



ICAS REVISED GUIDANCE FOR ATOL REPORTING ACCOUNTANTS

FOR REPORTING ACCOUNTANTS UNDERTAKING ENGAGEMENTS
UNDER THE AIR TRAVEL ORGANISER'S LICENCE (ATOL)
REPORTING ACCOUNTANTS' SCHEME

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ICAS wishes to thank the following individuals who participated in the preparation of the guidance:

Anne Adrain, Head of Sustainability & Assurance, ICAS
James Barbour, Director, Policy Leadership, ICAS
Lesley Byrne, Director, Regulatory Monitoring, ICAS
Kenneth Oliver, Assistant Director, Audit & Practice Monitoring, ICAS

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This document can be downloaded without charge from
<https://www.icas.com/technical-resources/icas-guidance-for-atol-reporting-accountants>

A hard copy can be obtained on request from:
ICAS
21 Haymarket Yards, Edinburgh EH12 5BH
Tel: 0131 347 0240
Fax: 0131 347 0114
E-mail: accountingandauditing@icas.com

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FOREWORD

Background to revisions to the Guidance for ATOL Reporting Accountants

The introduction of a new EU Directive, (EU) 2015/2302, on package travel and linked travel arrangements (PTD), means that there are changes to the Air Travel Organiser's Licence ATOL regulations with effect from 1 July 2018. This has led to reporting changes for ATOL holders, and ATOL reporting accountants (ARAs) need to be aware of, and understand, these changes when reporting to the CAA. This revised Guidance for ATOL Reporting Accountants reflects the impact of these reporting changes.

The key changes include the following:

Small business ATOLs (SBAs) are now required to report to the CAA on a quarterly basis (previously annual), on the number of licensable passengers and corresponding revenue, both on a booking date basis and on a departure date basis, bringing them in line with other ATOL holders.

The deadline for submitting annual accountants' reports (AARs) for all ATOL holders and ARAs has been increased from six months to nine months following the ATOL holder's financial period end or its ATOL renewal date, whichever is the earlier.

The Linked Travel Arrangements will not be included in the ATOL Regulations as licensable business. ATOL licensable packages are now defined as single-contract or multi-contract packages, i.e. the consumer has either one contract for all their travel services that are part of the package, or they have more than one contract for all their travel services that together are part of the package. As of 1 July 2018, the old category of flight-plus does not exist and no further bookings for this category can be taken. The definition of package can be found on pages 27/28 of Guidance Note 10: Requirements for ATOL Reporting Accountants (contained in Official Series 3).

Other changes mean that the CAA will be able to share the AARs with the professional accountancy body that has designated the ARA, to enable that professional accountancy body to use actual case studies for the sole purpose and use in their assessment of the continuing designation of that ARA.

Transitional arrangements are in place so that ATOL Holders will not need to amend their licensable categories until their next renewal date.

The ATOL online training module has been refreshed to include the changes to the PTD although it is not a requirement at this stage that all ATOL Reporting Accountants will need to retake the online ATOL training and test, including mandatory questions on PTD.

The full extent of the changes can be found in Guidance Note 10: Requirements for ATOL Reporting Accountants, published as an Appendix to Official Series Record (OSR) 3 <http://publicapps.caa.co.uk/modalapplication.aspx?catid=1&pagetype=65&appid=11&mode=detail&id=8501>

ICAS guidance for ATOL Reporting Accountants can be accessed at: <https://www.icas.com/technical-resources/icas-guidance-for-atol-reporting-accountants>

There are some transitional arrangements with regard to the changes:

- No further licensable bookings for Flight-Plus sales after 1 July 2018.
- From 1 July 2018, there is a new licence category 'Multi-contract Packages' for sales where the consumer has more than one contract, eg, one for the flight and a separate one for the hotel. Flight-Plus sales will move to this category on the licence at the applicable licence renewal.
- From 1 July 2018 Flight-Plus licensable 'carried' passengers from bookings taken prior to 1 July 2018 will need to be reported under Multi-contract Packages until the last departure of those passengers
- Licensable categories will not need to be amended until the next applicable licence renewal.
- Licensable revenue Licence Limits will not require a variation to the authorisations to move Flight-Plus sales, which will remain in place until the next applicable licence renewal.
- Licensable revenue Licence Limits will need to be varied if an ATOL holder identifies that under the new definition of packages their licensable business has expanded to exceed the sum of currently licenced packages and Flight-Plus sales. The first quarter reporting period affected will be the March 2019 ATOL renewal.

ICAS GUIDANCE FOR ATOL REPORTING ACCOUNTANTS

1. INTRODUCTION

1.1 Purpose of guidance

The Air Travel Organiser's Licence (ATOL) Reporting Accountants Scheme, which forms part of the UK Civil Aviation Authority's ("the CAA's") review of ATOL regulation, was launched on 1 April 2016. From that date, only registered and designated ATOL Reporting Accountants (ARAs) working in registered firms are able to sign the Annual Accountants' Report (AAR) for submission to the CAA. The aim of the scheme is to ensure that financial information filed with the CAA by the ATOL holder can be relied upon by the CAA. This guidance reflects changes made in the CAA's revised version of Guidance Note 10 (applicable 1 July 2018).

ICAS is an Approved Professional Body for this scheme.

This guidance is published to assist members who are undertaking engagements under the ARA scheme. Please note that where the firm in question is also the auditor of the entity concerned then the engagement forms a separate engagement from that of the statutory audit.

Unless otherwise stated, any reference in this document to Guidance Note relates to Guidance Note 10 (applicable 1 July 2018).

1.2 Essential reading

<https://www.icas.com/regulation/atol-reporting-accountants-scheme>

Information on the ATOL scheme can be found in the revised CAA Guidance Note 10 (applicable 1 July 2018). This can be downloaded at: <https://www.caa.co.uk/ATOL-protection/Trade/Maintain-and-renew-your-ATOL/ATOL-reporting-accountants-scheme/>

1.3 Effective date

This revised guidance applies to ICAS firms undertaking engagements in relation to the ATOL Reporting Accountants Reporting Scheme from 1 July 2018.

1.4 What is ATOL?

This is a statutory system that covers most travel operators who sell air travel. The scheme is designed to protect the public from losing their money or from being stranded abroad in the event that the travel provider with whom they have booked their travel fails. The Air Travel Trust Fund ("ATTF") is the primary source of funding when an ATOL holder fails. Monies from the ATTF are used to meet refund and repatriation costs arising from a failure. The ATTF is principally funded by ATOL Protection Contributions (APC). The Civil Aviation (Contributions to the Air Travel Trust) Regulations 2007 enable the ATT to collect APCs from ATOL Holders for each person who books air travel covered by an ATOL.

1.5 Types of ATOL

There are two types of ATOL licences: Standard and Small Business ATOL (SBA) but there are different ways available to obtain an ATOL or make licensable sales through an accredited body. An application for a Standard ATOL licence should be made directly to the CAA.

The work procedures in Appendix 2 of this guidance apply to both Standard ATOL Holders and SBAs.

The SBA scheme is only available to businesses that hold no more than 500 forward bookings in a year and have licensable revenue less than, or equal to, £1 million. There are separate rules for businesses operating under the SBA scheme. Reference should be made to Annex 2 of Guidance Note 10 (applicable 1 July 2018) for details.

Licences are valid for a period of no more than 1 year, to either 31 March or 30 September. This is generally determined by the ATOL holder's financial year end. The CAA places a licence limit on each ATOL in respect of licensable passenger numbers and licensable revenue, on a departure date basis and by category of business.

1.6 Eligibility criteria

Each ICAS firm undertaking ATOL engagements must:

- have Professional Indemnity Insurance (PII) at least sufficient to cover the Liability Cap in Guidance Note 10;
- have a principal business of the provision of accountancy services;
- be fit and proper and independent of the ATOL holder;
- appoint an ATOL Contact Principal;
- comply with the ICAS ATOL Reporting Accountants Regulations; and
- have completed the firm application form, paid any Affiliate fees, and be granted registration by ICAS.

Each principal in the firm must be:

- a member of one of the three Institutes of Chartered Accountants UK and Ireland; or
- a member of the Association of Chartered Certified Accountants; or
- a member of the Association of Accounting Technicians;
- Association of International Accountants (AIA);
- Institute of Financial Accountants (IFA); or
- an ICAS Affiliate.

If you have any doubts regarding your firm's eligibility please contact Regulatory Authorisations on 0131 347 0286 or regulatoryauthorisation@icas.com.

Only licensed and registered ARAs will have been able to sign ATOL Accountants' Reports from 1 April 2016 onwards.

Each ARA must:

- be a member of an Approved Professional Body signed up to the ATOL Licensing scheme (ICAS, ICAEW, ACCA, AIA, IFA or AAT) or an ICAS Affiliate;
- hold a Practising Certificate;
- be an employee or principal of the registered firm;
- demonstrate sufficient experience in ATOL work;
- demonstrate a sufficient level of competence to carry out ATOL work;
- have undertaken adequate CPD appropriate to maintaining and developing competence for an individual seeking to be an ATOL Reporting Accountant and have met the training requirements;
- be fit and proper;
- be able to demonstrate compliance with the ICAS Rules and Regulations; and
- have completed an ARA application form, paid the ARA fees, and been granted ARA status by ICAS.

The CAA has the consent of the ATOL holder on its' application, to share the AARs with the professional accountancy body that has designated the ARA, to enable the professional accountancy body to use actual case studies for the sole purpose and use in their assessment of the continuing designation of that ARA. By signing the AAR the ARA consents that the CAA can disclose the Report to the professional accountancy body for the sole purpose of assessing the continuing designation of that ARA. The professional accountancy bodies are not permitted to disclose the Reports to other parties. The CAA has the authority to provide feedback to the relevant professional accountancy body on 'ATOL Reporting' work submitted by an ARA.

The CAA requires all ATOL ARAs to have completed mandatory training (see 1.7 below) by the CAA and, if you have not done so already, please apply for this training by emailing the CAA (CAA.ARAScheme@caa.co.uk). You will be asked to supply the following information:

- Full name
- Professional Accountancy Body (PAB) (the body you are applying to for the ARA Scheme)
- Member registration number (for reference to the PAB)
- Email address - to be taken from the email response.

You are required, as part of your application, to confirm that you have read the CAA guidance, including the most up to date version of Guidance Note 10.

For details of the fees, and any other queries about the application process, please contact Regulatory Authorisations on 0131 347 0286 or regulatoryauthorisation@icas.com.

1.7 Training

The CAA provide an online training module providing ATOL Reporting Accountants with background on ATOL. All accountants will be required to complete this training as part of their initial designation and the results of this training will be provided to the relevant professional accountancy body.

ARAs can request for an account to be set up by emailing atoladmin@caa.co.uk

There is a CAA dedicated webpage for ATOL Reporting Accountants that will be periodically updated on ATOL information, feature news, alerts, documents on revisions to guidance, or for subsequent changes to standards or regulations: <http://www.caa.co.uk/ATOL-protection/Information-for-the-trade/>

1.8 ATOL contact partner

This is the principal in the firm that is responsible for ensuring that the firm and each ARA complies with the ARA Regulations. This principal should become knowledgeable on the requirements of the ARA Regulations.

1.9 Ongoing requirements

Each firm must:

- comply with the Rules and Regulations, including the ICAS ARA Regulations;
- submit a completed ATOL Annual Return;
- ensure that it has appropriate policies and procedures in place to comply with the Regulations and Guidance Note 10;
- conduct an Annual Compliance Review, including a whole firm review (a review of the firm's policies and procedures) and a "cold file review" (a review of ATOL completed engagements) to ensure compliance with the ARA Regulations and Guidance Note 10; and

- submit to, and cooperate with, a monitoring visit. ICAS will require to monitor each ARA within each firm at least once every six years. We intend to conduct this as part of our Practice Monitoring Visit.

Each ARA must:

- maintain necessary competence and appropriate ATOL related CPD;
- comply with the Rules and Regulations, including the ARA Regulations, and comply with Guidance Note 10; and
- submit to, and cooperate with, a monitoring visit to the firm.

1.10 ATOL reporting accountant regulations

These can be downloaded at: https://www.icas.com/data/assets/pdf_file/0004/214447/ICAS_1015_ATOL-Regulations.pdf

1.11 Indemnity insurance

The firm is required to have PII cover in excess of the liability cap calculated by reference to the firm's ATOL holder client's licensable revenue limit or bond. This requires to be in place prior to reporting on an ATOL holder.

The requirements are detailed in Annex 5 of Guidance Note 10.

The CAA has agreed to cap the ARA's liability based on the formula detailed in Appendix 4 to this guidance.

However, the ARA has the choice of accepting this formula or negotiating an individual cap directly with the CAA.

ICAS has not approved the CAA capping formula and therefore, the standard Terms of Engagement at Appendix 1 should be tailored accordingly if the ARA has negotiated its own individual capping method. Adopting the unmodified standard terms will signify agreement with the CAA's own capping method.

1.12 Independence

The ARA should ensure compliance with the principles of the ICAS Code of Ethics. The specific independence requirements can be found in section 291 of this code. In particular, the ARA should:

- Identify threats to independence;
- Evaluate the significance of the threats identified; and
- Apply safeguards when necessary to eliminate the threats or reduce them to an acceptable level.

When the ARA determines that appropriate safeguards are not available or cannot be applied to eliminate the threats or reduce them to an acceptable level, the ARA shall eliminate the circumstance or relationship creating the threats or decline or terminate the assurance engagement.

1.13 Reporting of breaches

If, during the course of the engagement, the ARA becomes aware of any breaches of the ATOL regulations by the ATOL holder then the ARA should report this directly to the CAA in accordance with the compliance and whistleblowing advice in Guidance Note 10.

1.14 Reporting deadlines

The ATOL Reporting Accountants' reports must be submitted to the CAA within nine months following the end of the ATOL holder's financial year or by the ATOL renewal date, whichever is the earlier.

2. TERMS OF ENGAGEMENT

Standard terms of engagement have been agreed with the CAA. These can be found at Appendix 1 of this guidance.

Paragraph 2.27 of Guidance Note 10 details the ATOL holder's responsibility to provide the CAA with relevant financial information.

The AAR includes a report of whether the licensable revenue reported by sub category and by calendar quarter has been 'fairly presented in accordance with CAA Regulations and guidance'.

The ARA will be required to provide a factual-findings report on the financial data contained within the AAR agreeing it to the financial statements (or other equivalent financial statements) of the ATOL holder. The ARA is not required to report on more detailed information than that which is included in the financial statements.

A contract between the ATOL holder, ARA and the CAA (on its own behalf and in its capacity as agent for the Trustees of Air Travel Trust) is formed on the terms of engagement when the ATOL holder and ARA sign and submit the Report to the CAA.

The nature of the information to be reported, depending on the size of the ATOL holder and the applicable reporting framework, is set out in paragraphs 2.28 to 2.30 of Guidance Note 10.

3. ROLE OF THE REPORTING ACCOUNTANT

3.1 The role of the ATOL Reporting Accountant (ARA)

The ARA, is required to provide an ATOL Accountants' Report (AAR) which includes:

- (a) An **assurance report** on the licensable revenue of the ATOL holder; and
- (b) A **factual-findings** report on the financial data contained within the AAR and this should agree to the financial statements. The ARA is not required to report on more detailed information than that which is included in the financial statements.

The assurance report confirms whether the licensable revenue reported by sub-category and by calendar quarter has been 'fairly presented in accordance with CAA Regulations and guidance'. The 'fairly presented' expression of opinion is a form of reasonable assurance under the International Framework for Assurance Engagements which would be classified as a direct engagement. The ARA concludes on the evaluation of the subject matter, i.e. the licensable revenue, against the applicable criteria, i.e. the CAA regulations and guidance.

The factual findings included in the AAR are based on agreed upon procedures on the following:

- (i) Passenger numbers by booking date and departure date agreed to the ATOL holder's booking system.
- (ii) Profit and loss and balance sheet information extracted from the financial statements agreed to the financial statements.

The ARA should report under the following options:

- (a) Without exception and submitting the form online directly to the CAA.
- (b) With exception, whereby the exceptions are provided on the form before submitting the form online directly to the CAA.
- (c) The ARA does not complete the form and reverts back to the ATOL holder.

3.2 Ring-fencing confirmations

An ARA may be requested to provide ring-fencing confirmations in relation to an ATOL holder operating as part of a larger group. The purpose of the confirmation is to determine whether the ATOL holder is sufficiently financially independent and could continue to trade following the failure of the rest of the group. Further guidance on ring fencing confirmations can be found in Appendix 5 and more detailed information at www.caa.co.uk

3.3 Work procedures

The ARA is required to provide the following opinion: 'whether the licensable revenue reported by sub-category and by calendar quarter has been fairly presented in accordance with CAA Regulations and guidance'.

As a result, the ARA must undertake an assurance engagement that will provide reasonable assurance in respect of the positive opinion issued on the subject matter.

It is therefore a matter for the ARA to determine the most appropriate approach in relation to the specific engagement which they are undertaking to ensure that they have sufficient and appropriate evidence in order to be able to issue an opinion. The work effort as detailed in Appendix 2 of this guidance) is intended to assist ARAs in the consideration of their approach to be adopted, but ultimately it is a matter for the ARA to determine the approach and procedures to be adopted.

The ARA should ensure that they have sufficient background knowledge of the applicable CAA requirements and regulations. The ARA should also be familiar with the conduct of an assurance engagement in accordance with International Standard on Assurance Engagements (ISAE) 3000: *Assurance engagements other than audits or reviews of historical financial information*.

Only when designated by ICAS, i.e. once the ARA has the required level of knowledge and experience and considered competent, will they be able to sign off ATOL reports. It will be the individual who will sign the report, although they will sign for and on behalf of their respective firm.

APPENDIX 1: TERMS OF ENGAGEMENT CAA STANDARD ARA-ATOL TERMS OF ENGAGEMENT¹

(Version dated March 2016)

The following are the CAA pre-agreed terms of engagement of ATOL Reporting Accountants by ATOL holders to prepare reports required by the CAA in connection with the ATOL holder's obligations under the Civil Aviation (Air Travel Organisers' Licensing) Regulations 2012 (as amended) and the Civil Aviation (Contributions to the Air Travel Trust) Regulations 2007 (as amended).

These terms must be included, unamended, within the wider terms of engagement between the ATOL holder and the ATOL Reporting Accountant. However, none of the wider terms may contradict or purport to contradict these terms and the ATOL holder and the ATOL Reporting Accountant agree that any that purport to do so will be void.

A contract between an ATOL holder, its ATOL Reporting Accountants, the CAA on its own behalf and as agent for the Trustees of the Air Travel Trust on these terms is formed when the air travel ATOL holder and the ATOL Reporting Accountant sign and submit to the CAA a Report as set out in Clause 3 herein.

In these terms of engagement:

"CAA" refers to the Civil Aviation Authority;

"Accountable Person" refers to the ATOL holder's director with authority to ensure the ATOL holder complies with the terms and conditions of its ATOL acceptable to the CAA (pursuant to ATOL Regulation 32);

"ARA" refers to ATOL Reporting Accountant;

"ATT" refers to the the Trustees for the time being of the Air Travel Trust;

"the ATOL holder" refers to the air travel organiser that is required to submit a Report to the CAA;

"the Accountants" refers to the ATOL holder's ATOL Reporting Accountant as defined in the ATOL Standard Term 3, published in the CAA's Official Record Series 3, pursuant to ATOL Regulation 40(1);

"Guidance Note 10" refers to the publication by the CAA of the Requirements for ATOL Reporting Accountants (applicable 1 July 2018) in Official Record Series 3.

1. Introduction

The ATOL holder is required to submit to the CAA Reports as set out in Clause 3 below that are signed by their Accountants to provide independent assurance or factual confirmations on the information provided. These CAA Standard ARA-ATOL Terms of Engagement set out the basis on which the Accountants will sign the Report.

These CAA Standard ARA-ATOL Terms of engagement do not cover any reports requested by CAA in connection with lapsed licences and the release of bonds, sub-ordinated loans, guarantees and redemption of preference shares.

2. The ATOL holder's responsibilities

- 2.1 The ATOL holder is responsible for producing the information set out in the Reports, maintaining proper records complying with the terms of the CAA's ATOL Standard Terms and providing relevant financial information to the CAA on a monthly, quarterly and annual basis in accordance with the requirements of the ATOL Standard Terms.

The ATOL holder is responsible for ensuring that the non-financial records are reconcilable to the financial records.

- 2.2 The ATOL holder's Accountable Person will ensure that all records, correspondence, information and explanations that the Accountants consider necessary to enable the Accountants to perform the Accountants' work are made available to the Accountants.
- 2.3 The ATOL holder, the CAA and the ATT accept that the ability of the Accountants to perform their work effectively depends upon the ATOL holder providing full and free access to the financial and other records and the ATOL holder shall procure that any such records held by a third party are made available to the Accountants.
- 2.4 The Accountants accept that, whether or not the ATOL holder meets its obligations, the Accountants remain under an obligation to the CAA and the ATT to perform their work with reasonable care. The failure by the ATOL holder to meet its obligations may cause the Accountants to qualify their report or to be unable to provide a report.

3. SCOPE OF THE ACCOUNTANTS' WORK

- 3.1 The ATOL holder will provide the Accountants with such information, explanations and documentation that the Accountants consider necessary to carry out their responsibilities. The Accountants will seek written representations from management in relation to matters for which independent corroboration is not available. The Accountants will also seek confirmation that any significant matters of which the Accountants should be aware have been brought to the Accountants' attention.
- 3.2 The Accountants will perform the following work in relation to the Reports required by the CAA².
- 3.21 Annual Accountants' Report (Part 1): Licensable Revenue on a departure date basis: The Accountants will perform such procedures as are necessary, for forming an opinion as to whether the Licensable Revenue, on both an annual and 4 calendar quarters basis disclosed in section 1 of Part 1 of the Annual Accountants' Report has been fairly presented in accordance with CAA Regulations and Guidance and subject to any adverse findings will produce a report in the form as detailed in Guidance Note 10.
- 3.22 Annual Accountants' Report (Part 1): Licensable passenger numbers on a booking date and departure date basis: The Accountants will perform the work procedures set out in Annex 7 of Guidance Note 10 on both an annual and 4 calendar quarters basis and subject to any adverse findings will produce a report in the form as detailed in Guidance Note 10.
- 3.23 Annual Accountants' Report (Part 2): Extraction of information from the ATOL holder's Financial Statements: The Accountants will perform the work procedures set out in the Annex 7 of Guidance Note 10 and subject to any adverse findings will produce a report as detailed in Guidance Note 10.
- 3.24 Airline Ticket Agent Report: The Accountants will perform the work procedures set out in Annex 7 of Guidance Note 10 and subject to any adverse findings will produce a report as detailed in Guidance Note 10.
- 3.25 Factual Confirmations Report: The Accountants will perform the work procedures set out in Annex 8 of Guidance Note 10 on request by the CAA to the ATOL holder for an accountants' confirmation report and subject to any adverse findings will produce a Factual Confirmations report in the form set out in Annex 8 of Guidance Note 10;
- 3.26 Ring Fencing Report: The Accountants will perform the work procedures set out in Annex 9 of Guidance Note 10 on request by the CAA to the ATOL holder for an accountants' ring fencing report and subject to any adverse findings will produce a Ring Fencing report in the form set out in Annex 9 of Guidance Note 10.
- 3.27 The Accountants will not subject the information provided by the ATOL holder to checking or verification except to the extent expressly stated. While the Accountants will perform their work with reasonable skill and care and will report any misstatements, frauds or errors that are revealed by enquiries within the scope of the engagement, the Accountants' work should not be relied upon to disclose all misstatements, fraud or errors that might exist.

4. FORM OF THE ACCOUNTANTS' REPORTS

4.1 The Accountants' Reports are prepared on the following bases:

- 4.1.1 The Accountants' Reports are prepared solely for the confidential use of the ATOL holder and the CAA and solely for the purpose of submission to the CAA in connection with the CAA's requirements in connection with the ATOL holder's Air Travel Organiser's Licence. They may not be relied upon by the ATOL holder or the CAA for any other purpose except as provided in 4.1.2 below;
- 4.1.2 The CAA may disclose the Reports to the ATT in connection with any actual or potential liability to the ATT that may arise out of the business conducted by the ATOL holder, and the ATT will be entitled to rely on them subject to the terms of this agreement. The ATT may share the Accountants' Reports and/or the information contained in the Accountants' Reports with;
- the ATT's insurers in connection with making an insurance claim, where required by the ATT obligations under its contract of insurance; and
 - the ATT's own statutory auditors and legal advisors;

and the Accountants do not object to such disclosure provided that the ATT's insurers and the ATT's own statutory auditors and legal advisors agree for the benefit of the Accountants (and the CAA produces evidence of such agreement if and when requested by the Accountants) that:

- (a) the Reports prepared by the Accountants are designed to meet the agreed requirements of the CAA, the ATT and the ATOL holder only;
 - (b) the Reports are not to be regarded as suitable to be used or relied on by any party wishing to acquire any rights against the Accountants other than the CAA, the ATT and the ATOL holder in accordance with this agreement;
 - (c) the Accountants do not assume any responsibility in respect of their work performed for the CAA, the ATT and the ATOL holder or the Reports, or any judgments, conclusions, opinions, or findings that the Accountants may have formed or made, to any party except the CAA, the ATT and the ATOL holder in accordance with this agreement;
 - (d) to the fullest extent permitted by law the Accountants accept no liability in respect of any such matters to any party except the CAA, the ATT and the ATOL holder in accordance with this agreement;
 - (e) should any party except the CAA, the ATT or the ATOL holder choose to rely on the work performed by the Accountants or the Reports, that party will do so at its own risk; and that
 - (f) the Reports are to remain confidential in the hands of the ATT's insurers and the ATT's own statutory auditors and legal advisors.
- 4.1.3 Neither the ATOL holder, the CAA nor the ATT may rely on any oral or draft reports the Accountants provide. The Accountants accept responsibility to the ATOL holder, the CAA and the ATT for the Accountants' final signed reports only;
- 4.1.4 Except as provided for in clause 4.1.2 above and clause 4.1.5 below, the Accountants' Reports must not be recited or referred to in whole or in part in any other document (including, without limitation, any publication issued by the CAA);

- 4.15 Subject to clause 4.1.2 above and except to the extent required by court order, law or regulation or to assist in the resolution of any court proceedings, the Accountants' Reports must not be made available, copied or recited to any other person (including, without limitation, any person who may use or refer to any of the CAA's publications);
- 4.16 The Accountants, their partners and staff neither owe nor accept any duty to any person other than the ATOL holder, the CAA or the ATT in accordance with this agreement (including, without limitation, any person who may use or refer to any of the CAA'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 Accountants' Reports.

Further details on the information reported and type of Accountant's Report can be found in section 4.42 of Guidance Note 10.

5. RIGHTS AND DUTIES OF THE ACCOUNTANTS

- 5.1.1. An ATOL holder recognises that, if during the course of preparing an Accountants' report the Accountants become aware of breaches of the ATOL Regulations by the ATOL holder, the Accountants are required to report them directly to the Civil Aviation Authority, in accordance with the terms of their designation as an ARA and as set out in more detail in Guidance Note 10.
- 5.1.2. The Accountants may make that report without prior reference to the ATOL holder.
- 5.1.3. To the extent necessary to enable the Accountants to comply with this requirement, the ATOL holder waives the right of confidentiality. This waiver extends to any report made, document produced or information disclosed to the Civil Aviation Authority in good faith pursuant to these instructions, even though it may subsequently transpire that the Accountants were mistaken in their belief that there was cause for concern.

6. LIABILITY PROVISIONS

- 6.1. The Accountants will perform the engagement with reasonable skill and care and acknowledge that they will be liable to the ATOL holder, the CAA and the ATT for losses, damages, costs or expenses ("losses") caused by their breach of contract, negligence, or dishonesty or fraud or other deliberate breach of duty, subject to the following provisions:
- 6.1.1 The Accountants will not be so liable if such losses are due to the provision of false, misleading or incomplete information or documentation or due to the acts or omissions of any person other than the Accountants, except where, on the basis of the enquiries normally undertaken by Accountants within the scope set out in these CAA Standard ARA-ATOL Terms of Engagement, it would have been reasonable for the Accountants to discover such defects;
- 6.1.2 The Accountants accept liability without limit for the consequences of their own fraud and for any other liability which it is not permitted by law to limit or exclude;
- 6.1.3 Subject to the previous clause (6.1.2), the total aggregate liability of the Accountants whether in contract, tort (including negligence) or otherwise, to the CAA, the ATT and the ATOL holder, for any losses suffered by the CAA, the ATT, or the ATOL holder 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 an amount to be agreed between the parties by separate written agreement or, in the absence of such agreement, calculated in accordance with the CAA's capping formula published in Guidance Note 10 ("the Liability Cap").³

In accepting an Accountants' report prepared under an engagement in these terms the CAA and the ATT and the ATOL holder agree that the Liability Cap will be shared between them and that their respective claims against the Accountant shall be dealt with in accordance with the following priority. In the event of successful claims against the Accountants by more than one of the CAA, the ATT and the ATOL holder, the CAA and the ATT shall be entitled to recover their loss in priority to the ATOL holder subject always to the maximum Liability Cap. The Accountants shall notify the CAA if a claim is commenced by the ATOL holder against the Accountants but the Accountants are not party to the separately agreed priority set out in the preceding sentence. Nothing in this clause will affect the validity or operation of clause 6.1.5 below;

- 6.1.4 The Accountants' liability arising after the application of the other provisions of this clause 6 (above and below) shall in aggregate be limited to that proportion of the total losses, after taking into account contributory negligence (if any), which is just and equitable having regard to the extent of the responsibility of the Accountants for the losses, and the extent of responsibility of any other person ("Other Person").

In order to calculate the proportionate share of the Accountants' liability, no account shall be taken of any matter affecting the possibility of recovering compensation from any Other Person, including the Other Person having ceased to exist, having ceased to be liable, having an agreed limit on its liability or for other reasons being unable to pay, and full account shall be taken of the Other Person's responsibility even if that Other Person is not a party or witness to any relevant proceedings;

- 6.15 The allocation of the Liability Cap between the CAA, the ATT and the ATOL holder shall be entirely a matter for the CAA, the ATT and the ATOL holder, who will be under no obligation to inform the Accountant of it. If (for whatever reason) no such allocation is agreed, none of the CAA, the ATT and the ATOL holder will dispute the validity, enforceability or operation of the liability cap on the grounds that no such allocation is agreed.
- 6.2 This clause 6.2 shall not apply to any claim that might be brought against the Accountants separately by the ATOL holder. The CAA and the ATT agree that neither the CAA nor the ATT will bring any legal proceedings against the Accountants arising out of or in connection with this agreement or the services to be provided thereunder unless the ATT has suffered a loss as a result of the Accountants' breach of contract or their negligence arising from the provision of the services and: (i) a failure of the ATOL holder has occurred;⁴ (ii) the loss to the Air Travel Trust (ATT) exceeds 15% of the ATOL holder's Public Revenue Licence Limit, or the total of the actual bond (if a bond was provided by the ATOL holder as a specific condition of its ATOL), whichever is the greater; and (iii) the CAA and/or the ATT have taken reasonable steps⁵ to recover the loss from the ATOL holder or any guarantees provided to the CAA or the ATT by the principals of the ATOL holder or any other appropriate third parties. In the event that such conditions are satisfied, the CAA and the ATT further agree that the Accountants' liability shall, subject always to the Liability Cap referred to in clause 6.1.3 above, be limited to that proportion of the ATT loss that is in excess of 15% of the ATOL holder's Public Revenue Licence Limit or actual bond (if a bond was provided by the ATOL holder as a specific condition of its ATOL), whichever is the greater. In the event that conditions (i) and (iii) are satisfied but condition (ii) is not, such that the loss to the ATT does not exceed the 15% threshold stated in (ii) and there is no bond, the Accountants' liability to the ATT and/or to the CAA shall be limited (on the basis stated above) to £250,000.
- 6.3 The ATOL holder, the CAA and the ATT agree that they will not bring any claims or proceedings against any individual partners, members, directors or employees of the Accountants. This clause is intended to benefit such partners, members, directors and employees who may enforce this clause pursuant to the Contracts (Rights of Third Parties) Act 1999 (the "Act")⁶. Notwithstanding any benefits or rights conferred by this agreement on any third party by virtue of the Act, the parties to this agreement may agree to vary or rescind this agreement without any third party's consent. Other than as expressly provided in these terms, the Act is excluded.
- 6.4 Any claims, whether in contract, negligence or otherwise, must be formally commenced within two years after the party bringing the claim becomes aware (or ought reasonably to have become aware) of the facts which give rise to the action and in any event no later than four years after any alleged breach of contract, negligence or other cause of action.

This expressly overrides any statutory provision which would otherwise apply. In the event that the CAA and/or the ATT delay commencing a claim against the Accountants in order to comply with their obligations under clause 6.2 to take reasonable steps to recover loss from the ATOL holder and any guarantors, time will be deemed to have stopped running for the purposes of this clause 6.4 for the period that the CAA and/or the ATT are taking such reasonable steps.

- 6.5 The services provided by the Accountants under this agreement are separate from and unrelated to the Accountants' audit work on the Financial Statements of the ATOL holder for the purposes of the Companies Act 2006 as appropriate (the "statutory audit work").

The Accountants' obligations under this agreement are entirely separate from the statutory audit work for the ATOL holder. Nothing in this agreement should be taken to and shall not add to or vary or extend in any way or on any basis any duty of care the Accountants may have in their capacity as auditor of the ATOL holder's Financial Statements, nor to create any obligations or liabilities on the Accountants regarding the Accountants' statutory audit which would not otherwise exist.

7. FEES

The Accountants' fees, together with VAT and out of pocket expenses, will be agreed with and billed to the ATOL holder, who will be responsible for the payment of such fees. Neither the CAA nor the ATT is liable to pay the Accountants' fees.

8. QUALITY OF SERVICE

The Accountants will investigate all complaints. The CAA, the ATT and the ATOL holder have the right to take any complaint up with the relevant Professional Accountancy Body under which Accountants are designated as an ATOL Reporting Accountant.

9. PROVIDING SERVICES TO OTHER PARTIES

The Accountants will not be prevented or restricted by virtue of the Accountants' relationship with the ATOL holder, the CAA and the ATT, including anything in these CAA Standard ARA-ATOL Terms of Engagement, from providing services to other clients. The Accountants' standard internal procedures are designed to ensure that confidential information communicated to the Accountants during the course of an assignment will be maintained confidentially.

10. APPLICABLE LAW AND JURISDICTION

- 10.1 This agreement shall be governed by, and interpreted and construed in accordance with English law.
- 10.2 The ATOL holder, the CAA, the ATT and the Accountants irrevocably agree that the courts of England and Wales 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.

11. ALTERATION TO TERMS

Without prejudice to the ATOL holder's and the Accountants' ability to agree additional terms that do not contradict or purport to contradict these CAA Standard ARA-ATOL Terms of Engagement no amendments and variations to these CAA Standard ARA-ATOL Terms of Engagement are permitted or binding unless agreed in writing and signed by the duly authorised representatives of the parties and the CAA. These terms supersede any

previous agreements and representations between the parties in respect of the scope of the Accountants' work and the Accountants' Reports or the obligations of any of the parties relating thereto (whether oral or written) and, together with the matters included in the letter confirming the CAA Standard ARA-ATOL Terms of Engagement, represent the entire understanding between the parties. The CAA acknowledges that supplementary terms may be agreed between the Accountants and the ATOL holder but the CAA will not be party to those terms unless expressly agreed by the CAA. No terms negotiated between the ATOL holder and the ATOL holder's accountant may contradict or purport to contradict the CAA's mandated terms. Should they do so then the accountants' reports will not be acceptable to the CAA. In effect this will be a failure by the ATOL holder to comply with the terms of its ATOL, and ultimately can lead to licensing action being taken against the ATOL holder.

12. TERMINATION

- 12.1 This agreement may be terminated by a party at any time by giving not less than 30 days' notice to each of the other parties.
- 12.2 This agreement may be terminated by a party by notice with immediate effect if another party is unable to pay its debts or has a receiver, administrator, administrative receiver or liquidator (or in each case, the equivalent in another jurisdiction) appointed or calls a meeting of its creditors or ceases for any reason to carry on business or if in the reasonable opinion of the party wishing to terminate any of these events appear likely.
- 12.3 Notices must be in writing and delivered by hand or sent by registered post, in each case to the registered office of each party to this agreement, save that a notice will be validly delivered to the ATT if it is sent to the CAA. Any notice sent by post will be deemed to have been delivered 3 business days after sending.

APPENDIX 2: WORK EFFORT

1. Annual public licensable revenue

The CAA requires an opinion in the Annual Accountants' Report (Part 1) on licensable revenue. ATOL Reporting Accountants need to use their professional judgement and therefore no agreed work procedures are given here.

Licensable business falls into two categories:

- Public (includes Flight-Only, Single-contract Package or Multi-contract Package)
- ATOL to ATOL

Expanded definitions of each of these categories are provided in Guidance note 10.

Licensable revenue should include income from licensable passengers that fall into the two categories above and is only reported on for public sales. It should be presented as the gross amount invoiced to passengers in the relevant period. In other words, the amount they have paid, or will pay for their flights or holidays. The date on which the revenue is recorded is deemed to occur when the ATOL holder contracts with the customer, regardless of whether any payment is taken.

It is therefore important that the ARA undertakes sufficient testing to confirm that:

- Revenue is correctly classified according to the appropriate category, as referred to above.
- Relevant bookings are recorded in the correct period.

This process will include application of some/all of the following:

- Inspection
- Observation
- Confirmation
- Recalculation
- Re-performance
- Analytical procedures
- Inquiry

The engagement report on licensable revenue includes an expression of opinion that the licensable revenue is 'fairly presented'. This represents a reasonable assurance engagement and it is recommended that the following procedures should be undertaken:

1.1 Planning

- (a) Read CAA Guidance Note 10 for ATOL Reporting Accountants and issued by the CAA.
- (b) Establish firm wide procedures and policies regarding the designation of ATOL Contact Partner, the compliance review process and staff training. The level of PII cover may also need to be revisited to include this type of work.
- (c) The engagement file structure should include:
 - A copy of the ATOL Licence and confirmation, renewal letter and any variation(s) filed during the year.
 - The online submission
 - The CAA Accountants' report with details of any assurance work performed on the content.

- (d) The planning process should be conducted in an effective and timely manner ensuring that the engagement team have adequate knowledge and understanding of the regulatory environment and sufficient understanding of the client.
- (e) The engagement team should refer to, and utilise, any technical guidance and all available training resources prior to, and throughout, the engagement.
- (f) The planning process should include a documentation of the control environment on which management rely to compile its quarterly licensable revenue returns to the CAA and the controls it has in place to monitor and ensure accuracy and completeness of the data. Walk through tests should also be performed as part of this exercise.
- (g) Inquire as to management's rationale for the classification of different types of revenue recognition.

1.2 Performance, recording and documentation

- (h) Perform procedures to obtain sufficient appropriate evidence as to the operating effectiveness of the internal controls. Note: procedures other than testing of controls alone cannot provide sufficient appropriate audit evidence. A combination of controls based testing and substantive testing may be appropriate.
- (i) Review the content of airline ticket agent agreements.
- (j) Ensure that revenue has been recognised and recorded in accordance with the ATOL holder's revenue recognition policy.
- (k) Ensure that revenue has been recorded and measured in accordance with the basis selected, i.e. net or gross.
- (l) Perform cut off tests to ensure that revenue has been recorded in the correct quarterly return by referring to both the booking and departure date. These tests should also include a review of any cancelled reservations and consider ticket issue dates if these are different from booking and departure dates.
- (m) Reconcile the quarterly returns for each category of revenue to the annual return and that recorded in the profit and loss account included in the financial statements.
- (n) Record and document full details of all assurance work performed on licensable gross revenue and passenger numbers including the composition of this revenue (i.e. Flight- only, Single-contract Package or a Multi-contract Package) and passenger numbers on a departure date and booking date basis.
- (o) Document the consideration and assessment of the ATOL holder's revenue recognition policy and categorisation of revenue. Where reliance has been placed on any internal systems, this should be documented. Any management judgement applied to these policies should also be documented.

- (p) Obtain written representations from the ATOL holder which might include, amongst other things, respective responsibilities of the ATOL holder; the period to which the representations relate; access to accounting records; provision of access to all relevant information.

The above list is not exhaustive and the extent of work to be carried out in relation to each of the above procedures to ensure that sufficient, appropriate evidence is obtained, should be based upon the ARA's professional judgement.

2. Public licensable passenger numbers on a booking date and departure date basis

- (a) Read CAA Guidance Note 10 for ATOL Reporting Accountants (dated May 2018) and issued by the CAA.
- (b) Obtain a copy of the ATOL Licence and any variation(s) filed during the year.
- (c) Enquire as to the basis and methodology used by the management of the ATOL holder to compile its quarterly passenger returns to the CAA and the controls it has in place to monitor and ensure accuracy and completeness of the data.
- (d) Obtain from the reservation system of the ATOL holder a report that provides the number of passengers booked for the period under review. (It is recommended that you request the ATOL holder to print the reports at the end of each reporting quarter, as depending on the nature of the ATOL holder's reservation system, it may not be possible to reproduce the reports retrospectively). Agree the passenger numbers shown on the report obtained from the reservation system to the CAA return on passenger numbers.
- (e) Review the reconciliation of this report to the equivalent passenger levy return and subsequent payment to the CAA of the passenger APC.
- (f) From the reservation system of the ATOL holder obtain a report that provides the number of public licensable passenger numbers on a departure date basis for the period under review.
- (g) Agree the passenger numbers shown on that report from the reservation system to the CAA return on passenger numbers.

3. Extraction of information from the Financial Statements

- (a) Obtain from the ATOL holder the Financial Statements for the relevant period to which the AAR applies.
- (b) Agree the data entry fields included in the relevant section of Part 2 of the AAR to the line entries in the ATOL holders' Financial Statements [the relevant section will depend on whether the client is a Standard ATOL holder (and which GAAP has been applied) or SBA].

- (c) Enquire whether the prior year financial information in the Financial Statements has been restated and where it has been, agree the data entry fields included in the relevant section of Part 2 of the AAR to the line entries in the Financial Statements.
- (d) If the relevant data entry fields cannot be agreed back directly to the line entries in the Financial Statements, ARA include as exceptions in the report.
- (e) Enquire whether the Financial Statements have been audited and agree this to the ATOL holder's confirmation in section 7.2.2 of Part 2 of the AAR.
- (f) Where the ARA was the statutory auditor of the Financial Statements, agree that the ATOL holder has ticked 'yes' in the confirmation in section 7.2.1 of Part 2 of the AAR. Where the ARA was not the statutory auditor of the Financial Statements, agree that the ATOL holder has ticked 'no' in the confirmation in section 7.2.1 of Part 2 of the AAR. The ARA is required to test and report on the agreement of these confirmations to the financial statements of the ATOL holder for the period in question.
- (g) Review the audit opinion in the auditors' report attached to the Financial Statements. Where the audit opinion is modified, agree this to the ATOL holder's confirmation in section 7.2.3 of Part 2 of the AAR.

4. Airline ticket agent

- (a) For a sample of bookings, check the reservation or ticketing system to establish whether the ticket is recorded as having been issued to the customer either promptly at the point when the payment is made or by the end of the following working day where the booking is made remotely (where the customer is not present). The size of the sample will be determined by the ARA assessment of controls over the recording of the issue date of the ticket.
- (b) For the sample selected above, confirm that there is a written airline ticket agency agreement in place with the airline, which includes the fact that the airline will honour the ticket even if it has not been paid for and/or that there is a valid IATA accreditation in place by checking that they have been issued with an IATA number.

A template letter for a request for Additional work and procedures to be performed by the ARA can be found in Annex 9A of Guidance Note 10

APPENDIX 3: FACTUAL CONFIRMATIONS

1. Subordinated loans

1.1 Confirmation of new subordinated loans

- Obtain a copy of the subordinated loan agreement.
- Agree the receipt of cash is in the name of the party/parties identified in the loan agreement.
- Agree the receipt of cash to the bank statement of an account in the name of the ATOL holder.

1.2 Confirmation of total subordinated loans at the balance sheet date

- Obtain confirmation from each lender of the subordinated loans owed to them at the balance sheet date.

2. Cash gift (Sole Traders and Partnerships)

- Obtain a copy of the 'memorandum of a cash gift' form.
- Agree the receipt of cash is in the name of the party/parties identified on the form.
- Agree the receipt of cash to the bank statement of an account in the name of the ATOL holder.

3. Guarantees

- Obtain a copy of any deed of guarantee and any other guarantees (usually from the parent or Ultimate Holding Company) given in favour of the ATOL holder (occasionally to the parent group).

4. Confirmation of new share capital/rights issue

- Obtain a copy of the stamped Form 88(2) submitted to Companies House.
- Obtain minutes and shareholder agreements (if applicable) in respect of the new share issue and confirm the share register records that the new shares have been issued in accordance with the minutes and agreements.

For shares issued for cash:

- Agree the receipt of consideration for the shares and any premium thereon to the bank statement of a bank account of the ATOL holder.
- Agree the receipt of cash into a bank account of the ATOL holder. If cash is initially placed in an escrow account, agree the amount to the bank statement and enquire of the directors as to when it is intended that the money will be transferred from escrow to a bank account of the ATOL holder.

Where a subordinated loan has been waived and additional share capital has been issued as consideration:

- Confirm the existence of an agreement between the lender and company to this end signed by both parties.

5. Confirmation of bank loan funding

- Obtain a copy of the bank loan agreement.
- Agree the receipt of cash in the name of the party/parties identified in the loan agreement.
- Agree receipt of loan monies to the bank statement of a bank account of the ATOL holder.

6. Confirmation of repayment of item post year end

- Obtain detail of asset being queried by the CAA.
- Agree receipt of cash post year end to supporting documentation and the bank statement of a bank account of the ATOL holder.

7. Confirmation of change of ownership

- Obtain copies of share transfer/issue forms.
- Obtain a copy of the new ownership structure provided by the directors of the ATOL holder to the CAA.
- Confirm that the ATOL Holder's share register correctly reflects these changes.

APPENDIX 4: LIABILITY CAP

The table below summarises the Limit of Accountants' Liability.

The Liability Cap for work performed in respect of SBA licences and Trade licences will be £250,000 in each case.

Box (a) – For Standard ATOL licences, and Franchise member ATOL holder' licences $\geq$ £5m, where 15% of the ATOL holder's Public Revenue Licence Limit (as defined above) or the actual bond, whichever is the greater is:	Limit of Accountants' Liability
$\leq$ £0.25 million	£0.25 million
$>$ £0.25 million but $\leq$ £0.5 million	£0.5 million
$>$ £0.5 million but $\leq$ £5 million	100% of the amount calculated in box (a)
$>$ £5 million but $\leq$ £15 million	£5 million plus 50% of the amount calculated in box (a) that is over and above £5 million, up to a limit of £10 million
$>$ £15 million but $\leq$ £100 million	£10 million
$>$ £100 million but $\leq$ £200 million	£20 million
More than £200 million	£20 million – However the CAA retains the right to individual negotiations for a higher liability cap for ATOL holders in this bracket

De minimis

Where the following conditions are satisfied:

- (a) a failure of the ATOL holder has occurred;
- (b) there is no bond;
- (c) the CAA and/or the ATT have taken reasonable steps to recover the loss from the ATOL holder or any guarantees provided to the CAA or the ATT by the principals of the ATOL holder or any other appropriate third party; and
- (d) the loss to the ATT does not exceed 15% of the ATOL holder's Public Revenue Licence Limit;

the Accountants' liability to the ATT and/or to the CAA shall be limited (on the basis stated above) to £250,000.

The liability cap in the case of groups

Where an accountant is engaged to report on one or more ATOL holders within a group, the aggregate Public Revenue Licence Limit for all ATOL holders on which it reports, shall be used as the basis for which the liability cap is calculated.

Further details are provided at Annex 5 of Guidance Note 10 (applicable 1 July 2018).

APPENDIX 5: RING FENCING CONFIRMATIONS

1. Read the CAA's ATOL Policy and Regulations paper on Groups and Related Parties dated 2010/03, for ATOL holders about licensing requirements for firms that are part of a group or have associates.
2. Obtain copy of ATOL licence offer letters and any variation offer and grant letter(s) filed during the year to understand the agreed ring fence criteria stated as being met by the ATOL holder in their application

Guarantees, loans and letters of support

3. Obtain and read board minutes of all group companies for the financial year defined by the CAA in their letter to the ATOL holder and note whether any guarantees, loans or letters of support have been provided to the ATOL holder.
4. Also, enquire of the directors whether any guarantees, loans or letters of support have been provided to the ATOL holder.

Inter-company debtors

5. Enquire of the directors as to the nature of all inter-company debtors to the ATOL holder and whether they all arise from trading and are repaid on normal commercial terms. (For normal commercial terms the CAA would expect the balances to be settled at least monthly).
6. Test that the inter-company balance has been settled at least monthly.
7. Test a sample of entries for each inter-company account to backing invoices to agree that they are trading in nature
8. Where the debtor relates to funding of the group undertaking this is to be separately identified to the CAA.

Inter-company creditors

9. Enquire of the directors as to the nature of all inter-company creditors to the ATOL holder and whether they all arise from trading.
10. Test a sample of entries for each inter-company account to backing invoices to agree that they are trading in nature.
11. Test that the inter-company balance has been settled at least monthly.
12. Where the creditor relates to funding by the group undertaking this is to be separately identified to the CAA.

Merchant agreements with credit card companies

13. Obtain from management all merchant agreements with credit card companies in the ATOL holder's name and agree whether they are solely for the ATOL holder.

Banking arrangements

14. Check the ATOL holder's bank accounts to ensure that they are in the sole name of the ATOL holder.
15. Obtain from management copies of the current banking agreements to which the ATOL holder is a party and check that the ATOL holder's bank accounts are not subject to rights of set-off against the accounts of other entities.

APPENDIX 6: ACCOUNTANTS' REPORT - FACTUAL CONFIRMATIONS

Annex 8 of Guidance Note 10 lists potential confirmations that may be requested by the CAA and details the agreed work procedures that should be undertaken when such confirmations are requested.

Below is a pro-forma report that should be submitted to the CAA by the ARA:

Pro-forma factual confirmations report

To: The Civil Aviation Authority
CAA House
45-59 Kingsway
London
WC2B 6TE

Factual Confirmations Report

We have performed the work procedures agreed with you and XYZ Limited ATOL Number [] (the ATOL holder) with respect to XYZ Limited. The confirmations made by XYZ Limited are attached (to be attached) and are repeated below. Our engagement was undertaken in accordance with the work procedures in the CAA Guidance Note 10 and under the CAA Standard ARA-ATOL Terms of Engagement set out in CAA Guidance Note 10. The work procedures were performed solely to assist you in your process for licensing the ATOL holder under the Civil Aviation (Air Travel Organisers' Licensing) Regulations 2012 (as amended), and with the Civil Aviation (Contributions to the Air Travel Trust) Regulations 2007, as amended and our findings are summarised as follows:

[Note: The following is a full list of potential confirmations. *Delete those confirmations not re-quested by the CAA]

Confirmation of subordinated loans

(a) Confirmation of new subordinated loans

The directors of the ATOL holder confirmed to us that since [date] £[XX] of new cash has been injected into the bank account of [company name] in the form of a subordinated loan (as issued to the ATOL holder in the CAA's approved form of words) from [the parties from whom the cash was received].

In respect of the confirmation above, we performed the work procedures set out in the CAA Guidance Note 10 (applicable from 1 July 2018) without exception.] / [and noted the following exceptions: List exceptions.] *

(b) Confirmation of total subordinated loans at the balance sheet date

The directors of the ATOL holder confirmed to us that the total subordinated loans held within [company name] at [date] is £[XX].

In respect of the confirmation above, we performed the work procedures set out in the CAA Guidance Note 10 (applicable from 1 July 2018) [without exception.] / [and noted the following exceptions: List exceptions.] *

Confirmation of cash gift (Sole Traders and Partnerships)

The Sole trader/Partners of the ATOL holder confirmed to us that since [date] £[XXX] of new cash has been donated into the bank account of the [ATOL holder] by [the parties] in the form of a cash gift.

In respect of the confirmation above, we performed the work procedures set out in the CAA Guidance Note 10 (applicable from 1 July 2018) [without exception.] / [and noted the following exceptions: List exceptions.] *

Guarantees

We confirm that the completed deed of guarantee dated [date] provided in favour of [ATOL holder] / [Parent Group] by [issuer of guarantee] has been drawn to our attention.

Confirmation of new share capital/rights issue

Either – The directors of the ATOL holder confirmed to us that at [date] £[XXXX] new cash has been injected into the bank account of [company name] in the form of [specify share capital type] paid up share capital.

Or – The directors of the ATOL holder confirmed to us that at [date] £[YYYY] of the [profit and loss account] / [existing subordinated loan] has been capitalised as fully paid up [specify share capital type] share capital.

In respect of the confirmation above, we performed the procedures set out in the CAA Guidance Note 10 [without exception.] / [and noted the following exceptions: List exceptions including, if cash is initially placed in an escrow account, the date the directors intend that the money will be transferred from escrow to a bank account of the ATOL holder.] *

Confirmation of bank loan funding

The directors of the ATOL holder confirmed to us that an amount of £[XXX] was injected on [date] into the bank account of [company name] in the form of a bank loan from [lender].

In respect of the confirmation above, we performed the work procedures set out in the CAA Guidance Note 10 (applicable from 1 July 2018) [without exception.] / [and noted the following exceptions: List exceptions.] *

Confirmation of repayment of item post year end

The directors of the ATOL holder confirmed to us that since [date] the sum of £[XXX] has been received into the bank account of [company name] from [named debtor] in respect of the [named debt].

In respect of the confirmation above, we performed the work procedures set out in the CAA Guidance Note 10 applicable from (1 July 2018) [without exception.]/[and noted the following exceptions: List exceptions.]*

Confirmation of change of ownership

The directors of the ATOL holder confirmed to us that the ownership structure at [date] is as follows [List all shareholders and their shareholdings].

In respect of the confirmation above, we performed the work procedures set out in the CAA Guidance Note 10 (applicable from 1 July 2018) [without exception.] / [and noted the following exceptions: List exceptions.] *

The work procedures we have performed do not constitute either an audit or a review made in accordance with United Kingdom auditing and review standards and bulletins issued by the Financial Reporting Council. Had we performed additional work procedures or had we performed an audit or review in accordance with such standards and bulletins, other matters might have come to our attention that would have been reported to you.

Our report is prepared solely for the confidential use of the ATOL holder, the CAA and the Air Travel Trust, and solely for the purpose of reporting to the CAA under its licensing procedures. Our report must not be recited or referred to in whole or in part in any other document. Our report must not be made available, copied or recited to any other party without our express written permission except as agreed in the CAA Standard ARA-ATOL Terms of Engagement dated (applicable from 1 July 2018) set out in the CAA Guidance Note 10 [insert name of ATOL Reporting Accountants] neither owes nor accepts any duty to any other party and shall not be liable for any loss, damage or expense of whatsoever nature which is caused by other parties' reliance on our report.

Date

Accountants' Address

APPENDIX 7: GLOSSARY

The following key terms are used throughout this Guidance Note:

- 'Annual Accountants' Report (AAR)' means the return, submitted to the CAA as part of the ATOL renewal process that contains the reports of the ATOL Reporting Accountant (ARA).
- APC means ATOL Protection Contributions.
- 'ATOL Reports' means the APC returns, AAR, Airline Ticket Agent report, factual confirmations and ring-fencing report.
- 'AST' means ATOL Standard Terms in the 'Official Record Series 3 (ORS3)'
- 'ATOL' means 'Air Travel Organiser's Licence' granted by the CAA.
- 'ATOL holder' means a person who holds an Air Travel Organiser's Licence granted by the CAA under the ATOL Regulations 2012 (as amended) and includes those that hold an SBA, a Trade ATOL and a Franchise Member ATOL.
- 'ATOL limit' means the maximum annual licensable revenue in the Public sales category authorised under the ATOL.
- ATOL bond means a bond provided to the Air Travel Trust (ATT) as a condition of that ATOL.
- 'ATOL Reporting Accountant (ARA)' means a firm or individual who is designated under the ATOL Reporting Accountants' Scheme (ARA Scheme) and who is engaged by the ATOL holder to report on information provided by the ATOL holder to the CAA.
- ATTF means the Air Travel Trust Fund which is the primary source of funding when an ATOL holder fails.
- 'Customer deposits' means monies received by the ATOL holder as payment or part payment, for a Flight-Only, a Single-contract Package or a Multi-contract Package, in advance of the date of departure.
- 'Licence Limit' means the amount of the Public Revenue Licence Limit and/or licensable passenger numbers authorised by CAA under the ATOL.
- 'Licensable Transaction' means an offer made by a consumer (or their agent) to purchase flight accommodation for one or more persons on a flight which is accepted by (i) an air travel organiser; or (ii) where an ATOL is held by an Accredited body, a member of that Accredited Body, and constitutes an activity in respect of which that air travel organiser or Accredited Body is required to hold an ATOL (AST/ORS3).
- 'Licensable Revenue' means revenue generated from a licensable transaction.
- 'SBA' means a Small Business ATOL.

END NOTES

1. These CAA Standard ARA-ATOL Terms of engagement do not cover any reports requested by CAA in connection with lapsed licences and the release of bonds, subordinated loans, guarantees and redemption of preference shares.
2. The following reports will be required for each category of ATOL holder in accordance with following paragraphs in Appendix A of Guidance Note 10 (applicable from 1 July 2018) and Accountants should amend the terms of reference for each engagement accordingly:
 - (a) Standard ATOL holders - 3.2.1 to 3.2.4;
 - (b) SBAs – 3.2.1 to 3.2.4;
 - (c) Trade licences – 3.2.2 but departure date basis only and 3.2.3;
 - (d) Franchise Member ATOL holders ≥ £5m ATOL revenue – 3.2.1 to 3.2.3;
 - (e) Franchise Member ATOL holders < £5m ATOL revenue – no reporting required;
 - (f) Other Reports outlined under 3.2.5 and 3.2.6 will only be requested in specific circumstances.
3. The Guidance Note 10, issued May 2018 is available on the CAA's website: <https://www.caa.co.uk/ATOL-protection/Trade/Maintain-and-renew-your-ATOL/ATOL-reporting-accountants-scheme/>

Individual firms of accountants need to consider whether or not to accept the CAA's offered capping formula or negotiate a liability cap with the CAA by separate agreement. Such consideration will take into account, inter alia, whether the limitation is appropriate to the scope of the engagement, the fees generated, their assessment of risks in undertaking the work and their internal risk management policies. Where firms consider that they are unable to accept the formula, they may wish to negotiate their own individual capping arrangements with the CAA.
4. A failure of the ATOL holder will occur if an authorised signatory of the CAA has signed a Notice of ATOL holder failure in respect of that ATOL holder and has placed a copy of that Notice on the CAA's Register of Failed ATOL holders.
5. Reasonable steps are either: the institution of legal proceedings where it is consistent with the ATT fiduciary duties and/or the CAA function and duties; or formal claim in any insolvency.
6. Only applies to England, Wales and Northern Ireland.



CA House 21 Haymarket Yards Edinburgh EH12 5BH
accountingandauditing@icas.com +44 (0)131 347 0100 icas.com