



TECHNICAL RELEASE

TECH 09/14BL

**ACCOUNTANTS' REPORTS ON COMMERCIAL PROPERTY SERVICE CHARGE
ACCOUNTS**

ABOUT ICAEW

ICAEW is a professional membership organisation, supporting over 140,000 chartered accountants around the world. Through our technical knowledge, skills and expertise, we provide insight and leadership to the global accountancy and finance profession.

Our members provide financial knowledge and guidance based on the highest professional, technical and ethical standards. We develop and support individuals, organisations and communities to help them achieve long-term, sustainable economic value.

This guidance has been prepared by a working party of ICAEW commercial property specialist practitioners. The accounting framework applied in this guidance is that published by the Royal Institution of Chartered Surveyors (RICS) in the Third edition of its Code of Practice, Service Charges in Commercial Property (the Code) and has been developed by a working party of property industry bodies. Both working parties worked under the guidance of a steering group comprising representatives of ICAEW and RICS.

© ICAEW 2014

All rights reserved.

If you want to reproduce or redistribute any of the material in this publication, you should first get ICAEW's permission in writing.

Laws and regulations referred to in this ICAEW Technical Release are stated as at April 2014. Every effort has been made to make sure the information it contains is accurate at the time of creation. ICAEW cannot guarantee the completeness or accuracy of the information in this ICAEW Technical Release and shall not be responsible for errors or inaccuracies. Under no circumstances shall ICAEW be liable for any reliance by you on any information in this ICAEW Technical Release.

ISBN 978-1-78363-147-6

CONTENTS

PARAGRAPH

INTRODUCTION

GLOSSARY

PREPARATION OF THE STATEMENT OF SERVICE CHARGE EXPENDITURE

1	Background	1	-	5
---	------------	---	---	---

REPORTING ON ANNUAL STATEMENTS OF SERVICE CHARGE EXPENDITURE

1	Type of reporting engagement	6	-	14
2	Conduct of a review engagement in accordance with ISRE 2400 (Revised)	15	-	25
3	Performing the engagement	26	-	52

APPENDICES

1	The accounting framework			
2	Example procedures for undertaking a review of annual statement of service charge expenditure			
3	Example paragraphs for engagement letters			
4	Example paragraphs for inclusion in a letter of representation			
5	Example review engagement report			
6	Qualifications for conducting engagements to review statements of service charge expenditure in accordance with ISRE 2400 (Revised)			

INTRODUCTION

The Royal Institution of Chartered Surveyors (RICS) issued the Third edition of the Code of Practice, Service Charges in Commercial Property (the Code) that 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 of the Code is headed 'Financial controls and competencies' and sets out key principles for the preparation of the annual statement of service charge expenditure. Appendix C to the Code provides example statements of service charge expenditure and accompanying notes. The Code represents best practice and so provides a clear accounting framework for the preparation of the annual statement of service charge expenditure against which the independent accountant can report.

Paragraph 4.2.5 of the Code states that annual statements of service charge expenditure should be reviewed by an independent 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 would depend on the terms of the relevant lease or leases. The independent accountant reports the findings of their work to the party that has engaged them, usually the owner of the property or the owner's agent. The accountant's report is then issued with the annual statement of service charge expenditure as part of the service charge accounting report that is given to the occupiers of the property to communicate the nature, type and cost of services provided.

The Code 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 that the form of external review undertaken for a particular property will depend on the provisions of the lease.

There has been widespread inconsistency in the wording of independent accountants' reports so that occupiers of commercial properties may be confused as to what underlying procedures have been performed and may not understand what assurance they can take from an independent accountant's review of the annual statement of service charge expenditure.

Paragraphs 6 to 14 in 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 occupier 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 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 ACCA, ICAS, RICS and ARMA. RICS has issued separate

guidance on the issues of managing mixed use buildings and estates which at the date of publication of this Technical Release is under review. 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 owner or landlord, or managing agent acting for the owner or landlord – see Glossary).

Effective date

The effective date for implementation of this guidance is for reports on statements of service charge expenditure for periods starting on or after 1 April 2014. Earlier implementation is encouraged.

GLOSSARY

Entity

There is no 'entity' in the sense normally used in financial reporting standards. The reporting engagement concerns solely 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 if the context and the requirements of ISRE 2400 (Revised) make such use necessary. For the purposes of considering independence on the part of the reporting accountant, those involved in the management, ownership or occupation of the property are related parties of the entity. 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 instituted by the manager or the owner. Unlike residential property, the concept of a general accumulated reserve does not exist for commercial property and the term entity does not represent anything fixed or concrete.

ISRE 2400 (Revised)

International Standard on Review Engagements (ISRE) 2400 (Revised): *Engagements to review historical financial statements*, is issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC). The Association of Chartered Certified Accountants, the Institute of Chartered Accountants in England and Wales, the Institute of Chartered Accountants in Ireland and the Institute of Chartered Accountants of Scotland are members of IFAC and require their members to comply with Standards issued by IAASB that are applicable to the services they provide.

Landlord

Landlord is the term 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 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'. To avoid confusion, this term is only used in this Technical Release where the context makes this necessary, for example in relation to mixed commercial/residential properties, or where the term is used in a source being quoted, for example the Code. In all other cases the reference is to 'owner'.

Manager

The term 'manager' is used by the Code to denote the person or team that budgets, forecasts, procures, manages and accounts for the services that comprise the service charge on a commercial property, whether they are the owner, 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 'owner'.

Management

The term 'management' is used in this Technical Release when the material 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 of the manager.

Owner

The owner is the person who receives or is entitled to receive the rent on the property. This person is legally responsible for the provision of, or management of, and administration of the services and

service charge. In practice the owner may appoint a third party manager to discharge the owner's obligations under the terms of the lease.

Occupier

The occupier is the person in possession or occupation of premises and usually responsible for payment of the service charge to the owner. The term 'service charge payer' is used interchangeably with the term 'occupier'.

Statement of service charge expenditure

The statement of service charge expenditure is the account of service charge expenditure/ costs and related notes. Commercial leases usually provide for an annual statement of service charge expenditure to be issued to occupiers following the end of each service charge period. The statement may be issued to occupiers by the manager with other documents, such as an operational report, but these other documents are outside the scope of the reporting accountant's review. There are circumstances, for example if a property is sold or the manager changes, 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. As with 'landlord', this term is only used when the context requires; references in the context of commercial property and service charges are to 'occupier', see above.

PREPARATION OF THE STATEMENT OF SERVICE CHARGE EXPENDITURE

Background

1. The RICS Code states that 'it is usual for leases to provide for an annual statement to be issued to occupiers 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 (paragraph 4.2.1).'
2. The Code recommends as best practice that this annual statement of service charge expenditure be certified by the Landlord's surveyor 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.
3. The Code sets out recommended best practice for the disclosures and information that managers should provide to the occupiers with the report by accountants appointed to carry out an independent review of the statement of service charge expenditure.
4. The Code includes guidance on information to be provided about the service charge allocation and apportionment and a comparison between budgeted and actual expenditure. The allocation and apportionment report and operational review and variance report are required to conform to best practice for meeting the core principles for communication and transparency, but will usually be outside the scope of the independent accountant's review.
5. The contents of the Manager's report on service charge expenditure set out in Appendix C to the Code are:
 - 1) Introduction
 - 2) The Management team
 - 3) Service Charge Certificate (provided by the landlord's surveyor)
 - 4) The independent accountant's report
 - 5) Service Charge Expenditure report
 - 6) Notes to the expenditure report
 - 7) Service charge allocation and apportionment
 - 8) Operational Review
 - 9) General Notes.

REPORTING ON ANNUAL STATEMENTS OF SERVICE CHARGE EXPENDITURE

Type of reporting engagement

6. Commercial leases usually provide for an annual statement of service charge expenditure to be issued to occupiers 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 4.2.1 of the Code states that 'many leases will set out the procedures regarding the preparation of the annual statement, and will often require that the annual statement be 'certified' by the landlord's surveyor, managing agent and sometimes the landlord's accountant'.
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 recent case law has determined that where a lease sets down specific requirements and procedures, failure to comply may adversely prejudice the owner's ability to recover such sums.
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 Auditing Practices Committee was established by the Consultative Committee of Accountancy Bodies (CCAB) in 1976, leading to the publication of the first Auditing Standards and Guidelines in April 1980. The work effort required by the International Standards on Auditing (ISAs) (UK and Ireland) 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 ISAs (UK and Ireland).
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 occupiers 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. If the terms of the lease require, or are construed as requiring, an audit, or the manager requires an audit to be carried out, International Standard on Auditing 800 (ISA 800) entitled 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 RICS and the Association of Residential Managing Agents (ARMA): the same principles will apply in the audit of the annual statement of service charge expenditure for commercial properties.
12. In accordance with the Code, the manager will need to agree with the occupiers that an audit is not required and, when engaging an accountant to carry out another form of reporting assignment, confirm that the manager does not consider an audit to be necessary.

13. Other forms of reporting engagement that may be undertaken in relation to annual statements of service charge expenditure are:
- Review engagement in accordance with International Standard on Review Engagements (ISRE) 2400 (Revised) – Engagements to review historical financial statements;
 - Engagement to perform agreed upon procedures resulting in a statement of factual findings; and
 - Engagement to compile financial information.
14. 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 practitioner will vary according to the terms of the engagement with the owner/manager of the property. A review engagement carried out in accordance with ISRE 2400 (Revised) is therefore 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.

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 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 practitioner be independent of the entity whose financial statements are reviewed. The IESBA Code (which is similar to ICAEW ethical standards) describes independence as comprising both independence of mind and independence in appearance. The practitioner's independence safeguards the practitioner's ability to form a conclusion without being affected by influences that might otherwise compromise that conclusion. Independence enhances the practitioner'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 reporting accountant should not be an employee or director or associate of the owner or manager of the property concerned or of any associate or agent of the owner or manager.

Professional Scepticism and Professional Judgment

18. ISRE 2400 (Revised) requires the 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 judgment in conducting the engagement.

Quality control**Firm level quality control: relationship between ISRE 2400 (Revised) and ISQC1**

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 deals with the firm's responsibilities to establish and maintain a system of quality control for assurance engagements, including review engagements. Those responsibilities are directed at establishing the firm's quality control system and related policies designed to achieve the objective of the quality control system and the firm's procedures to implement and monitor compliance with those policies. Further guidance on the application of ISQC1 is set out in paragraphs A3 to A5 of ISRE 2400 (Revised).

Engagement Level Quality Control

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:
- (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), it is likely that the reporting accountant will need to be a member of one of the five member bodies of the Consultative Committee of Accountancy Bodies, or possess equivalent qualifications. 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 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.

Acceptance and Continuance of Client Relationships and Review Engagements

23. ISRE 2400 (Revised) contains a number of requirements for the acceptance or continuation 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 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 PAS2/HS03 Managing professional liability risk, and Technical Release AAF 04/06 Assurance engagements: Management of risk and liability. 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 that is provided to current occupiers of the property and that the report may not be distributed to or used by other parties;
 - (b) Identification of the applicable financial reporting framework or accounting policies adopted. The RICS Code of Practice is a Guidance Note and is not mandatory. The Code does, however, represent professional best practice and if the manager decides not to follow the sample report in Appendix C, or be selective in what is included in their report, the reporting accountant will consider whether to qualify their opinion 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 reporting accountant;
 - (e) The responsibilities of the manager;
 - (f) A statement that the engagement is not an audit, and that the practitioner 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 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 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 practitioner to have determined a different amount.

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

28. ISRE 2400 (Revised) requires the reporting accountant to obtain an understanding of the entity for which the accounts have been prepared, and of the entity's environment, and of the financial policies and principles applied in preparation of the accounts. 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.
29. The terms of the leases that govern the charges in respect of which the annual statement of service charge expenditure are clearly relevant to the reporting accountant's understanding, but there may be many and complicated leases covering the occupancy of even a single building. The accountant should therefore use professional judgment about to the extent to which it is appropriate to rely on any summary of key provisions of relevant leases prepared by the manager or owner of the property.

Designing and Performing Procedures

30. The reporting accountant shall 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

31. 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 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

32. ISRE 2400 (Revised) requires the 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 to the practitioner. 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 reporting accountant becomes aware of circumstances that indicate that the manager may have exploited the potential to profit from related party transactions the 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 accountant's report.

Going concern

33. 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 owner. 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

34. In performing the review, it may be necessary for the reporting accountant to use work performed by other practitioners, or the work of an individual or organisation possessing expertise in a field other than accounting or assurance. If the reporting accountant uses work performed by another practitioner or an expert in the course of performing the review, the 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

35. The 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 Practitioner Becomes Aware that the Financial Statements May Be Materially Misstated

36. ISRE 2400 (Revised) states that, if the 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 qualification is needed.

Written Representations

37. The 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 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 owner and with the same accounting year end. The Standard specifies certain points to be included in the representation letter and these are set out below, adapted to the context of an annual statement of service charge expenditure for commercial property. Appendix 3 contains example paragraphs for inclusion in a letter of representation:
- (a) the manager has fulfilled its responsibility for the preparation of the annual statement of service charge expenditure in accordance with the Code, and has provided the 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 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 service charge statement of 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 service charge statements 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.
38. If management does not provide the written representations, or if the reporting accountant concludes that there is cause to doubt management's integrity such that the written representations provided are not reliable, the reporting accountant should discuss the matter with the manager, including the implications for the accountant's report. Further, if the manager does not provide the required representations the reporting accountant should disclaim a conclusion on the annual statement of service charge expenditure or, where appropriate, withdraw from the engagement.

Date of and Period(s) Covered by Written Representations

39. The date of the written representations shall be as near as practicable to, but not after, the date of the accountant's report. The written representations shall be for all annual statements of service charge expenditure and period(s) referred to in the accountant's report.

Subsequent events

40. ISRE 2400 (Revised) states that, if the accountant becomes aware of events occurring between the date of the annual service charge statements and the date of the accountant's report that require adjustment of, or disclosure in, the annual service charge statements, the accountant shall request management to correct those misstatements. An example in the context of an annual statement of service charge expenditure might be if an accrual for 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.
41. ISRE 2400 (Revised) does not require the reporting accountant to perform any procedures regarding the annual statement of service charge expenditure after the date of the reporting accountant's report, but if something emerges that, had it been known to the reporting accountant at that date, may have caused the practitioner to amend the report, the 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

42. The 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 in order to be able to form a conclusion on the annual statement of service charge expenditure.
43. If the reporting accountant is not able to obtain sufficient appropriate evidence to form a conclusion, the practitioner shall discuss with the owner/manager, as appropriate, the effects such limitations have on the scope of the review.

Forming the conclusion on the service charge statements

44. ISRE 2400 (Revised) requires the reporting accountant to evaluate whether the annual statement of service charge expenditure adequately refers to or describes the reporting framework. In addition, the 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 Code as amplified in the supplementary guidance) 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.
45. The report should be expressed as an unmodified or modified conclusion. An unmodified conclusion should be reported when the 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 reporting accountant's attention that causes the 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 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 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 reporting accountant to withdraw from the engagement, for example if management does not provide the representations required by the reporting accountant (paragraph 60(ii)) or if management imposes a limitation of scope on the reporting accountant's review (paragraph 81(a)).

Contents of the report

46. ISRE 2400 (Revised) requires the reporting accountant's report for the review engagement to be in writing, and to contain the following elements:
- (a) a title, which shall clearly indicate that it is the report of an independent accountant for a review engagement;
 - (b) the addressee(s), as required by the circumstances of the engagement;
 - (c) 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;

- (d) 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 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 are free from material misstatement, whether due to fraud or error;
- (e) (because the annual statement of service charge expenditure and notes are special purpose financial statements) a description of the purpose for which the statement is prepared and, if necessary, the intended users, or reference to a note in the special purpose financial statements that contains that information;
- (f) a description of the 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 ISAs, and, accordingly, the reporting accountant does not express an audit opinion on the statement of service charge expenditure;
- (g) a paragraph under the heading 'Conclusion' that contains:
 - I. the 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;
- (h) [when the 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 reporting accountant's conclusion on the annual statement of service charge expenditure, under the heading 'Emphasis of Matter', or other appropriate heading;
- (i) [when the reporting accountant's conclusion on the annual statement of service charge expenditure is modified]:
 - I. a paragraph under the appropriate heading that contains the practitioner's modified conclusion; and
 - II. a paragraph, under an appropriate heading, that provides a description of the matter(s) giving rise to the modification;
- (j) a reference to the reporting accountant's obligation under ISRE 2400 (Revised) to comply with relevant ethical requirements;
- (k) the date of the reporting accountant's report. This should not be earlier than the date on which the 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;

- (l) the reporting accountant's signature (this will be in the name of the reporting accountant's firm, unless the appointment is personal); and
- (m) the location in the jurisdiction where the reporting accountant practices.

Basis of Accounting, and Restriction on Distribution and Use

- 47. ISRE 2400 (Revised) states that, if the 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 reporting accountant's judgment, is relevant to users' understanding of the review, the reporting accountant's responsibilities or the report itself and this is not prohibited by law or regulation, the reporting accountant shall 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 Code.
- 48. As explained in paragraph 24(a) above, the engagement letter will have set out the purpose of the report and its agreed use, with accompanying disclosure restrictions setting out the extent to which, the context in which, and the basis on which, the report may be made available by the manager to third parties.
- 49. In accordance with the illustrative example in the Appendix to ISRE 2400 (revised), the explanation of this arrangement and statement that the 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.
- 50. Appendix 4 contains an example accountant's report on the annual statement of service charge expenditure for a commercial property, with illustrative example paragraphs for emphasis of matter, restrictions on distribution and use of the accountant's report and modified conclusions.

Documentation

- 51. ISRE 2400 (Revised) requires the review work performed as a basis for the conclusion to be documented in a timely manner, sufficient to enable an experienced practitioner, having no previous connection with the engagement, to understand:
 - (a) the nature, timing, and extent of the procedures performed to comply with ISRE 2400 (Revised);
 - (b) the results obtained from the procedures, and the reporting accountant's conclusions formed on the basis of those results; and
 - (c) the significant matters arising during the engagement, the reporting accountant's conclusions reached thereon, and significant professional judgments made in reaching those conclusions.
- 52. In documenting the nature, timing and extent of procedures performed as required in ISRE 2400 (revised), the 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.

53. The reporting accountant is also required to document discussions with management and others as 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 reporting accountant identified information that is inconsistent with the reporting accountant's findings regarding significant matters affecting the annual statement of service charge expenditure, the reporting accountant shall document how the inconsistency was addressed.

APPENDIX 1

The accounting framework

Appendix C to the Code, with Annexes A to E, provides 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 5 and 6 - the Service Charge Expenditure report and the Notes to the expenditure report – are covered by the reporting accountant's report.

The contents of the sample report are:

- 1) Introduction
- 2) The Management team
- 3) Service Charge Certificate (provided by the landlord's surveyor)
- 4) The independent accountant's report
- 5) Service Charge Expenditure report. Examples of summary and detailed statements are included as appendices to the supplementary guidance.
- 6) Notes to the expenditure report. The following notes are dealt with specifically:
 - accounting principles including whether the accounts are prepared on an accruals basis or cash basis, best practice being an accruals basis
 - 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);
 - banking - statement is 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 contribution to the service charge or information regarding forward funding by the landlord.

- 7) 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 accountant's review.
- 8) Operational Review. This information is considered to be best practice to meet the core principles for communication and transparency as set down in the Code as to the nature, type and cost of services provided to occupiers but is normally outside of the scope of the independent accountant's review.

- 9) General notes. This is any other information considered relevant to the tenants and is outside the scope of the accountant's report.

APPENDIX 2

Example procedures for undertaking a review of 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 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 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; and
- (c) The steps taken by the manager (see definitions) to determine that the applicable financial reporting framework is acceptable, ie, the statement 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 occupiers 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 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 occupiers.

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 Code of practice '*Service charges in commercial property*' issued by the RICS. 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 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 financial statements 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 (eg, type and number of occupiers 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 RICS Code
- 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.

If there are many and complicated leases covering the occupancy of the property, the manager or owner of the property may be possible to obtain a summary of key provisions of relevant leases prepared by the manager or owner of the property.

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 owner 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 to

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:

- 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 service charge statement
- review of expenditure for completeness (reviewing for completeness 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 journals

- disproportionate changes in the amounts of commercialisation income or level of owner contributions to common parts expenditure
- significant transactions occurring or recognised near the end of the reporting period

Inquiry that should always be made of relevant staff and representatives of the manager or owner (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 financial statements.

(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, 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 owner of the property, depending on which is party to the contract with the reporting accountant. The references to addressee in the letter should be adapted accordingly.

If the engagement is to be with the owner of the property, the engagement letter will need to be addressed to the managing agent as well as the owner, 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 01/01, *Reporting to Third Parties* and AAF 04/06, *Assurance Engagements: Management of Risk and Liability*.

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 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 Owner] ('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 occupiers. [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 occupiers 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 occupiers 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.
- 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.
- 1.4 In accordance with the Code of Practice, Service Charges in Commercial Property issued by the RICS (the Code), 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 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 the provisions of the Code.

- 2.2 We shall conduct our review in accordance with International Standard on Review Engagements (ISRE) 2400 (Revised), *Engagements to Review Historical Financial Statements* and ICAEW Technical Release TECH xx/13 *Accountants' reports on commercial property service charge accounts*. 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 the provisions of the Code.
- 2.3 A review of financial statements in accordance with ISRE 2400 (Revised) is a limited assurance engagement. We shall perform procedures, primarily consisting of making enquiries of your management and staff, as appropriate, applying analytical procedures, and evaluating the evidence obtained. We shall 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 financial statements in accordance with ISRE 2400 (Revised). The procedures selected will depend on what we consider necessary applying our professional judgment, based on our understanding of the property, and our understanding of the Code 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 will expressly disclaim any audit opinion on the statement.

- 2.5 Because the work to be undertaken is not a statutory audit carried out under International Standards of Auditing (UK and Ireland) issued by the Auditing Practices Board (ISAs (UK and Ireland) we shall not evaluate the overall adequacy of the presentation of the information which would be required if we were to express an opinion under ISAs (UK and Ireland).
- 2.6 Whilst we shall 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 shall require as a standard procedure on all engagements.
- 2.8 We are not responsible for reporting on the allocation and apportionment of expenditure 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 occupiers [and the owner¹] and for no other purpose. The report should not be distributed to or used by other parties. 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 accounting and other services on your behalf:
[details of any additional services, eg, assistance with preparation of statement of service charge expenditure.]

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.

¹ Include if the owner is not the manager or addressee.

[Additional wording where a practitioner 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 shall 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 owner or manager of the property is a company and the 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/Owner'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/Owner's financial statements; we and our partners and employees shall have no liability whether in contract, negligence or otherwise to any other party, including the occupiers, in relation to the audit of the Manager's/Owner'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, shall 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

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

APPENDIX 4

Example paragraphs for inclusion in a letter of representation

Dear Sirs

[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 is not required under the terms of the lease for (property).

In accordance with the Code of Practice, Service Charges in Commercial Property (Third edition) issued by the RICS (the Code), 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) and notes set out on pages to (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 occupiers 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 occupiers, is an accurate summary of all the lease agreements relevant to [property]]².

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 occupiers 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 to 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.

² For use where there is more than one lease governing the service charges applicable to the property.

APPENDIX 5

Example review engagement report

Independent accountant's review report

To the Manager, [Property] (address)

We have reviewed the statement of service charge expenditure for the above property and notes 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 Code of Practice, *Service Charges in Commercial Property*, Third edition.

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.

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 International Standard on Review Engagements (ISRE) 2400, *Engagements to Review Historical Financial Statements (Revised)*. 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 the Code of practice '*Service charges in commercial property*' issued by the RICS. 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 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 evaluates the evidence obtained. The procedures do not include review of the allocation or apportionment of service charge expenditure to occupiers.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing. 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 the provisions of the Code of practice '*Service charges in commercial property*' issued by the RICS.

Emphasis of matter – uncertain cost of replacing heating system

As explained in Note n, 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 lawsuit 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 Use³

Without modifying our conclusion, we draw attention to Note X to the accounts, which describes the basis of accounting. The Statement of service charge expenditure and certificate are prepared by the Manager to show how the service charge costs charged to occupiers 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 occupiers [and the owner⁴]. 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.

[Practitioner's signature], [Date of the practitioner's report],

[Practitioner's address]

³ The position and wording of this paragraph and sub-heading are based on Illustration 6 in the Appendix to ISRE 2400. The wording is not prescriptive so the text from the fourth sentence onwards may be adapted to wording used by the reporting accountant in other reports on similar engagements or based on that in square brackets.

⁴ Include if the owner is not the manager or addressee.

Modified Conclusion

The reporting accountant should express a modified conclusion in the report on the statement of service charge expenditure as a whole when the accountant determines, based on the procedures performed and the evidence obtained, that the service charge statements are materially misstated; or the accountant is unable to obtain sufficient appropriate evidence in relation to one or more specific items in the statement and supporting notes that are material in relation to the statement as a whole (ISRE 2400 (Revised) paragraph 73).

When the 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 practitioner’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 accountant’s report immediately before the conclusion paragraph (referred to as the basis for conclusion paragraph) (ISRE 2400 (Revised) paragraph 74).

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 the Code of practice ‘Service charges in commercial property’ issued by the RICS.

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.

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 the provisions of the Code of practice ‘Service charges in commercial property’ issued by the RICS.

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

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 In the circumstances where one managing agent has replaced another, it may be possible to cross-refer to an explanatory note. If the replacement of agents took place a relatively short space before the end of the year, it may be possible for the 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)

Accountants appointed to carry out a review engagement in accordance with this guidance should be members of one of the following bodies, who are entitled under the rules of the body to which they belong to engage in public practice:

Association of Authorised Public Accountants
Association of Chartered Certified Accountants
Chartered Institute of Management Accountants
Chartered Institute of Public Finance and Accountancy
Institute of Chartered Accountants in England and Wales
Institute of Chartered Accountants in Ireland
Institute of Chartered Accountants of Scotland

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

ICAEW
Chartered Accountants' Hall
Moorgate Place
London
EC2R 6EA

T +44 (0)20 7920 8100
E techrelease@icaew.com
icaew.com