



Draft guidance – Service Charge Accounts

THE ACCOUNTANT'S REPORT ON SERVICE CHARGE ACCOUNTS PREPARED IN ACCORDANCE WITH REGULATIONS MADE UNDER THE COMMONHOLD AND LEASEHOLD REFORM ACT 2002

Memorandum prepared by a joint working group comprising representatives of the accountancy profession and housing sectors, containing draft guidance on the conduct of engagements to report on service charge statements of account, issued for comment in October 2007

THE ACCOUNTANT'S REPORT ON SERVICE CHARGE ACCOUNTS PREPARED IN ACCORDANCE WITH [LEGISLATION]

Foreword and invitation to comment

The Department for Communities and Local Government (the Department) published a Consultation Paper on the implementation of Commonhold and Leasehold Reform Act provisions for regular statements of account and designated client accounts on 25 July 2007¹ (the Consultation Paper). This guidance has been developed to reflect the arrangements proposed in the Consultation Paper for the report to be provided by an Accountant on the Regular Statement of Account provided by the Landlord of a property in accordance with section 21 of the Landlord and Tenant Act 1985 (LTA 1985) as amended by the 2002 Commonhold and Leasehold Reform Act.

As explained in Chapter 3, paragraph 28 of the Consultation Paper, the accountant's report will be based on procedures that will be agreed by means of a formal letter of engagement between the reporting accountant and the landlord (unless the landlord is a local authority and the reporting accountant is an employee of the local authority). However, in agreeing those procedures the accountant would be required to have regard to certain minimum requirements as agreed between the Department and the accountancy bodies whose members are eligible to carry out service charge reporting work (see Appendix 5).

Requiring specified procedures would mean that the recipients of the report would have clarity as to exactly what had been done. Tenants would also receive detailed information on all exceptions found by the accountant which might help them in discussing service charges with management. **However, it is important that respondents to this consultation draft guidance understand that an engagement to perform specified procedures will result in a statement of factual findings, and not in a statement of opinion as to whether or not the service charge statement complies with the legislation.**

An example of a report giving a statement of opinion under the current provisions of section 21, LTA 1985, is contained in Auditing Practices Board (APB) Practice Note 14 *The audit of registered social landlords in the UK* (PN14). This report can be given by the auditors of a registered social landlord (RSL) where, for example, the terms of the lease require it or the RSL prepares a service charge statement on a voluntary basis and engages the auditor of the RSL statutory accounts to make a section 21 report. The report must be given by a registered auditor and it must give a positive opinion that the statement presents a fair summary of the income and expenditure for the year and has been prepared in accordance with the legislation.

However, PN14 does not prescribe the work that the accountant must do and as a result procedures have varied. In any case, although a section 21 report must always be given by a registered auditor, it does not have to be based on the model in PN14, and many reporting accountants make a much shorter report, containing just the

¹ Commonhold and Leasehold Reform Act 2002: A consultation Paper on Regular Statements of Account and Designated Client Accounts

statements specified in the legislation. The legislation itself gives no indication as to the work to be undertaken, resulting in lack of transparency and inconsistent practice.

In drawing up these proposals, the working party considered at length the alternative option of retaining an accountant's report which expressed an opinion rather than reporting detailed findings, as an opinion might be more understandable to a tenant without financial training. The working party rejected this option on grounds of

- (a) complexity - international standards on assurance engagements impose more onerous standards on accountants, which require significant time to be spent on planning and risk assessment activities that are not as relevant to a service charge report as they are to an assurance engagement in relation to financial statements required to give a true and fair view; and
- (b) cost - the cost that would attach to an engagement to provide a statement of opinion would be proportionately greater, because the costs of the necessary accountants' procedures and of the landlord's management time in responding to the accountant's questions, would normally fall back on the tenants in the form of increased service charges.

Views of respondents are particularly welcome on

- 1. the issue as to the type of engagement – for the accountant to give a statement of findings resulting from agreed upon procedures or to make a statement of opinion about compliance resulting from unspecified procedures – that should be established by the professional accountancy bodies whose members are eligible to carry out this work;**
- 2. whether the detailed minimum procedures set out in Appendix 3 are appropriate, i.e. sufficient without being excessive. The procedures are designed to be the minimum that will be expected under guidance issued by the reporting accountant's professional body for an agreed upon procedures engagement;**
- 3. whether there are any other procedures that should be included;**
- 4. whether minimum sample sizes should be specified in the guidance on detailed procedures, or whether the number of items to be selected where checking is not 100% should be a matter for the reporting accountant to agree when setting the terms of the engagement; and**
- 5. whether the detailed procedures should specify a maximum amount above which items such as other income or figures in the balancing statement should be checked (the suggestion in draft Appendix 3 is 5% of expenditure for the year.**

It is very important that the guidance reflects best practice in this type of work, and that the accountant's report ensures proper accountability for service charge monies in accordance with the Department's objectives, and in a format that is useful to tenants or leaseholders paying variable service charges. ACCA will submit your comments on this draft to the working party and would therefore welcome your contribution, which should be sent by 31 December 2007 to:

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The working party that has developed the draft guidance includes representatives of a number of organisations that have an interest in arrangements for ensuring proper accountability for service charge monies. The names of the working party members and of the organisations they represent are set out below.

Name	Representing:	Title and organisation
Chairman		
Andrew Martyn-Johns	ICAEW	Partner, Deloitte
Members		
Chris Atkinson	ICAEW	Partner, Simpson Wreford
Kevin Barr	ARHM	Director of Estate Accounts Peverel
Peter Cheverton	ARMA	Director, Prior Estates Limited
Mark Davies	ICAEW	Partner, PKF (UK) LLP
Ian Fuell	CLG	Policy Adviser (Leasehold Reform)
David Hewett	ARMA	Executive Secretary, ARMA
Chris Humphreys	CLG	Policy Adviser (Leasehold Reform)
Peter Lansberry	ICAEW	Partner, Spofforths LLP
Os Osman	NHF	Director of Commercial & Leasehold, Circle Anglia Ltd
David York	ACCA	Head of Audit, ACCA
Secretary		
Mary-Lou Wedderburn	ICAEW	Technical consultant, ICAEW

Introduction

1. Section 152 of the Commonhold and Leasehold Reform Act 2002 sets out the requirements for a Regular Statement of Account (the Statement) that is to be provided to tenants and leaseholders (**Tenants**) who pay **variable service charges** by the person who is legally entitled to collect those charges. For the purpose of this guidance references will be to the **Landlord**, although where the person who is legally entitled to collect the variable service charges is someone other than the Landlord, it is that person that must provide the Statement to tenants.
2. This guidance sets out the minimum procedures that have been agreed between the Department for Communities and Local Government (the Department) and the accountancy bodies listed in Appendix 5, whose members it is proposed in the Consultation Paper should be able to provide a report on the Statement (the current legislation restricts eligibility for providing section 21 reports to those who are eligible for appointment as company auditors, with a few exceptions). The guidance provides the framework within which the **Accountant**, having regard to the specified minimum requirements, can adapt the procedures to suit the type and size of property involved.

Explanation of the reporting arrangements

3. The overall objective of the **Legislation** is to enable **Tenants** to be confident that the money they pay towards the upkeep of their building is held properly, and that it is being used for the purpose for which it is paid. The **Legislation** therefore requires the Accountant's report to contain the following statements of fact:
 - the accountant has performed the procedures set out in the guidance issued by [Recognised Supervisory Body] with respect to the statement for the year ended [date]; and
 - whether or not any exceptions were noted from the accountant's performance of those procedures.
4. This document provides guidance on the following:
 - a. the objectives underlying the Department's requirements for the **Accountant's report** on the Statement;
 - b. model engagement terms and example confirmation of terms of engagement;
 - c. suggested work procedures covering the Accountant's work;
 - d. recommended wording for the **Accountant's report**.

This document does not cover any other type of engagement that may subsist or be agreed between the **Landlord** or the **Managing Agent** on behalf of the **Landlord**, and the **Accountant**.
5. Appendix 1 contains background information about the Department's purpose in seeking the report. The notes outline the various issues that the **Accountant** needs to consider and the work approach that is likely to be most appropriate.

6. Appendix 2 contains model terms of engagement. The terms of engagement will usually apply to all reports made by the **Accountant** to the **Landlord** in relation to the property named and once in place should not normally require amendments in subsequent periods.
7. As explained in paragraph 4 above, this guidance covers only reporting engagements under the **Legislation**. Where other specific work is requested, such as a special report on substantial **Section 20 expenditure**, separate engagement terms are agreed as appropriate.
8. Engagements to report on the Statement are separate from and unrelated to any other service performed by the **Accountant** for the **Landlord**. They do not, therefore, of themselves create any obligations or liabilities regarding the Accountant's other work.
9. Appendix 3 contains suggested work procedures for the Accountants' work on the Statement that have been developed by representatives of the bodies referred to in paragraph 1 above.
10. Appendix 4 contains an example **Accountant's report**. The report is a statement of factual findings arising from the performance of agreed upon procedures. The wording has been compiled taking account of the guidance provided in International Standard on Related Services 4400, *Engagements to Perform Agreed upon Procedures Regarding Financial Information*, issued by the International Audit and Assurance Board.

Effective date

11. [to be inserted]

Appendices

- | | | |
|------------|---|-----------------------------|
| Appendix 1 | - | Background information |
| Appendix 2 | - | Model terms of engagement |
| Appendix 3 | - | Suggested work procedures |
| Appendix 4 | - | Example Accountant's report |
| Appendix 5 | - | Qualified Accountants |

Appendix 1: Background information

The [quote legislation which sets out the new requirements, post amendments to CLRA 2002] contains provisions for the accounting information that **Tenants** are entitled to receive about the service charges that they are required to pay. The overall intention is to ensure that all **Tenants** receive information that sufficiently explains the costs towards which they have to contribute and any balances that should be held on their behalf. A **Regular Statement of Account** (the **Statement**) must now be supplied to **Tenants** containing minimum prescribed information together with an **Accountant's report** (where required) complying with the requirements of the **Legislation**. The purpose of the **Accountant's report** is to show that the information contained in the **Statement** has been subject to an agreed level of work and procedures by a qualified **Accountant**, although it is not the intention that this should amount to a full audit. The **Legislation** provides for an approach whereby the **Accountant** carries out procedures designed to provide evidence for the basis of a report that states factual findings.

The **Accountant's report** is addressed to the **Landlord** for the purposes of complying with the **Legislation**. The report must accompany the **Statement** that is provided to the **Tenants**: other persons may view the report on the basis that the Accountant does not accept or assume responsibility for the report to anyone other than the Landlord [and, in the case of a landlord that is not an individual or a body corporate, to those charged with governance as a body] and the Tenants as a body.

Tenants are able to withhold the payment of a service charge where either no **Statement** is provided (where required) or one is provided that does not comply with the requirements of the **Legislation**. Similarly the **Landlord** will need to provide an Accountant's report (where required) to accompany the Statement which should be compliant with the **Legislation**, otherwise the **Tenants** will have a right to withhold service charge payments. [An accountant's report is not required where the service charges dealt with in the Statement do not exceed £5,000 in total].

The **Accountant's report** will state either that they have noted no exceptions as a result of their work (i.e. that:

- they did not find any figures contained in the Statement not to have been extracted correctly from the **accounting records** maintained by or on behalf of the **Landlord**;
- no entries that they checked in the accounting records were not supported by receipts, other documentation or evidence inspected by them; and
- the information is disclosed in the Statement in conformity with the requirements of the **Legislation**)

or will note the exceptions found. The report and underlying Accountant's work are not designed to give the **Tenants** assurance as to the completeness, validity, propriety or value for money of the reported expenditure. It is for the Tenants to consider, once in possession of the Accountant's report, whether their service charge payments have been properly applied in accordance with the terms of their lease(s).

The **Accountant's report** does not cover compliance of the **Landlord** or **Statement** with the terms of the lease. Similarly, there is no requirement for the **Accountant** to ascertain whether the **Landlord** has complied with the requirements of [relevant

section/paragraph in legislation referring to major works] to consult on long term agreements or prescribed works, or to make a demand for service charges within specified time limits.

Appendix 2: Model terms of engagement to be incorporated into the firm's full engagement letter or issued with appropriate terms and fee letter

1 Introduction

1.1 The **Legislation** requires the **Landlord** to issue to each tenant of (property name) a **Regular Statement of Account** (the Statement) accompanied by an Accountant's report on specified factual matters. These terms of engagement set out the basis on which the **Accountant** will issue the report.

2 The Landlord's responsibilities

2.1 The **Landlord** shall be responsible for the provision of the Statement for each accounting period, which shall include the information prescribed by the **Legislation**.

2.2 The **Managing Agent/Landlord** will make available to the **Accountant** all records, correspondence, information and explanations that the **Accountant** considers necessary to enable the performance of the Accountant's work.

2.3 The **Landlord** accepts that the ability of the Accountants to perform the work effectively depends upon the **Landlord** providing full and free access to the financial and other records and the **Landlord** shall procure that any such records held by a third party are made available to the Accountant.

2.4 The **Accountant** accepts that, whether or not the **Landlord** meets the applicable obligations under the **Legislation**, the Accountant remains under an obligation to perform the work with reasonable care. The failure by the **Landlord** to meet its obligations may cause the **Accountant** to be unable to provide the report required by the legislation (which would include a report containing exceptions discovered as a result of carrying out the agreed procedures). In circumstances where we are unable to provide a report we may make a statement to the **Tenants** explaining the circumstances. You agree to waive your right to confidentiality to the extent of any statement made to Tenants.

3 Scope of the Accountants' work

3.1 The **Landlord** will provide the Accountant with such information, explanations and documentation that the Accountant considers necessary to carry out the engagement. The Accountant will seek written representations from the **Landlord** or **Managing Agent** who has maintained **accounting records** on the Landlord's behalf in relation to matters for which independent corroboration is not available. The **Accountant** will seek confirmation that any significant matters of which the **Accountant** should be aware have been brought to the Accountant's attention.

3.2 The **Accountant** will perform the procedures listed in Appendix [X] to the Statement prepared by the **Landlord**.

3.3 The **Accountant** will not subject the information provided by the **Landlord** to checking or verification except to the extent expressly stated. While the **Accountant** will perform the agreed procedures with reasonable skill and care and will report any misstatement, frauds or errors that are revealed by enquiries within the scope of the engagement, the Accountant's work should not be relied upon to disclose all misstatements, frauds or errors that might exist.

4 Form of the Accountant's report

4.1 The Accountant's report will be prepared on the following bases:

4.1.1 The Accountant's report will be prepared for the use of the **Landlord** for the purpose of issue to the **Tenants** in connection with the Landlord's obligations under the **Legislation**.

4.1.2 The Accountant accepts responsibility to the **Landlord** and the **Tenants** as a body for the Accountant's final signed report only.

4.1.3 Except as provided by clause 4.1.1 herein, the Accountant, the Accountant's partners, members, directors and employees neither owe nor accept any duty to any other person (including, without limitation, any person who may use or refer to any of the Landlord's publications) and shall not be liable for any loss, damage or expense of whatsoever nature which is caused by their reliance on representations in the Accountant's report.

4.1.4 Subject to these provisions, the Accountant's reports shall be addressed to the **Landlord** and shall be based on the example report attached to this engagement letter.

5 Duty of care

5.1 The **Accountant** will perform the engagement with reasonable skill and care and acknowledge that the **Accountant** will be liable to the **Landlord** for losses, damages, costs or expenses ("losses") caused by the Accountant's breach of contract, negligence or wilful default, subject to the following provisions:

5.1.1 The **Accountant** will not be so liable if such losses are due to the provision of false, misleading or incomplete information or documentation to the **Accountant** or due to the acts or omissions of any person other than the Accountant, except where, on the basis of the procedures described in Appendix [X], it would have been reasonable for the Accountant to discover such defects.

5.1.2 The **Accountant** accepts liability without limitation for the consequences of the Accountant's own fraud and for any other liability which it is not permitted by law to limit or exclude.

[5.1.3 Subject to the previous paragraph 5.1.2, the total aggregate liability of the Accountant whether in contract, tort (including negligence) or otherwise, to

the **Landlord** arising from or in connection with the work which is the subject of these terms (including any addition or variation to the work), shall not exceed XXX.²]

[Insert where the Accountants are also the auditors of the [service charge payee]'s financial statements:

5.1.4 This engagement is separate from, and unrelated to, the Accountant's audit work on the financial statements of the **Landlord** for the purposes of the Companies Act 1985 (or its successor) (or e.g. local authority or RSL provisions) or other legislation and nothing herein creates obligations or liabilities regarding the Accountant's statutory audit work, which would not otherwise exist.]

6 Fees

6.1 The Accountant's fees, together with VAT and out of pocket expenses, will be agreed with and billed to the **Landlord**.

7 Quality of Service

7.1 The Accountant will investigate all complaints concerning the Accountant's work. The **Landlord** has the right to make any complaint to the [name of accountancy body] as appropriate.

8 Providing services to other parties

8.1 The Accountant will not be prevented or restricted by virtue of the Accountant's relationship with the **Landlord**, including anything in these terms of engagement, from providing services to other clients. The Accountant's standard internal procedures are designed to ensure that confidential information communicated to the Accountant during the course of an assignment will be maintained confidentially.

9 Applicable law and jurisdiction

9.1 This agreement shall be governed by, and interpreted and construed in accordance with English law.

9.2 The **Landlord** and the **Accountant** irrevocably agree that the courts of England shall have exclusive jurisdiction to settle any dispute (including claims for set-off and counterclaims) which may arise in connection with the validity, effect, interpretation or performance of, or the legal relationship established by this agreement or otherwise arising in connection with this agreement.

10 Alteration to terms

² The Legislation does not prohibit capping of liability, so the Accountant is free to negotiate a cap with the Landlord, although this cap would probably not be effective vis a vis the Tenants.

10.1 All additions, amendments and variations to these terms of engagement shall be binding only if in writing and signed by the duly authorised representatives of the parties. These terms supersede any previous agreements and representations between the parties in respect of the scope of the Accountant's work and the Accountant's report or the obligations of any of the parties relating thereto (whether oral or written) and represent the entire understanding between the parties.

Glossary of terms

Accountant

An individual or firm eligible under the legislation as comprising qualified members of the following bodies:

- Association of Authorised Public Accountants (AAPA)
- Association of Chartered Certified Accountants (ACCA)
- Institute of Chartered Accountants in England and Wales (ICAEW)
- Institute of Chartered Accountants in Ireland (ICAI)
- Institute of Chartered Accountants of Scotland (ICAS)

Authorised by one of those bodies to engage in public practice [the precise wording and requirements for qualification to follow from the legislation]. In addition, employees of certain landlords who are members of the Chartered Institute of Public Finance and Accountancy (CIPFA) may be regarded as qualified accountants: see Appendix 5. The **Accountant** (if an individual) may not be an employee or partner or employer of the **Landlord** (or, where the Landlord is a company, of an associated company) or **Managing Agent** of the subject property unless the **Landlord** is a Local Authority as defined in section 38 of the Landlord and Tenant Act 1985.

Accountant's report

The report given by the accountant on the **Regular Statement of Account** in accordance with the **Legislation**.

Accounting records

The accounting records are the responsibility of the Landlord or Managing Agent where the Landlord has appointed an agent to collect and account for service charge monies. The records need to be sufficient to show all transactions involving service charge monies and to enable the person preparing the Statement to ensure that the Statement complies with the Legislation. The accounting records would be expected to contain:

- a) details of all sums of money received and expended by the Landlord/Managing Agent and the matters to which the receipt and expenditure relate;
- b) documents such as invoices to support the figures entered in the accounts; and
- c) details of longer term contracts and income and expenditure in relation to these contracts.

The sophistication of the records will depend on the extent and complexity of the transactions undertaken.

Landlord

This will be the person or entity who is legally entitled to collect the service charge and will generally be the owner of the freehold or superior leasehold. Because the Landlord is legally responsible for the preparation of the Statement, the terms of engagement refer to the maintenance of accounting records, etc. as being by the Landlord, even if in practice the Landlord engages a Managing Agent to do this work.

It is also permitted for the Landlord to engage the Accountant to help in compiling the Statement, or even to assist in maintaining the accounting records, but the accountant must avoid any role that would involve making management decisions for the Landlord or Managing Agent, as this would contravene the spirit, if not the strict wording, of the legislation. The Accountant would also have regard to the Ethical Statements of the accountancy body of which he or she is a member, in relation to non assurance public reporting engagements.

Legislation

[State here the primary and secondary legislation governing provision of the Regular Statement of Account and Accountant's report thereon. Needs to be flexible to allow for changes in underlying regulations, so should state the date up to which new legislation is reflected in the guidance.]

Managing Agent

The individual or entity appointed by the Landlord to manage the subject property. The Managing Agent's tasks may include collecting service charge monies on behalf of the Landlord, maintaining accounting records and preparing the Regular Statement of Account.

Regular Statement of Account (the Statement)

The Statement comprising an Income and Expenditure Account, Balancing Statement (where appropriate) and Notes, for transactions in service charge monies, as required by the Legislation. The prescribed content for statements of account to be provided by Registered Social Landlords (RSLs) is modified in the same way as for local authority landlords where, for example, they pool service charge costs so that they are paid collectively through the rents of periodic tenants across their housing stock. In these cases, the RSL is allowed to produce just an expenditure account.

Section 20 expenditure [the section number/reference will depend on underlying legislation]

Items of expenditure in respect of which notices are required to be issued under [section 20 of the Landlord and Tenant Act 1985]

Tenants

The tenants who pay variable service charges under the terms of their lease or tenancy, and who are entitled to receive the Regular Statement of Account and Accountant's report for the accounting period under review. The term does not cover former or prospective tenants.

Variable service charges

The monies that **Tenants** are required to pay under the terms of their lease or tenancy towards expenditure on the upkeep of the subject property.

Appendix 3: Minimum Procedures to be followed by Accountants appointed under Section 21 (3) (a) of the Landlord and Tenant Act 1985

Accepting the appointment

Before undertaking the work the accountant needs to establish the identity of the Landlord, because this is the person with whom the engagement is made, and to whom the accountant addresses the accountant's report. The Landlord for these purposes can include someone who is legally entitled to collect the service charges who may not also be the person identified by the tenants as their landlord.

General procedures³

1	Obtain a copy of the service charge report and agree all entries to the landlord's or agent's accounting records. Cast the service charge statement.
2	Compare the service charge report to the General Rules and Content set out in [the legislation]. In particular ensure that the headings in the statement meet at least the minimum requirements of Appendix XXXX to the regulations. Where differences are identified these should be reported to the landlord or agent and adjustments made.
3	If a service charge statement has previously been provided to the tenants / leaseholders, agree the brought forward balances on the service charge account from the prior period to the service charge statement that was issued. These balances are likely to include carried forward surpluses or deficits on the previous period's service charge statement, together with closing balances on sinking fund accounts.
4	Obtain a representation letter from the landlord / agent signed by an authorised person, confirming as a minimum, that the service charge statement has been prepared in accordance with the requirements of the General Rules and Content and that all expenditure included in the service charge account is a proper charge to the property and in accordance with the lease agreement.
	Income and expenditure Statement
5	Obtain a schedule of all service charges receivable by the landlord during the year either in the form of a budget or a schedule prepared by the landlord / agent, showing all charges payable by each tenant / leaseholder. <ul style="list-style-type: none"> 1) Ensure that all units paying variable service charges within the property are included in the schedule of income. 2) Compare the schedule of income with the income recorded in the income and expenditure account. Where differences are identified ensure there are valid reasons. (Note that the collection of service charge debts is the responsibility of the landlord / agent and that bad debts or voids should not be a charge to the service charge account unless the lease terms allow this).
6	Where other income is recorded, if the amounts are in excess of 5% of expenditure for the year, agree to supporting documentation to ensure accuracy and completeness of recording.

³ These procedures may need to be adapted where a modified form of statement is allowed to be provided by a local authority or a RSL in accordance with the Regulations.

7	Depending on nature of expense, either check recorded expenditure by proof in total or, for a sample of invoices representing expenditure in the year, agree to invoice and consider whether the expenditure has been correctly analysed in the service charge account and accurately recorded. . Where required refer to the conditions of the lease agreement to ensure that the expenditure is admissible.	
8	Where expenditure, such as sinking fund charges are incurred, ensure that the charge is in accordance with the provisions of the lease agreement and that the amounts have been accurately reflected in the sinking fund account, included as part of the service charge statement.	
9	Where expenditure represents an allocation of an expense across one or more service charge schemes, ensure the allocation is in accordance with the lease agreement or a method notified to the service charge recipients.	
10	Where expenditure has been incurred which has been debited to a sinking fund, select a sample of expenditure items and agree to purchase invoices, ensuring that the expense is a proper charge on the property or service charge scheme and in accordance with the lease agreement.	
	Balancing Statement	
11	Where a balancing statement is required to be produced as part of the service charge statement: <ol style="list-style-type: none"> 1) Agree cash balances to the client bank account balance maintained by the landlord / agent. Where a reconciliation is required in order to agree the balance to the balance per the bank statement test a sample of reconciling items to ensure they represent valid reconciling items 2) Where the landlord / agent operates a single client bank account covering more than one service charge scheme, obtain a schedule of all service charge schemes covered by the client bank account, as at the period to which the service charge statement is drawn up, and agree balances to the individual service charge statements. Where there are reconciling items between the balance per the client bank account and the list of service charge cash balances, test a sample of the reconciling items to ensure they represent valid reconciling items. 3) Where there are other balances appearing in the Balancing Statement agree all amounts in excess of 5% of the expenditure for the year to appropriate supporting documentation which supports the description and accounting treatment of the balances in question. 	
	Reporting	
12	The results of testing should be summarised in a report to the landlord / agent and tenants / leaseholders in a form similar to the model report attached at Appendix YYYYYY to the Guidance Notes issued by the [RSB that has licensed the accountant to practise]. Where exceptions have been noted as a result of the testing above, a clear summary of the exceptions should be set out including the monetary amounts involved.	

Note: References to ‘tenants’ in this document are to the persons paying variable service charges so that the term includes leaseholders.

Appendix 4: Suggested format and wording of Accountants' reports

ACCOUNTANT'S REPORT UNDER SECTION [XX] [ACT] TO THE [LANDLORD / AGENT AND TENANTS / LEASEHOLDERS] ON THE REGULAR STATEMENT OF ACCOUNT FOR [PROPERTY NAME & ADDRESS]

Responsibilities of the Landlord and the Accountant

As set out in the summary of tenants' rights and obligations [state where to be found], the landlord is obliged to provide the tenant or leaseholder with a regular statement of account ("the statement") that is covered by an accountant's report. It is our duty to issue that report in accordance with the provisions of [legislation].

Basis of report

We have performed the procedures set out in the guidance issued by [relevant RSB] with respect to the statement for the year ended [date] on pages n to n. The procedures, which are set out in [state where procedures may be found, e.g. included with summary of tenants' rights and obligations, or appended to Statement of account], were performed solely for the purpose of ensuring that the statement complies with the requirements of the legislation.

[This report is made to the [Landlord / Agents and Tenants / Leaseholders] for issue with the Statement in accordance with the [legislation]. Our work has been undertaken to enable us to make this report to the [Landlord / Agents and Tenants / Leaseholders] and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the [Landlord / Agents and Tenants / Leaseholders] as a body for our work or for this report.]

The procedures performed did not constitute an audit or a review of any kind and were not designed to provide any assurance regarding whether the amounts charged are a reasonable amount for the services, whether those services were provided effectively and on the effectiveness of governance processes (including controls to prevent and detect fraud or misrepresentation). Accordingly, had we performed additional procedures or an audit or review of the Statement in accordance with International Standards on Auditing or International Standards on Review Engagements, other matters might have come to our attention.

Report of factual findings

[Other than as noted in the following paragraph, no / No] exceptions were noted from our performance of the procedures set out in the guidance issued by [relevant RSB].

[The exceptions noted were as follows:]

REPORTING ACCOUNTANT'S SIGNATURE

Firm's name, qualification and address

Date

INADEQUATE OR UNAVAILABLE RECORDS

There may be occasions where the reporting accountants feel that they cannot provide a standard report due to pervasive poor quality of accounting records (e.g. significant missing documents, discrepancies or errors in terms of number or importance), or because the accounting records were not available from the landlord or managing agent. The reporting accountants could withdraw from the engagement and write to the Landlord explaining that, because records had been withheld / were of poor quality, they could not complete the envisaged engagement. However, because there is no statutory appointment/resignation mechanism here there is nothing to stop a landlord in receipt of such a letter from trying to find another accountant to do the work, and there is no mechanism for the new accountant to find out that another accountant had previously been engaged and declined the work.

A course of action that would be more useful to the tenants would be for the reporting accountants to make a statement to the tenants that, because of the poor quality of the accounting records (or other factors, as appropriate), the accountants are unable to make the report required by section 21. This would mean that the statement of account prepared by the landlord would not comply with the legislation, and the tenants could exercise their right to withhold payment of service charges as set out in the legislation.

An example statement is set out below.

ACCOUNTANT'S STATEMENT TO THE [LANDLORD / AGENT AND TENANTS / LEASEHOLDERS] ABOUT THE REGULAR STATEMENT OF ACCOUNT FOR [PROPERTY NAME & ADDRESS]

As set out in the summary of tenants' rights and obligations [state where to be found], the landlord is obliged to provide the tenant or leaseholder with a regular statement of account ("the statement") that is covered by an accountant's report. It is our duty to issue that report in accordance with the provisions of [legislation].

Due to the poor quality of the landlord's accounting records, we are unable to issue such a report. We draw your attention to the following points:

[E.g.: The statement of account did not include the following information required by the legislation ...

The figures in the statement were not clearly presented in accordance with the legislation ...

The accounting records did not appear to be kept in an orderly fashion or up to date ...

We were unable to agree the [following] figures in the statement to underlying accounting records ...

We were unable to find supporting documentation for the following/any entries in the accounting records ...]

Etc.

Appendix 5: Qualified Accountants

Members of the following recognised supervisory bodies for company auditors (as defined by companies legislation currently in force) who are entitled under the rules of the body to which they belong to engage in public practice, are able to provide a report on a statement of account:

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

In addition, the provisions under the current legislation allowing employees of certain landlords who are members of the Chartered Institute of Public Finance and Accountancy to be regarded as qualified accountants will continue to apply.