Engagements (ISRE) 2400 (Revised), *Engagements to Review Historical Financial Statements* and ICAEW Technical Release TECH 09/14BL *Accountants' reports on commercial property statements of service charge expenditure*. ISRE 2400 (Revised) requires us to conclude whether anything has come to our attention that causes us to believe that the Statement of service charge expenditure is not prepared in all material respects in accordance with section 4.5 of the Standard. ISRE 2400 (Revised) also requires us to comply with relevant ethical requirements.
- 2.3 A review of financial statements in accordance with ISRE 2400 (Revised) is a limited assurance engagement. We will perform procedures, primarily consisting of making

inquiries of your management and staff, as appropriate, applying analytical procedures, and evaluating the evidence obtained. We will also perform additional procedures if we become aware of matters that cause us to believe that the Statement of service charge expenditure as a whole may be materially misstated. These procedures are performed to enable us to express our conclusion on the Statement of service charge expenditure in accordance with ISRE 2400 (Revised). The procedures selected will depend on what we consider necessary applying our professional judgement, based on our understanding of the property and its environment, and our understanding of the Standard and its application in the context of the property.

- 2.4 A review is not an audit of the financial statements, therefore:
- (a) there is a commensurate higher risk than there would be in an audit, that any material misstatements that exist in the Statement of service charge expenditure reviewed may not be revealed by the review, even though the review is properly performed in accordance with ISRE 2400 (Revised).
 - (b) In expressing our conclusion from the review of the Statement of service charge expenditure, our report on the Statement of service charge expenditure will expressly disclaim any audit opinion on the Statement of service charge expenditure.
- 2.5 Because the work to be undertaken is not a statutory audit carried out under the International Standards on Auditing (UK) (ISAs (UK)) issued by the Financial Reporting Council (FRC) we will not evaluate the overall adequacy of the presentation of the information which would be required if we were to express an opinion under the ISAs (UK).
- 2.6 Whilst we will perform our work with reasonable skill and care and will report any misstatement, frauds or errors that are revealed by enquiries within the scope of the engagement, our work should not be relied upon to disclose all misstatements, frauds or errors that might exist.
- 2.7 As part of our normal procedures we may ask you to confirm in writing any information or explanations given to us orally during our work in addition to written representations of matters that we will require as a standard procedure on all engagements.
- 2.8 We are not responsible for reporting on the operational review, including allocation and apportionment of expenditure, or general notes or on the Manager's compliance with the terms of the lease(s) or on the value for money of services provided in accordance with the lease(s).

3 Form and use of report

Our Report will be made in accordance with the terms of our engagement and will be made solely to the Manager for issue to current Tenants [and the Landlord²] and for no other purpose. The report should not be distributed to or used by other parties.

[Include reference to the form and content of the report]. The form and content of our report may need to be amended in the light of our findings obtained from the review.

² Include if the Landlord is not the Manager or addressee.

To the fullest extent permitted by law, we will not accept or assume responsibility or liability to anyone other than the Manager for our work, for our report or the conclusions we form.

4 Additional responsibilities

- 4.1 We have agreed to carry out the following other services on your behalf:
[details of any additional services, taking into account relevant ethical requirements].

5 Limitation of liability

- 5.1 We will provide services as outlined in this letter with reasonable care and skill. Our liability to you is limited to losses, damages, costs and expenses caused by our negligence or wilful default. However, to the fullest extent permitted by law, we will not be responsible for any losses, penalties, surcharges, interest or additional tax liabilities where you or others supply incorrect or incomplete information, or fail to supply any appropriate information or where you fail to act on our advice or respond promptly to communications from us or the tax authorities.
- 5.2 You will not hold us [our] [principal][s] [director][s] [and staff], responsible, to the fullest extent permitted by law, for any loss suffered by you arising from any misrepresentation (intentional or unintentional) supplied to us orally or in writing in connection with this agreement. You have agreed that you will not bring any claim in connection with services we provide to you against any of our partners or employees personally.
- 5.3 Our work is not, unless there is a legal or regulatory requirement, to be made available to third parties without our written permission and we will accept no responsibility to third parties for any aspect of our professional services or work that is made available to them.

[Additional wording where an independent reporting accountant wishes to limit their liability in respect of a claim. You should consider whether this is suitable and if necessary take legal advice].

- 5.4 We have discussed with you the extent of our liability to you in respect of the professional services described within this engagement letter (the professional services). Having considered both your circumstances and our own, we have reached a mutual agreement that £..... represents a fair maximum limit to our liability.

In reaching this agreement it is also agreed that:

- in the event of any claim for loss or damage arising from the professional services, you have agreed that the sum of £..... represents the maximum total liability to you in respect of the firm, [its] [principals] [directors] [members] [and staff]. This maximum total liability applies to any and all claims made on any basis and therefore includes any claims in respect of breaches of contract, tort (including negligence) or otherwise in respect of the professional services and will also include interest;
- we confirm that the limit in respect of our total aggregate liability will not apply to any acts, omissions or representations that are in any way criminal, dishonest or

fraudulent on the part of the firm, [its] [principals] [directors] [members] [or employees]; and

- you have agreed that you will not bring any claim of a kind that is included within the subject of the limit against any of our [principals] [directors] [members] [or employees]; on a personal basis.]

[Additional wording where the Landlord or Manager of the property is a company and the independent reporting accountant is also the statutory auditor of that company]:

5.5 This engagement is completely separate from, and unrelated to, the audit of the Manager's/Landlord's financial statements for the purposes of the Companies Act 2006 and performed in accordance with separate engagement terms. We do not, and will not, by virtue of providing a report under this letter or otherwise, assume any responsibility whether in contract, negligence or otherwise in relation to the audit of the Manager's/Landlord's financial statements; we and our partners and employees will have no liability whether in contract, negligence or otherwise to any other party, including the Tenants, in relation to the audit of the Manager's/Landlord's financial statements.

5.6 The foregoing exclusions do not apply to any liability for fraud or other liability that cannot lawfully be excluded under the laws of England and Wales.

5.7 No person who is not a party to this agreement other than us and our subcontractors, if any, will have any rights under the Contracts (Rights of Third Parties) Act 1999 to enforce any of its terms. This agreement can be varied without any third party's consent.]

6 **Communicating with you**

[To be tailored to the relevant circumstances].

7 **Agreement of terms: commencement and period of engagement and signatures of parties**

[To be tailored to the relevant circumstances, this may include fee arrangements, start date etc.]

Appendix 4: Example paragraphs for inclusion in a letter of representation

Dear [Addressee(s)]

[Property name] Statement of service charge expenditure for the year ended (date)

We have determined that an audit of the Statement of service charge expenditure in accordance with International Standards on Auditing (UK) (ISAs (UK)) is not required under the terms of the lease for (property).

In accordance with the Professional Standard, 2nd Edition, Service Charges in Commercial Property (the Standard) issued by the RICS, we are responsible [under the terms of the lease(s) for (property)] for preparing the Statement of service charge expenditure for the year ended (date) set out on pages x to y (the Statement). We are responsible for ensuring that the financial management of the service charges is sound and that there is an effective system of internal control which facilitates the proper use of the service charges and which includes arrangements for good management of the building [and (specify other areas/aspects for which the Manager is responsible)] for which we have responsibility in accordance with the terms of the lease(s). We are also responsible for the allocation and apportionment of expenditure to Tenants in accordance with the terms of their leases.

We confirm that all relevant costs included as expenditure in the Statement, [including payments to reserve funds] are a proper charge to the property and are in accordance with the underlying lease(s). [The schedule that we have prepared, of service charge expenditure applicable to different leases within the property and the allocation of this expenditure to individual Tenants, is an accurate summary of all the lease agreements relevant to [property]]³.

All the accounting records have been made available to you for the purpose of your engagement and all the transactions relating to service charge expenditure and amounts received/receivable from Tenants in respect of the year have been properly reflected and recorded in the accounting records. Any significant matters of which we consider you ought to be aware have been brought to your attention.

We have given you details of all our related parties and all the related party relationships and transactions of which we are aware.

We know of no significant facts relating to any frauds or suspected frauds that may have affected the Statement of service charge expenditure [apart from those already notified to you].

We know of no actual or possible non-compliance with laws and regulations for which the effects of non-compliance affect the Statement of service charge expenditure [apart from those already notified to you].

Except as disclosed in the notes within the Statement of service charge expenditure, there are no material commitments, contractual obligations or contingencies that have affected or may affect the Statement of service charge expenditure.

[We confirm that this is a mixed-use building, where separate accounts are not produced for the residential and commercial elements, and that we have requested the independent

³ When there is more than one lease governing the service charges applicable to the property.

review by the independent reporting accountant to be conducted based on the [residential/commercial] Institute of Chartered Accountants in England and Wales (ICAEW) and the Royal Institution of Chartered Surveyors (RICS) property guidance.]

We confirm that the following [agreement/(s) has/(have)] been sent to Tenants to confirm the treatment of costs, that no objections have been received and that the treatment has been disclosed to the independent reporting accountant:

- [details of agreement to retain monies included in a budget and already collected but where work has been deferred until a subsequent service charge period];
- [details of agreement to forward fund the cost of future work]; or
- [details of agreement to defer the recovery of costs incurred by the Landlord over future periods, known as a payment plan].

[Where applicable - a statement confirming how VAT has been treated by the Manager on mixed-use properties].

Appendix 5: Example review engagement report

Independent Accountant's Report

To the Manager, [Property] (address)

We have reviewed the Statement of service charge expenditure for the above property for the year/period ended (date), set out on pages x to y. The Statement of service charge expenditure has been prepared by the Manager in accordance with guidance issued by the RICS in the Professional Standard, 2nd Edition, Service Charges in Commercial Property (the Standard).

Manager's responsibility for the Statement of service charge expenditure

The Manager is responsible for the preparation of the Statement of service charge expenditure and for such internal control as the Manager determines is necessary to enable the preparation of statements that are free from material misstatement, whether due to fraud or error.

Independent reporting accountant's responsibility

Our responsibility is to express a conclusion on the Statement of service charge expenditure based on the procedures we have performed and the evidence we have obtained. We conducted our review in accordance with the International Standard on Review Engagements (ISRE) 2400, *Engagements to Review Historical Financial Statements* (Revised) and ICAEW Technical Release 09/14BL *Accountants' Reports on Commercial Property Statements of Service Charge Expenditure* (TECH 09/14 BL). ISRE 2400 (Revised) requires us to conclude whether anything has come to our attention that causes us to believe that the Statement of service charge expenditure, taken as a whole, is not prepared in all material respects in accordance with the provisions of section 4.5 of the Standard. ISRE 2400 (Revised) also requires us to comply with relevant ethical requirements.

A review of a Statement of service charge expenditure in accordance with ISRE 2400 (Revised) is a limited assurance engagement. The independent reporting accountant performs procedures, primarily consisting of making inquiries of management and others responsible for the services that comprise the service charge on this property, as appropriate, and applying analytical procedures, and evaluating the evidence obtained. The procedures do not include review of the lease(s), the service charge allocation and apportionment, the operational review or any general notes.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with the International Standards on Auditing (UK) (ISAs (UK)). Accordingly, we do not express an audit opinion on the Statement of service charge expenditure.

Conclusion

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the Statement of service charge expenditure is not prepared, in all material respects, in accordance with section 4.5 of the Standard.

Emphasis of matter – uncertain cost of replacing heating system

As explained in Note X, the main lifts for the property have become increasingly unreliable and an inspection by independent surveyors indicates that at least part of the fault is due to poor maintenance work on the part of the previous contractors. The Manager has initiated a legal claim against the contractors to recover £x towards the costs of repairs and the cost of £z in the Statement of service charge expenditure is stated after deducting £x from the total estimated expenditure of £y. However, the ultimate outcome of the lawsuit cannot be determined.

Basis of accounting, and restriction on distribution and use⁴

Without modifying our conclusion, we draw attention to Note X, which describes the basis of accounting. The Statement of service charge expenditure are prepared by the Manager to show how the service charge costs charged to Tenants are made up. As a result, the Statement of service charge expenditure may not be suitable for another purpose.

Our report is made in accordance with the terms of our engagement and is intended solely for the Manager for issue to current Tenants. This report should not be distributed to or used by other parties. Our work has been undertaken to enable us to make this report to the Manager and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility or liability to anyone other than the Manager in connection with the report or this engagement.

[Independent reporting accountant's signature]

[Date of the Independent Accountant's Report]

[Independent reporting accountant's address]

Modified conclusion

The independent reporting accountant should express a modified conclusion in the report on the Statement of service charge expenditure as a whole when the independent reporting accountant determines, based on the procedures performed and the evidence obtained, that the Statement of service charge expenditure is materially misstated; or the independent reporting accountant is unable to obtain sufficient appropriate evidence in relation to one or more specific items in the Statement of service charge expenditure that are material in relation to the Statement of service charge expenditure as a whole (ISRE 2400 (Revised) paragraph 75).

When the independent reporting accountant modifies the conclusion expressed on the Statement of service charge expenditure, the accountant is required to use the heading "Qualified conclusion," "Adverse conclusion" or "Disclaimer of conclusion," as appropriate, for the conclusion paragraph in the Independent Accountant's Report. The report should then give a description of the matter giving rise to the modification, under an appropriate heading, (for example, "Basis for qualified conclusion," "Basis for adverse conclusion" or "Basis for disclaimer of conclusion" as appropriate) in a separate paragraph in the Independent Accountant's Report immediately before the conclusion paragraph (referred to as the basis for conclusion paragraph) (ISRE 2400 (Revised) paragraph 76).

⁴ The position and wording of this paragraph and sub-heading are based on Illustration 6 in the Appendix to ISRE 2400 (Revised). The wording is not prescriptive so the text from the fourth sentence onwards may be adapted to wording used by the independent reporting accountant in other reports on similar engagements.

Illustrative paragraphs and headings for modified conclusion due to apparent material misstatement

Basis for qualified conclusion

As stated in note 1, the Statement of service charge expenditure is prepared on the accruals basis. The statement includes an accrual of £x for electricity which appears to be overstated in the sum of £y.

Qualified conclusion

Except for the effects of the matter described in the Basis for qualified conclusion paragraph, based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the Statement of service charge expenditure for ABC property is not prepared, in all material respects, in accordance with the provisions of section 4.5 of the Standard.

Illustrative paragraphs and headings for modified conclusion due to apparent fundamental/pervasive material misstatement

Basis for adverse conclusion

The findings of the procedures we undertook indicate that substantial elements of the Statement of service charge expenditure are not prepared in accordance with the stated accounting policies, in that substantial accruals in the sum of £x have been made for costs that do not appear to have been incurred during the year.

Our adverse conclusion is given on the basis of the material misstatement(s) identified during our review, as described in this report. However, we note that there may be other material misstatements in the Statement of service charge expenditure that we have not identified, but that we might have identified had we performed an audit of the Statement of service charge expenditure.

Adverse conclusion

Based on our review due to the significance of the matter discussed in the Basis for adverse conclusion paragraph, the Statement of service charge expenditure is not prepared in accordance with section 4.5 of the Standard.

Illustrative paragraphs and headings for modified conclusion due to inability to obtain sufficient appropriate evidence about multiple elements of the Statement of service charge expenditure, and the independent reporting accountant believes the effect is material and pervasive to the Statement of service charge expenditure

Basis for disclaimer of conclusion

[The managing agents for the property were replaced by [current managing agents] in [month [6 months or more before the end of the accounting period]]. [Current managing agents] have not been able to provide all the information and explanations about the period

before they took over the management of the property that we consider necessary for the purposes of our report⁵.]

[There was a major failure in the accounting system operated by [managing agents] in [month] that resulted in a loss of data. We have not been able to agree the figures in the Statement of service charge expenditure to entries in the underlying accounting records.]

Disclaimer of conclusion

Due to the significance of the matters described in the Basis for disclaimer of conclusion paragraph, we were unable to form a conclusion on the accompanying Statement of service charge expenditure. Accordingly, we do not express a conclusion on the Statement of service charge expenditure.

⁵ If the replacement of agents took place shortly before the end of the accounting period, it may be possible for the independent reporting accountant to obtain information and explanations from alternative sources so that a disclaimer is not needed.

Appendix 6: Qualifications for conducting engagements to review statements of service charge expenditure in accordance with ISRE 2400 (Revised)

Independent reporting accountants appointed to carry out a review engagement in accordance with this guidance should be members of a Recognised Supervisory Body (RSB), who are entitled under the rules of the body to which they belong to engage in public practice. They should comply with the relevant ethical requirements established by those bodies.

The accountant should be independent of the Manager - see paragraph 17. The independent reporting accountant should not be an employee or director or associate of the Landlord or Manager of the property or of any agent or associate of the Landlord or Manager of the property.

Appendix 7: Transitional guidance on the implementation of the Standard

Where Landlord forward funding/payment plans have been agreed with Tenants prior to the implementation date of the Standard, (effective from 31 December 2025), but which are now prohibited under the Standard the previous accounting treatment may continue to apply until the expiry of such arrangements.

The treatment should be clearly disclosed by the Manager in the Statement of service charge expenditure and, if so, the Independent Accountant's Report will remain unmodified.

Any payment plans agreed after 31 December 2025 should follow guidance in the updated Standard.

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*includes parent companies. Source: ICAEW member data

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