REVISED ARRANGEMENTS FOR ATOL REPORTING ACCOUNTANTS REPORTING TO THE CIVIL AVIATION AUTHORITY
ABOUT THE AUDIT AND ASSURANCE FACULTY

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FOREWORD

This guidance, ICAEW Technical Release TECH 09/16AAF is issued by the ICAEW Audit and Assurance Faculty in April 2016 to outline to ICAEW members new reporting arrangements being introduced after discussion with the Civil Aviation Authority (CAA) in connection with the Civil Aviation (Air Travel Organisers’ Licensing) Regulations 2012, and the Civil Aviation (Contributions to the Air Travel Trust) Regulations 2007 (as amended). The Technical Release does not constitute an audit or other form of professional standard but provides best practice guidance. Professional judgement should be used in its application. It will replace ICAEW Technical Release TECH 07/12AAF.
INTRODUCTION

1. ICAEW Technical Release TECH 07/12AAF was introduced in November 2012 to take account of reforms to the existing Air Travel Organisers’ Licensing (ATOL) Scheme by:
   i) introducing the Flight-Plus category of consumer bookings;
   ii) requiring reporting of Public sales to be broken down into three subcategories;
   iii) extending the requirement to report passengers on a bookings basis to smaller operators; changing to a revenue limit for determining an operators reporting requirements;
   iv) changing the ATOL exempt ‘ticket provider’ to ‘Airline Ticket Agent’;
   v) requiring the issue of an ATOL certificate; and
   vi) introducing the new concept of ‘Accredited Body’.

2. Following discussions between ICAEW’s Audit and Assurance Faculty and the CAA, with the CAA acting on its own behalf and as agent for the Trustees of the Air Travel Trust (the ATT), the CAA has subsequently introduced changes to the reporting requirements for ATOL holders and their reporting accountants (ATOL Reporting Accountants). As a consequence, the ICAEW has issued this Technical Release to take account of these changes and the revised reports provided by ATOL Reporting Accountants (ARAs) in connection with the Civil Aviation (Air Transport Organisers’ Licensing) Regulations 2012, (the ATOL Regulations) and the Civil Aviation (Contributions to the Air Travel Trust) Regulations 2007 (the ATT Regulations), as amended. ICAEW Technical Release TECH 07/12AAF will be withdrawn as these changes take effect.

3. ATOL Reporting Accountants should also refer to the CAA’s revised Guidance Note 10 (www.caa.co.uk/ATOL-protection/Trade/Maintain-and-renew-your-ATOL/ATOL-reporting-accountants-scheme/). Details of the licensing process, reporting requirements for ATOL holders and their ATOL Reporting Accountants and the purpose for which the ATOL holders’ reports are used by the CAA and the ATT are set out in Guidance Note 10.

4. This Technical Release is substantially based on the previous ICAEW Technical Release TECH 07/12AAF. The main amendments consist of
   i) changes to the reporting requirements to reflect the introduction of an Annual Accountants’ Report (AAR);
   ii) inclusion within Part 2 of the Annual Accountants’ Report of an additional ATOL Reporting Accountants’ report on the extraction of information from the ATOL holder’s Financial Statements;
   iii) a duty to report breaches of the ATOL Regulations to the CAA that ATOL Reporting Accountants become aware of during the course of their engagement; and
   iv) a brief description of the new licensing arrangements for ATOL Reporting Accountants.

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1 For the avoidance of doubt, where the term ‘ATOL Reporting Accountant’ is used either in this Technical Release or in Guidance Note 10, such references do not refer to a firm’s role as statutory auditor.
2 All references to the ‘ATOL holder’ or ‘client’ in this Technical Release are to the ATOL holder applying for, varying or renewing a licence.
BACKGROUND TO THE ATOL SCHEME

5. The ATOL Scheme is a statutory based system covering most travel providers who sell flights, a flight together with accommodation or car hire or package holidays containing a flight on their own behalf. The ATOL Regulations require such travel providers to hold a licence and the CAA is responsible for implementation and enforcement of the scheme. Its purpose is to protect the public from losing money or being stranded abroad because the travel provider that they have booked to travel with fails.

6. The ATTF meets ATOL covered claims for refunds from, or repatriation costs of, customers of ATOL holders if an ATOL holder fails. The primary funding of the ATTF is from the ATOL Protection Contribution (APC) that is payable by ATOL holders for each of their booked passengers for a flight only, a flight plus accommodation or car hire or a flight inclusive package. This requirement is established in the ATT Regulations. The CAA acts as an agent of the ATT in relation to the APC in accordance with the terms of those Regulations, and, when administering repatriations and refunds, in accordance with the terms of the Trust Deed and the ATT Payment Policy as agreed in the CAA/ATT agreement.

7. Previously this funding was achieved through bonds. Now only certain ATOL holders who meet specific criteria are required to provide a bond in favour of the ATT in addition to their statutory obligation to pay the APC. The proceeds of that bond would be used first in the event of the ATOL holder’s failure prior to the general ATTF being used.

8. Licences are valid for a period of no more than one year to either 31 March or 30 September (which is mainly determined by the ATOL holder’s financial year end). A licence limit is placed on each ATOL in terms of licensable passenger numbers and licensable revenue, based on a departure basis and by category of business.
SUMMARY OF MAIN CHANGES

Small Business ATOL

9. The Small Business ATOL (SBA) scheme will now only be 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. In addition to passing the new financial assessment, new applicants will be required to meet certain requirements for paid up share capital and bonding levels.

Annual Accountants’ Report (AAR)

10. There are two parts to the new Annual Accountants’ Report. Part 1 pulls together the information reported on periodically throughout the licence period by the ATOL holder on passenger numbers and licensable revenue. The ATOL Reporting Accountant will continue to be required to report on this.

11. The requirements for Part 2 are covered in paragraph 12 below.

Financial assessments

12. Most ATOL holders will also be required to input financial data relating to financial performance and position from their Financial Statements in Part 2 of the Annual Accountants’ Report. The ATOL Reporting Accountant will be required to provide a factual findings report on the extraction of information from the Financial Statements, including confirmations by the ATOL holder.

13. The ATOL holder will also be required to provide a turnover reconciliation and information about its revenue recognition policy and deferred income in the Annual Accountants’ Report. The ATOL Reporting Accountant is not required to report on this.

Rights and duties of ATOL Reporting Accountants

14. If during the course of the engagement, the ATOL Reporting Accountant becomes aware of breaches of the ATOL regulations by the ATOL holder then he/she should report them directly to the CAA. Guidance Note 10 provides details as to how to report in these circumstances.

The ATOL Reporting Accountant Scheme

15. The ATOL Reporting Accountant Scheme has been introduced to assist in ensuring the quality and reliability of information reported by ATOL holders to the CAA. The CAA has approved ICAEW’s Licensed Practice Scheme as an ATOL Reporting Accountant Scheme. Details of how to apply are available at https://www.icaew.com/en/technical/audit-and-assurance/working-in-the-regulated-area-of-audit/become-a-licensed-practice
16. The reporting arrangements are based on the reporting framework outlined in ICAEW Technical Release TECH 10/12AAF Reporting to Third Parties. It is recommended that ATOL Reporting Accountants refer to TECH10/12AAF when establishing their CAA reporting engagements in addition to the individual elements as outlined below. There is further guidance in ICAEW Technical Release AAF 04/06 Assurance Engagements: Management of Risk and Liability.

17. ICAEW Technical Release TECH 09/16AAF provides guidance on the following:
   
i) further reporting considerations (Appendix 1) for the use of ATOL Reporting Accountants reporting on information that is required to support ATOL holders’ licence applications/renewals;
   
ii) CAA Standard ARA-ATOL Terms of Engagement (Appendix 2) and example confirmation of terms of engagement letter (Appendix 3) to be used;
   
iii) work procedures covering the ATOL Reporting Accountant’s work (Appendix 4) on:
      
a) The Annual Accountants’ Report (including suggested work procedures prepared by ICAEW for the report on licensable revenue and CAA agreed work procedures for factual reporting of licensable passenger numbers and extraction of information from the Financial Statements);
      
b) Airline Ticket Agent Revenue (non-licensable revenue);
      
c) Other factual confirmations; and
      
d) Ring fencing confirmations.

18. The wording for the ATOL Reporting Accountants’ reports in the Annual Accountants’ Report has been agreed with the CAA and can be found in Guidance Note 10 and on the CAA website at www.caa.co.uk/ATOL-protection/Trade/Maintain-and-renew-your-ATOL/ATOL-reporting-accountants-scheme/.

19. When ATOL Reporting Accountants carry out a CAA reporting engagement they may wish to make use of all the relevant elements included in this Technical Release. For example, the ATOL Reporting Accountants’ reports are made in accordance with an agreement including the CAA Standard ARA-ATOL Terms of Engagement and the Technical Release offers support in understanding the purpose of the reports that have been requested and the issues that are likely to be relevant.

20. Under the ATOL Regulations 2012 each ATOL holder has to have an Accountable Person who is acceptable to the CAA. This person is required to have the authority to ensure that the ATOL holder complies with the Regulations and the ATOL Standard Terms. The Accountable Person will need to be a director of the company, sole proprietor, or partner in a partnership. All reports that must be completed by an ATOL holder must be signed by the ATOL holder’s Accountable Person.

21. If the ATOL Reporting Accountant has any doubt about whether or not his/her client has properly reported and categorised its licensable or non-licensable business, he/she should contact the CAA for advice. If during the course of the engagement, the ATOL Reporting Accountant becomes aware of breaches of the ATOL regulations by the ATOL holder then he/she should report them directly to the CAA. Guidance Note 10 provides details as to how to report in these circumstances.
22. By completing and signing the Annual Accountants’ Report the ATOL Reporting Accountant is confirming that its Professional Indemnity Insurance cover extends at least to the value of the liability cap the ATOL Reporting Accountant has agreed with the CAA with reference to the ATOL holder reported on.

23. By completing and signing the Annual Accountants’ Report, the ATOL Reporting Accountant is also confirming that he/she has complied with the independence requirements of the IESBA Code of Ethics (the essence of which will be contained in the respective codes of individual Professional Accountancy Bodies).

24. Guidance Note 10 provides further guidance notes for ATOL Reporting Accountants—see www.caa.co.uk/ATOL-protection/Trade/Maintain-and-renew-your-ATOL/ATOL-reporting-accountants-scheme/. Further reporting considerations for ATOL Reporting Accountants are highlighted at Appendix 1. These should be read in conjunction with the work procedures at Appendix 4.
THE ENGAGEMENT TERMS

25. The CAA Standard ARA-ATOL Terms of Engagement, included in Appendix 2, follow the principles of the ICAEW Technical Release TECH 10/12AAF referred to in paragraph 13 above. These are the CAA pre-agreed terms of engagement of ATOL Reporting Accountants by ATOL holders to prepare reports required by the CAA. However, these terms do not apply to CAA’s lapsed licence and release of bonds, subordinated loans, guarantees and redemption of preference shares reports where the CAA requests ATOL Reporting Accountants to confirm that there are no outstanding or future liabilities relating to the applicable licensable operations of the business.

ICA EW’s recommendation to ATOL Reporting Accountants is that they do not sign these reports since it is unlikely that work of sufficient depth and breadth to support a signed report will be possible and there would be no contractual limit to the duty of care arising from ATOL Reporting Accountants signing these reports.

26. The CAA does not sign each individual engagement letter. The CAA has published these engagement terms in Guidance Note 10 as pre-agreed terms of engagement of ATOL Reporting Accountants by ATOL holders to prepare reports required by the CAA. Once an engagement letter is accepted by an ATOL holder a contract is formed between the ATOL holder and the ATOL Reporting Accountants. Once the ATOL holder and the ATOL Reporting Accountants submit a report to the CAA in accordance with these pre-agreed terms, the CAA will accept that it becomes a party to the contract between an ATOL holder and its ATOL Reporting Accountants on its own behalf and as agent for the Trustees of the ATT incorporating these terms.

27. The contract will usually apply to all reports made by ATOL Reporting Accountants for each ATOL holder and once in place should not normally require amendment in subsequent periods. Where other specific work is requested, eg because of a CAA investigation, the CAA may propose either separate engagement terms or that the CAA Standard ARA-ATOL Terms of Engagement will apply. In the latter case, the standard letter which the CAA will use for this purpose is included as Appendix 6.

28. Practical matters between the ATOL Reporting Accountants and their client, including confirmation of the terms of engagement and charges, are dealt with separately – an example letter confirming terms of engagement is included as Appendix 3.

29. The CAA has offered to agree to a cap on the ATOL Reporting Accountants’ liability in accordance with its capping formula which is set out in Guidance Note 10. An extract from Guidance Note 10 is included below. The formula applies a cap on the ATOL Reporting Accountants’ liability for losses, without distinguishing between direct loss and indirect or consequential loss. This might result in a risk of the ATOL Reporting Accountants incurring liability for indirect or consequential loss, but that risk is managed by application of the liability cap to all loss.

30. Individual firms of ATOL Reporting Accountants need to consider whether or not to accept the CAA’s capping formula. Such consideration will take into account relevant factors such as whether the limitation is appropriate to the scope of the engagement, the fees generated, their assessment of the 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. While ICAEW has approved and recommends to its members the CAA Standard ARA-ATOL Terms of Engagement reproduced at Appendix 2, it has not approved the CAA’s capping
formula and does not, by including the extract below in this Technical Release, intend to endorse the formula. Under clause 6.1.3 of the model terms, the absence of a separate agreement results automatically in the application of the CAA’s capping formula.

31. Under clause 6.1.4 of the CAA Standard ARA-ATOL Terms of Engagement, the ATOL Reporting Accountants’ liability will, after applying the capping formula reproduced from Annex 5 of Guidance Note 10 below, be proportionate to the ATOL Reporting Accountants’ responsibility for the relevant loss.

Extract from Annex 5 of Guidance Note 10:

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

<table>
<thead>
<tr>
<th>Box (a) – For Standard licences, and Franchise member ATOL holder licence or Franchise licence</th>
<th>Limit of Accountants’ Liability</th>
</tr>
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<tbody>
<tr>
<td>≤ £0.25 million</td>
<td>£0.25m</td>
</tr>
<tr>
<td>&gt; £0.25m but ≤ £0.5 million</td>
<td>£0.5m</td>
</tr>
<tr>
<td>&gt; £0.5m but ≤ £5 million</td>
<td>100% of the amount calculated in box (a)</td>
</tr>
<tr>
<td>&gt; £5m but ≤ £15 million</td>
<td>£5m plus 50% of the amount calculated in box (a) that is over and above £5m, up to a limit of £10m.</td>
</tr>
<tr>
<td>&gt; £15m but ≤ £100 million</td>
<td>£10m</td>
</tr>
<tr>
<td>&gt; £100m but ≤ £200 million</td>
<td>£20m</td>
</tr>
<tr>
<td>More than £200 million</td>
<td>£20m – However the CAA retains the right to individual negotiations for a higher liability cap for ATOL holders in this bracket.</td>
</tr>
</tbody>
</table>

Below are some worked examples to help ATOL Reporting Accountants to calculate their liability

<table>
<thead>
<tr>
<th>Public Revenue £m</th>
<th>15% of Public Revenue (Box a above) £m</th>
<th>Banding Level</th>
<th>Cap £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.000</td>
<td>0.150</td>
<td>1</td>
<td>0.250</td>
</tr>
<tr>
<td>1.670</td>
<td>0.250</td>
<td>1</td>
<td>0.250</td>
</tr>
<tr>
<td>1.680</td>
<td>0.252</td>
<td>2</td>
<td>0.500</td>
</tr>
<tr>
<td>2.000</td>
<td>0.300</td>
<td>2</td>
<td>0.500</td>
</tr>
<tr>
<td>3.000</td>
<td>0.450</td>
<td>2</td>
<td>0.500</td>
</tr>
<tr>
<td>3.333</td>
<td>0.500</td>
<td>2</td>
<td>0.500</td>
</tr>
</tbody>
</table>
32. The CAA Standard ARA-ATOL Terms of Engagement highlight that the responsibility for producing financial information rests with the ATOL holder and that the ATOL Reporting Accountants’ responsibility is to report on the information provided by the ATOL holder. The report requires a signature from a responsible officer of the ATOL holder confirming that they take responsibility for the confirmations made.

33. Engagements performed pursuant to this Technical Release and Guidance Note 10 will not be treated as having any effect on the ATOL Reporting Accountants’ separate duties and responsibilities as the ATOL holder’s external auditors. These engagements are separate from and unrelated to the ATOL Reporting Accountants’ audit work on the Financial Statements of the ATOL holder for the purposes of the Companies Act 2006 and do not create any obligations or liabilities regarding the ATOL Reporting Accountants’ statutory audit work, which would not otherwise exist.

34. The ATOL Reporting Accountants’ audit work on the Financial Statements of the ATOL holder is carried out in accordance with the ATOL Reporting Accountants’ statutory obligations and is subject to separate terms and conditions. The ATOL Reporting Accountants’ audit reports are made solely to the ATOL holder’s members, as a body, in accordance with the Companies Act 2006. The ATOL Reporting Accountants’ audit work is undertaken so that the ATOL Reporting Accountants might state to the ATOL holder’s members those matters that as auditors the ATOL Reporting Accountants are required to state to them in an auditor’s report and for no other purpose. In these circumstances, to the fullest extent permitted by law, the ATOL Reporting Accountants do not and will not accept or assume any responsibility to anyone other than the ATOL holder and the ATOL holder’s members as a body, for the ATOL Reporting Accountants’ audit work, for their audit reports, or for the opinions that the ATOL Reporting Accountants have formed in respect of those audits.
WORK PROGRAMMES AND REPORTS TO THE CAA

35. For the ATOL Reporting Accountants’ work on licensable passenger numbers on a booking date and departure date basis, the extraction of information from the Financial Statements, Airline Ticket Agent Revenue, factual confirmations and ring fencing confirmations, work procedures have been developed and agreed with the CAA and are provided in Appendix 4 and are set out in Guidance Note 10. These reports are factual confirmations using agreed upon procedures.

36. Suggested work procedures have also been developed by ICAEW for the work on licensable revenue and these are also included in Appendix 4. The opinion in respect of licensable revenue is ‘fairly presented in accordance with CAA regulations and guidance’.

37. The wordings for the various reports can be found in Guidance Note 10 and on the CAA website http://www.caa.co.uk/ATOL-protection/Trade/Maintain-and-renew-your-ATOL/ATOL-reporting-accountants-scheme/. The reports are also set out in Appendix 5 of this Technical Release. These wordings have been compiled taking account of the guidance in Appendix 4 of TECH10/12AAF. If alternative wordings are suggested, accountants should refer to Appendix 2 of TECH10/12AAF to determine whether the suggested wording would be appropriate.
EFFECTIVE DATE

38. The revised Guidance Note 10 on the ATOL website is published in Official Record Series 3 (1 April 2016). The revised reporting requirements are applicable to Annual Accountants’ Reports for ATOL renewals relating to all licence periods from 1 April 2016 and all periods thereafter and the first renewal affected for reporting purposes is 30 September 2016.

39. The ATOL renewal cycle depends on the financial year end of the ATOL holder:

   • June – November Financial Year Ends have a March ATOL renewal cycle
   • December – May Financial Year Ends have a September ATOL renewal cycle.

   So these changes will affect ATOL holders with December 2015 year ends onwards.

40. From 1 April 2016, the CAA will accept reports only from trained and designated ATOL Reporting Accountants which will be reflected in an amendment to the Official Record Series 3.

41. Guidance Note 10 provides more guidance on the transition to the new requirements.

42. The deadline for submission of ATOL Reporting Accountants’ reports is the earlier of

   (i) The expiry of a six month period after the ATOL holders financial year end or
   (ii) Its licence renewal date.

43. ICAEW Technical Release TECH 07/12AAF will be withdrawn when these changes take effect.
APPENDIX 1: FURTHER REPORTING CONSIDERATIONS

These notes have been drafted as guidance for those ATOL Reporting Accountants whose clients are required to submit reports on an annual basis in support of ATOL applications/renewals. These notes do not cover other reports (in addition to those referred to below) which may be required. In situations not covered here where a report is requested from ATOL Reporting Accountants, it will be for the ATOL Reporting Accountants to determine the specific procedures appropriate for these based upon the principles in ICAEW Technical Release TECH 10/12AAF and this guidance. Where other such reports are provided, the existing CAA Standard ARA-ATOL Terms of Engagement set out in Appendix 2 might be used to cover this work.

In undertaking the work on the licensable revenue, ATOL Reporting Accountants need to make sure that they have adequately assessed the risk of misstatement by the ATOL holder. Therefore, ATOL Reporting Accountants will need to assess the entire environment from which information concerning licensable and non-licensable revenue is drawn. For all other recommended reports, ATOL Reporting Accountants are performing agreed upon procedures only and therefore the amount of work required is less extensive.

Accredited bodies

The arrangement of an Accredited Body and its members is similar to how a Tour Operator and an agent would operate with the tour operator and Accredited Body accepting liability for the licensable sales of the agents or members respectively. An Accredited Body’s Public Licensable sales will include all member Licensable sales. All Accredited Body members are expected to utilise the central on-line reservation systems of the Accredited Body to which they are a member. All the Accredited Bodies licensed by the CAA to date have written into their membership agreements with their members, that the members will use the central on-line reservation systems of the Accredited Body to which they are a member. Where this may not be the case the CAA accept that members may need to be reviewed separately. The membership agreement between an Accredited Body and its’ members also includes the term that the member is not permitted to sell outside of this agreement. The full Schedule of Accredited Body Standard Terms under ATOL Regulation 48 can be found in the Official Record Series 3, Air Travel Organisers’ Licensing.

Reports

The CAA requests reports in the Annual Accountants’ Report for a 12 month period cotermious with the licence period (which may not be cotermious with the financial year end) on the following:

a) licensable revenue, in total and by sub-category Flight-Only, Flight inclusive package and Flight-Plus; public licensable passenger numbers on a booking date and departure date basis;

b) information extracted from the Financial Statements, including confirmations by the ATOL holder;

The CAA may also request separate reports on

c) airline ticket agent revenue (non-licensable revenue);

d) specific factual confirmations;

e) ring fencing confirmations; and potentially

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3 The specific circumstances of each ATOL holder will determine which reports need to be provided.

4 The specific circumstances of each ATOL holder will determine which reports need to be provided.
f) lapsed licence report for the release of bonds, subordinated loans, guarantees and redemption of preference shares.

Each of these is dealt with in turn below.

**The Annual Accountants’ Report (AAR)**

**(a) Licensable revenue report**

Licensable revenue falls into the following two categories:

- Public licensable revenue which constitutes sales to end users of licensable ‘Flight-Only’, ‘flight-Inclusive packages’ and ‘Flight-Plus’; and
- ATOL to ATOL business: seats sold to another ATOL holder for resale under the buying ATOL holder’s licence.

**Flight-Plus**

The exact definition and requirements for Flight-Plus and Flight-Plus arrangers is set out fully in ATOL Regulation 24, Part 3. Key points to note include:

- Flight-Plus is a flight sold with accommodation and/or car hire. However, other elements sold with the Flight-Plus that form a significant part of the holiday must also be included in the arrangement. ‘Significant other’ is contained in the European Package Travel Directive\(^5\) (PTD), Article 2, ‘other tourist services not ancillary to transport or accommodation and accounting for a significant proportion of the package’. Please refer to question 8 of the BIS PTR Q&A Guidance for Organisers and Retailers using the following weblink [www.bis.gov.uk/files/file35634.pdf](http://www.bis.gov.uk/files/file35634.pdf)

- ‘Other tourist services’ would form a significant proportion of the package if their presence or absence determined its nature and therefore influenced its purchase. To be significant its presence would have to an influencing factor in the reason for the (holiday) package.

- The flight and accommodation and/or car hire must be requested on the same day, the previous day or the next day, but it does not matter which the customer requests first.

- The trip must be over 24 hours in duration or include an overnight stay.

- If a firm sells another ATOL holder’s flight inclusive package and then adds separate overseas car hire or accommodation, this is also classed as a Flight-Plus, which the firm will be required to protect under its licence.

- The flight must have its outbound leg departing from the UK, except where the arrangement includes travel departing the UK by another method such as ferry, coach or rail, in addition to an overseas flight.

**ATOL to ATOL – sales to other ATOL holders for resale under the buying ATOL holder’s licence**

The buying ATOL holder usually sells on to the consumer. The business covered is normally air seats but occasionally flight inclusive packages may also be sold in this way. The selling ATOL holder must check that the buyer holds an ATOL and that the buyer’s Licence Limit is sufficient to sell to passengers the seats it is buying. The Confirmation Invoice issued by the seller must make clear that the sale is ATOL to ATOL and that the seat will be sold to the public under the buyer’s licence. For reporting purposes CAA is only concerned with the ATOL to ATOL sales to unrelated

\(^5\) The Package Travel Directive (PTD) came into effect in 1990 and was introduced into UK law through the Package Travel Regulations (PTR) in 1992.
ATOL holders [referred to as ‘external’ seat sales] and not ATOL to ATOL sales to other ATOL holders in the same Group [referred to as internal’ seat sales].

Licensable revenue

‘Licensable revenue’ is the income that arises from the licensable passengers described above and is only reported on for the Public sales category including its sub categories. It is the gross invoice value arising from the passengers in the relevant period - that is, the total sum they paid or are due to pay for their flights or holidays. It will therefore include the selling price of the flight or flights provided, plus any of the following that form part of the same combination:

- the selling price of any items that constitute part of the same package holiday – hotel accommodation and meals, self-catering apartment or car hire;
- ancillary items like excursions or cruises, ski or sports tuition, entrance fees or hire of specialist equipment, provided that these are included in the same sale as the flight or holiday, as opposed to purchased later;
- any taxes, duties or surcharges added on to the basic price quoted;
- agent’s commission - even though this will usually have been deducted from the cash amount transmitted by the agent to the ATOL holder; and
- insurance, where this is sold by the ATOL holder rather than by an agent.

One of the key tools used to assess the estimated value of prospective Flight-Only, Flight-Inclusive-Packages or Flight-Plus sales that are to be licensed is the reporting of actual public licensable revenue on a quarterly basis by the ATOL holder and that this revenue is subsequently reported on annually by the ATOL Reporting Accountants. There is no requirement on the part of the ATOL holder or the ATOL Reporting Accountant to report on ATOL to ATOL licensable revenue.

This requirement gives rise to the annual public licensable revenue report. The CAA considers it important that ATOL holders trade within their quarterly revenue authorisations and ATOL Reporting Accountants need to focus on the split of revenue between calendar quarters and between the two categories of licensable revenue. In addition the public licensable revenue has to be split between the three sub-categories of Flight-Only, Flight-Inclusive-Packages and Flight-Plus, ATOL Reporting Accountants also need to focus on this split of revenue. In all instances the licensable revenue can be extracted from the books and records of the ATOL holder, typically the reservation system.

The ATOL Reporting Accountants are required to confirm that the revenue which arose from the licensable operation in the category and in the calendar quarters indicated in the annual public licensable revenue report is fairly presented in accordance with CAA regulations and guidance. ATOL Reporting Accountants should therefore concentrate on checking the completeness of each category and sub-category of revenue using the relevant definitions. With the removal of airline deeds of undertaking, the sales of airline tickets under Airline Ticket Agent status becomes critical. Where airline tickets are not issued as ‘confirmed’ under a formal agency agreement with the particular airline or as an IATA member, they are required to be reported as public licensable revenue.

Before commencing work, ATOL Reporting Accountants should consult the register of Failed ATOL holders [www.atol.org.uk] to find out whether any of their clients have been designated as failing by the CAA. The CAA is legally prohibited from informing third parties of any concerns held over an ATOL holder’s continuing ability to trade.
Substantive and/or control testing

As with any testing, the ATOL Reporting Accountants have the choice of substantive testing or a combination of substantive and controls based testing.

Controls based testing of the reservation system used to generate the licensable revenue figures and passenger numbers which are to be reported on will only be adopted when the ATOL Reporting Accountants have assessed that the ATOL holder’s control environment surrounding its reservation system is adequate for the purpose (see below).

Whilst the ATOL Reporting Accountants’ assessment will be focussed on the specific controls over licensable revenue and passenger numbers, it is necessary to gain an understanding of the ATOL holder and assess the overall control environment and this will depend upon a host of factors that influence the effectiveness of the policies and procedures intended to provide reasonable assurance that the ATOL holder’s business objectives will be achieved. Some factors will be more important than others. The more critical factors are likely to be the quality of senior management and the manner in which they monitor and control the performance of the business.

The following factors are likely to be relevant to ATOL Reporting Accountants acquiring an understanding of the overall control environment including IT controls, but there might be others in addition to those listed:

- Management’s methods for controlling and monitoring performance;
- The entity’s organisational structure;
- The functioning of the Board of Directors and its committees;
- Methods of delegation; and
- Personnel practices.

Where the control environment is strong the risk of misstatement will be reduced through:

- the constraint of review by senior management;
- supervisory procedures that provide some assurance that material misstatements in the accounting records will be prevented or detected; and
- the operation of an effective budgeting or management reporting system which allows senior management to plan, control and monitor the performance of operations.

Where the ATOL Reporting Accountants have identified that the control environment is strong then the most likely method of testing is through re-performance of the extraction of the licensable revenue based on the reservation system of the ATOL holder (in addition to the testing of controls necessary to draw a conclusion over the quality of the control environment). ATOL Reporting Accountants test controls to assess whether they have been in operation throughout the year.

For ATOL holders where the control environment is assessed as being not sufficiently strong to rely upon the controls, the ATOL Reporting Accountants will have to obtain the necessary assurance to be able to sign the reports through detailed substantive testing (ie a sample of bookings from the reservation system traced through to the relevant reports).

Where substantive testing is adopted, the ATOL Reporting Accountants use their judgement to assess the sample size required to give the necessary evidence on which to base their opinion and need to take account of the reliance being placed on these reports by the CAA.
The ATOL Reporting Accountants will however still be expected to review the systems and controls applied to those systems by the ATOL holder to capture and allocate its revenue into the correct categories and sub-categories as defined by the CAA (see above) and to capture the necessary data on passenger numbers.

A combination of controls based testing and substantive testing may also be appropriate.

**Standard ATOL Holders**

The suggested work procedures issued along with this Technical Release (Appendix 4(a) of ICAEW Technical Release TECH 09/16AAF) provide more detail as to some of the expected methods of testing and the level of materiality.

The ATOL Reporting Accountants will sign the CAA’s standard report (as detailed in Appendix 5 (a) of ICAEW Technical Release TECH 09/16AAF), and if necessary will qualify where appropriate setting out an explanation of the qualification and note any exceptions identified. If it is not possible to form an opinion, the ATOL Reporting Accountant should contact the CAA.

**Small business ATOL holders**

The Small Business ATOL (SBA) scheme will now only be 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.

The suggested work procedures issued along with this Technical Release (Appendix 4(a) of ICAEW Technical Release TECH 09/16AAF) provide more detail as to some of the expected methods of testing and the level of materiality.

The ATOL Reporting Accountants will sign the CAA’s standard Report (as detailed in Appendix 5(a) of ICAEW Technical Release TECH 09/16AAF), and if necessary will qualify where appropriate setting out an explanation of the qualification and note any exceptions identified. If it is not possible to form an opinion, the ATOL Reporting Accountant should contact the CAA.

**(b) Passenger numbers – ‘booked’ and ‘departed’**

The CAA is seeking data on passenger numbers on both a bookings and departure date basis for reasons previously explained. The CAA gives a definition of ‘Departed passengers’ in Guidance Note 10 as ‘passengers that have actually departed on the first leg of their Flight-Only, Flight-Inclusive-Package or Flight-Plus...’. This does not mean that ATOL Reporting Accountants are required to confirm that passengers actually embarked the aircraft and left the country. For this purpose the CAA has agreed that it is sufficient that the passenger is shown as departed on the ATOL holder’s reservation system at the time of reporting.

The work procedures have been agreed with the CAA and are set out in Guidance Note 10 and reproduced in Appendix 4(b) of ICAEW Technical Release TECH 09/16AAF.

The ATOL Reporting Accountants will sign the CAA’s standard Report (as detailed in Appendix 5(a) of ICAEW Technical Release TECH 09/16AAF), and will note any exceptions identified.

Data on passenger numbers on a bookings basis is only ever correct at a point in time. Therefore ATOL Reporting Accountants should ensure that their client takes and retains copies of the relevant reports disclosing numbers of bookings by the relevant category at the correct relevant date.
(c) Information extracted from the Financial Statements

The CAA is seeking information from ATOL holders which has been extracted from their Financial Statements. The type of information to be provided will depend on the type of ATOL holder and what applicable GAAP has been followed in preparing the Financial Statements. The ATOL holder is also asked to give confirmations in relation to whether the Financial Statements have been audited, whether the ATOL Reporting Accountant was the statutory auditor and whether the audit opinion on the Financial Statements was modified.

The ATOL Reporting Accountant is asked to confirm that the information in the relevant section of Part 2 of the Annual Accountant’s Report has been directly extracted from the Financial Statements. This work is performed following agreed upon procedures. Where the ATOL Reporting Accountant cannot agree the relevant data fields directly to the line entries in the Financial Statements then they need to include this as exceptions in their report.

The work procedures have been agreed with the CAA and are set out in Guidance Note 10 and reproduced in Appendix 4(c) of ICAEW Technical Release TECH 09/16AAF.

The ATOL Reporting Accountants will sign the CAA’s standard Report (as detailed in Appendix 5(a) of ICAEW Technical Release TECH 09/16AAF), and will note any exceptions identified.

(d) Airline Ticket Agent Revenue (non-licensable revenue)

The CAA asks standard and SBA ATOL holders to provide details of Airline Ticket Agent Revenue to confirm that revenue is being transacted correctly. Confirmed tickets for all air travel should be issued to customers either immediately upon payment or by the end of the following working day where a booking has been made remotely. The ticket must be issued for an airline with which the ATOL holder has a written agency agreement in the form set out by the CAA or be an exempt member of IATA. The CAA needs to be satisfied that the reported revenue of tickets sold on an Airline Ticket Agent basis, are actually sold on this basis. Where this is not the case, the agent is required to include these sales within its public licensable revenue, and this may result in an SBA requiring a full ATOL. This confirmation can be obtained by checking the reservation or ticketing system to bookings made by customers in person or remotely.

The work procedures have been agreed with the CAA and are set out in Guidance Note 10 and reproduced in Appendix 4(d) of ICAEW Technical Release TECH 09/16AAF.

The ATOL Reporting Accountants will sign the CAA’s standard report (as detailed in Appendix 5(a) of ICAEW Technical Release TECH 09/16AAF, and if necessary will note any exceptions identified.

(e) Specific factual confirmations

A number of the confirmations set out below are requested by the CAA to help it gain a level of comfort on an ATOL holder’s solvency (principally to meet CAA’s ‘free asset’ test). For guidance on any specific request outside the scope of these arrangements regarding solvency, ATOL Reporting Accountants refer to paragraph 13 of ICAEW Technical Release TECH 10/12AAF.

The work procedures have been agreed by the CAA and are set out in Guidance Note 10 and reproduced in Appendix 4(e) of ICAEW Technical Release TECH 09/16AAF and the specific format of reporting of factual confirmations is provided in Guidance Note 10 and reproduced in Appendix 5(b) of ICAEW Technical Release TECH 09/16AAF or exceptionally, other agreed formats.

The ATOL Reporting Accountants will note any exceptions identified.
Receipt of these confirmations is only a part of the CAA’s licensing process.

Subordinated Loans

- The CAA seeks the ATOL Reporting Accountants’ written report on the ATOL holder’s confirmation that since [Date] £[X] of new cash has been injected into [ATOL holder] in the form of a subordinated loan, and the subordinated loans within the company now total £[Y].

The CAA wants confirmation that the cash injections that the CAA has been informed of by the management of the ATOL holder have actually been received into the ATOL holder’s bank account and that the ATOL holder has completed the appropriate CAA subordinated loan documentation for the same amount. The ATOL holder will need to determine the appropriate disclosure in the statutory accounts in accordance with generally accepted accounting principles.

Cash gift (Sole Traders and Partnerships)

- The CAA seeks the ATOL Reporting Accountants’ written report on the ATOL holder’s confirmation that since [Date] £[X] of new cash has been donated into [ATOL holder] in the form of a cash gift.

The CAA wants confirmation that the cash injections that the CAA has been informed of by the management of the ATOL holder have actually been received into the ATOL holder’s bank account and that the ATOL holder has completed the appropriate CAA memorandum of cash gift documentation for the same amount. This means of donating new funds is only applicable to sole traders and partnerships. The ATOL holder will need to determine the appropriate disclosure in the statutory (or other annual) accounts in accordance with generally accepted accounting principles.

Guarantees

- The CAA seeks written confirmation from the ATOL Reporting Accountants that the completed Deed of guarantee has been drawn to the ATOL Reporting Accountants’ attention.

In giving this guarantee the provider of the guarantee acknowledges that it will meet all actual and potential liabilities of the ATOL holder (occasionally the parent group). The CAA asks the ATOL Reporting Accountants to acknowledge the existence of the guarantee. The ATOL Reporting Accountants are not required to consider the scope of the guarantee or its legal enforceability as this is primarily a matter for lawyers. The ATOL holder will need to determine the appropriate disclosure in the statutory accounts in accordance with generally accepted accounting principles.

New share capital/rights issue

- The CAA seeks written confirmation from the ATOL Reporting Accountants that £[X] new cash has been injected into [ATOL holder] in the form of paid up share capital and/or that £[Y] of the profit and loss account or existing subordinated loan has been capitalised as fully paid up share capital.

The CAA requests the above confirmations to obtain comfort that funds have actually flowed into the bank account of the ATOL holder and that share capital has been issued for the consideration received by the ATOL holder. For the capitalisation of a subordinated loan, the
ATOL Reporting Accountants can confirm the existence of an agreement with the lender converting the subordinated loan into paid up share capital and that shares have been issued. The ATOL Reporting Accountants are not required to consider the scope of the agreement or its legal enforceability as this is primarily a matter for lawyers. The capitalisation of profit and loss reserves is executed by way of a bonus issue of shares, which can be confirmed by reference to the relevant Companies House filings for an issue of shares.

Bank loan funding

- The CAA seeks confirmation that an amount of £[X] has been injected into [ATOL holder] in the form of a bank loan.

The CAA monitors whether the ATOL holder has adequate working capital to support normal operational or capital expenditure in order to facilitate the renewal or the retention of a licence. Where this was dependent on a loan, then the CAA needs to obtain comfort that this has now been provided. As this is purely a factual confirmation relating to the receipt of funds, the ATOL Reporting Accountants are not expected to review any business plan or budget.

The CAA wants confirmation that the cash it has been told will be introduced has indeed been received into the ATOL holder’s bank account, and that the facility terms and conditions are as previously indicated to the CAA.

Repayment of item post year end

- The CAA seeks confirmation that since [Date] the sum of £[X] has been received from [Named debtor] in respect of the [named debt].

If the balance sheet of the ATOL holder includes certain current assets, in particular other debtors, then the CAA may seek to establish if these assets have been recovered. Part of this assessment is to ascertain if the debt has been settled since the year-end – in which case the CAA seeks confirmation of the cash amount received. This may include capital items sold since the year-end, associate debt, deposit refunds, etc.

The CAA wants the ATOL Reporting Accountants to confirm the receipt of the item or items in question, such that £[X] has been received since the year-end into the ATOL holder’s bank account.

Change of ownership

- The CAA seeks confirmation of the shareholders and their shareholdings following a restructure or change of ownership.

The CAA wishes to identify the individuals or companies who are controlling the business. It should be noted that the CAA has a statutory duty to consider the fitness of those that control (or appear to control) an ATOL holder/applicant.

The CAA wants the ATOL Reporting Accountants to check the share register to confirm who now owns the shares in the company that already holds an ATOL at a given date or is applying for a licence. The CAA uses this as part of its work to establish ownership and control of companies.
(f) Ring fencing confirmations

The reasons for the financial and structural ring fence confirmations in essence relate to circumstances where ATOL holders are part of a wider group and would be unable to satisfy the CAA’s financial criteria on a group basis. A primary function of both the financial and structural ring fence confirmations is to satisfy the CAA that the ATOL holder is operating independently and would have at least a chance of survival in the event of the failure of the group that operates outside of the ring fence. Further guidance on financial ring fence confirmations is set out in the ATOL policy paper on Groups and Related Parties which is available from the CAA’s website at www.caa.co.uk.

Financial ring fencing

When reaching a decision on the financial position of an ATOL holder the CAA normally assesses that ATOL holder on the basis of the finances of the largest organisation in which it operates (in most cases the group at the ultimate holding company level). Some ATOL holders are however unable to meet the financial criteria set by the CAA at this level and request that the CAA considers the ATOL holder on an individual or sub-group basis for solvency purposes. In such cases the CAA will consider whether it is realistic to assess the ATOL holder (or sub-group) on a ‘ring fence’ basis: an essential test to the CAA is whether or not the ATOL holder is operating independently and could survive financially the failure of the rest of the wider group outside the ring fence. The CAA takes a similar view when an ATOL holder has a very close relationship with associate firms or groups under similar (common) control. CAA defines ‘associate’ as a company which has a link with the ATOL holder through common shareholders, directors, partners, significant levels of trading or with whom there are financial links. Financial links include inter-firm loans and cross guarantees (see ATOL policy paper on Groups and Related Parties). In order to obtain some comfort over the financial independence of the ATOL holder, when it forms part of a group of companies for the year in question, the CAA is concerned that:

- No guarantees, loans or letters of support have been given by the ATOL holder in favour of any group companies;
- The ATOL holder maintains its own separate bank, account(s) and its cash is not managed centrally with other group companies;
- All trading with group or associated companies is transacted on normal commercial terms, with balances settled at least monthly; and
- The ATOL holder has its own merchant agreement with a credit card company.

Accordingly the CAA requires ATOL Reporting Accountants to perform the work procedures set out in Guidance Note 10 and reproduced in Appendix 4(f) and report the results. The specific format of reporting of ring fencing confirmation is provided in Guidance Note 10 and reproduced in Appendix 5(c) of ICAEW Technical Release TECH 09/16AAF.

The confirmations above may also be required on associated companies as defined in the ATOL policy paper on Groups and Related Parties.

Structural ring fencing

Structural separation confirmations are required in conjunction with the CAA’s financial confirmations, however the CAA has procedures regarding these which do not involve the ATOL Reporting Accountants. It is considered that ATOL Reporting Accountants do not usually have the knowledge and experience of such matters and they are therefore unable to add any effective comfort to the confirmations made by the ATOL holder direct to the CAA. ATOL Reporting Accountants are not expected simply to report to the CAA representations they have received from management which are incapable of practical independent testing.
The rationale behind the structural separation confirmations is also connected with the ability of the ATOL holder to survive operationally in the event of the failure of the wider group outside the ring fence. If a company was financially ring fenced from a group in terms of intra group trading, but relied on group facilities such as computer networks or shared office premises for example, the CAA would consider that its chances of surviving the failure of the group would be small. This is because at the very least, it would not have been used to paying commercial rates for such services and may therefore be unable to bear the additional overhead. The same applies to companies which are associated in the CAA’s terms, sharing common Directors.

It is also important for the CAA to ensure that the ATOL holder directly employs both staff and management and have their own separate trading contracts with suppliers. The CAA’s view is that companies that contract these services on a group basis would be unable to re-negotiate such services quickly if the group outside of the ring fence were to fail. In some cases suppliers would not wish to deal directly with the subsidiary or, would require substantial increases in the rates charged.

The CAA would look for comfort from ATOL holders in respect of higher bonds and/or asset base requirements in cases where a company, which is subject to financial ring fence undertaking, is not able to provide the CAA with the full list of confirmations in respect of its structural separation. In some cases the CAA may not be able to renew a licence in the absence of the structural separation confirmations.

(g) Lapsed licences and the release of bonds, subordinated loans, guarantees and redemption of preference shares

Unless called, bonds will normally expire six months after the licence is due to expire. In the event of a lapsed licence the ATOL holder may request the early return of their bond from the CAA. However the CAA would first need to be satisfied that there are no outstanding or future liabilities relating to the applicable licensable operations of the business. As part of the process of obtaining this assurance the CAA would require the ATOL Reporting Accountants to confirm that there are no outstanding or future liabilities relating to the applicable licensable operations of the business.

ATOL Reporting Accountants need to be sure beyond reasonable doubt that there are no outstanding or future liabilities before signing this type of report. The recommendation to ATOL Reporting Accountants is that this report is not signed since it is unlikely that work of sufficient depth and breadth to support a signed report will be possible. Specifically the CAA Standard ARA-ATOL Terms of Engagement in Appendix 2 of ICAEW Technical Release TECH 09/16AAF do not cover the reporting on these returns and therefore does not remove or limit the duty of care from ATOL Reporting Accountants signing these reports.

Additionally where the licence has lapsed without a call on the bond, the CAA requires an undertaking before it will release guarantees, subordinated loan agreements or preference share undertakings. This will mean a confirmation that all claims of other creditors in respect of liabilities incurred by the ATOL holder in the period during which it held an Air Travel Organisers’ Licence, have been satisfied.

Once again, the recommendation to ATOL Reporting Accountants is that these reports are not signed since it is unlikely that work of sufficient depth and breadth to support a signed report will be possible.
APPENDIX 2: CAA STANDARD ARA-ATOL TERMS OF ENGAGEMENT* (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 and the Civil Aviation (Contributions to the Air Travel Trust) Regulations 2007 (as amended).

These terms must be included, unamended, with 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 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 dated March 2016 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.

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

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6 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.
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 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 CAA:

3.2.1 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.

3.2.2 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.

3.2.3 Annual Accountants’ Report (Part 2): Extraction of information from the ATOL holder’s Financial Statements: The Accountants will perform the work procedures set

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7 The following reports will be required for each category of ATOL holder and Accountants should amend the terms of reference for each engagement accordingly:

a) Standard ATOL holders - 3.2.1 to 3.2.4 above;
b) SBAs – 3.2.1 to 3.2.4 above;
c) Trade licences – 3.2.2 but departure date basis only and 3.2.3 above;
d) Franchise Member ATOL holders ≥ £5m ATOL revenue – 3.2.1 to 3.2.3 above;
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.
out in the Annex 7 of Guidance Note and subject to any adverse findings will produce a report as detailed in Guidance Note 10.

3.2.4 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.

3.2.5 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.

3.2.6 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.

3.2.7 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);

4.1.5 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);

4.1.6 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.

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’);

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’);

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8 The Guidance Note 10, issued March 2016, is available on the CAA’s website [http://www.caa.co.uk/ATOL-protection/Trade/Licensingforms-and-bonds/Licensing-forms-and-bonds/](http://www.caa.co.uk/ATOL-protection/Trade/Licensingforms-and-bonds/Licensing-forms-and-bonds/). 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.
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;

6.1.5 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; (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 steps\(^9\) 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. Please see footnotes 9 and 10 below for definitions in respect of failure of the ATOL holder and reasonable steps. 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’). 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

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\(^9\) 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.

\(^10\) 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.
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 ATTI 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 3: EXAMPLE LETTER CONFIRMING TERMS OF ENGAGEMENT

The Board of Directors
[XYZ Plc/Ltd
Address]

[Date]

Our Ref:

Dear Sirs

CAA reporting

We are writing to confirm our terms of engagement for performing procedures and reporting in respect of [XYZ Plc/Ltd] [and of the other specified companies listed in Attachment 1] in connection with the Civil Aviation (Air Travel Organisers’ Licensing) Regulations 2012, and the Civil Aviation (Contributions to the Air Travel Trust) Regulations 2007, as amended.

Under the arrangements agreed between the Civil Aviation Authority (the CAA) and ICAEW which are set out in the CAA Guidance Note 10 and ICAEW Technical Release TECH 09/16AAF, CAA Standard ARA-ATOL Terms of Engagement governing this reporting were published. A copy of those engagement terms are attached as Attachment 2. Subject to your acceptance of this letter, a contract is formed between you and this firm. The CAA accepts that a contract between you, this firm, the CAA on its own behalf and as agent for the Trustees of the Air Travel Trust on these terms is formed when you and this firm sign and submit to the CAA a Report as set out in Clause 3 herein.

Personnel

It is our intention that X will act as the engagement partner. [A second partner, Y, will work with him/her, and will be available to substitute for X in his/her absence.] XX will be the manager.

Fees

Our fees for this reporting engagement will be payable by [XYZ Plc/Ltd].

[Fixed fee. Assuming no undue complications and provided we do not agree to undertake additional work, the fee for our reporting to the CAA (excluding disbursements and VAT) will be £X.]

[Or variable fee. Our fees will be charged on the basis of time spent on your affairs according to the level of seniority of the personnel involved. Unless the engagement has to be extended for reasons beyond our control, we estimate that the fee for our reporting to the CAA (excluding disbursements and VAT) will be approximately £X.]

Timetable

We understand that you require our opinion to be given by [date].
Please note that under the model contract, our aggregate liability to you, the CAA and the ATT is capped [at the amount of £XX] as agreed by letter dated [date]/ in accordance with the CAA’s capping arrangements set out in the CAA Guidance Note 10. [delete as appropriate].

We should be grateful if you would confirm acceptance of the terms of engagement on behalf of [XYZ Plc/Ltd] [and the subsidiary companies listed in Attachment 1] by signing below [arranging for an authorised signatory to sign below on behalf of each company] and returning a copy of this letter and the appendices by [date].

Yours faithfully

[Name of firm]

Confirmed on behalf of [XYZ Plc/Ltd][and the subsidiary companies listed in Attachment 1]

[signature]

[name], Director

Date

Or if separate signatures are required on behalf of each company

Accepted on behalf of Signature [name], Director Date
XYZ Plc/Ltd
Sub 1
Sub 2 etc

Attachment 1

LIST OF OTHER SPECIFIED COMPANIES FALLING WITHIN THE SCOPE OF THE TERMS OF ENGAGEMENT

Attachment 2

[Attach CAA Standard ARA-ATOL Terms of Engagement from Guidance Note 10 (also reproduced in Appendix 2 of ICAEW Technical Release TECH 09/16AAF)]
APPENDIX 4: WORK PROCEDURES

(a) Annual Public Licensable Revenue

(These are suggested work procedures prepared by ICAEW. ATOL Reporting Accountants are providing an assurance opinion here and they should, therefore, use their professional judgement when applying these work procedures)

1. Read the Guidance Note 10 issued by the CAA.

2. Obtain a copy of the ATOL Licence, the renewal offer letter and any variation offer and grant letter(s) filed during the year to aid the assessment of the risk.

3. Enquire and document the basis and methodology used by the management of the ATOL holder to compile its quarterly revenue returns to the CAA and the controls it has in place to monitor and ensure the accuracy and completeness of the data in each category of public licensable revenue.

4. Discuss with management the application of the definition of public licensable revenue to the various products sold by the business and assess the level of judgement that has been applied. Where sales of certain products have been omitted from the report of public licensable revenue obtain justification from management for omission which includes due reference to definitions and/or discussions with the CAA.

5. Enquire and discuss with management what changes in procedures and controls they have undertaken to ensure revenue that falls into the Flight-Plus category are correctly identified and accurately recorded. This will include the procedures in place to identify when a customer adds say accommodation/car hire within 24 hours of the original booking or vice versa when a customer adds a flight to an accommodation/car hire, etc. booking within 24 hours of the original being made.

6. Identify and perform walkthrough tests on the controls utilised in producing these returns and recording revenue.

7. The ATOL Reporting Accountants will then determine whether to take a substantive or control based approach to the detailed testing of the bookings included in the returns/revenue.

8. Obtain from the ATOL holder reconciliations for:
   i. The four quarterly returns for public licensable revenue.
      - Confirm these returns agree to the Annual Return.
      - Obtain supporting documentation and explanations from management for any reconciling items between the quarterly and the Annual Returns; and
      - Agree the quarterly returns for each category of revenue to the ATOL holder’s General Ledger and/or reservation system.
   ii. The Annual Return to statutory revenue for the closest accounting reference date (This will be more complex where revenue is not recognised on a departure date basis or where the licence period is different to the ATOL holder’s financial year). Although statutory revenue is not reported to the CAA, it is necessary for the ATOL Reporting Accountants to understand how statutory revenue reconciles to all revenue reported to the CAA to safeguard against any errors of omission of public licensable revenue in the Annual Return.
Detailed testing

For detailed testing it has been agreed with the CAA that the ATOL Reporting Accountants use a materiality level equivalent to 5% of licensable revenue.

For controls based testing:

9. Test the controls, including where necessary the relevant IT controls surrounding the reservation system, to provide assurance that for both monetary and quantitative data:

- bookings are classified into the correct category of licensable revenue (e.g., Flight-Only, flight inclusive package, Flight-Plus or ATOL to ATOL) by reference to the booking details and definitions of licensable revenue (see Annex 3 of Guidance Note 10);
- bookings are included in the correct quarterly return by reference to both booking and departure date;
- the reservation was not cancelled before departure confirmed by reference to initial deposit and subsequent payment of balance of booking; and
- AirlineTicket Agent sales only, the date the ticket is issued is properly recorded in the reservation/ticketing system and nominal ledger.

AND/OR For substantive testing of revenue:

10. Obtain a sample (the size of the sample will be determined by the ATOL Reporting Accountants’ assessment of risk) of bookings from the reservation system. (The sample to include bookings for all categories of licensable and non-licensable revenue applicable to the ATOL holder).

For the sample selected test that each booking is:

- classified into the correct category of revenue (e.g., Flight-Only, flight inclusive packages, Flight-Plus, ATOL to ATOL or non-licensable) by reference to the booking details and definitions of revenue;
- included in the correct quarterly return by reference to the departure date; and
- the reservation was not cancelled before departure confirmed by reference to initial deposit and subsequent payment of balance of booking.
- For Flight-Only or non-licensable bookings check whether there was a related booking made 24 hours before or after and hence whether the booking should be included in Flight-Plus.

11. Analytical review to be undertaken and documented. This should include a review on a quarterly basis of how the business has performed against budget and or prior years, and whether performance is in line with the ATOL Reporting Accountants’ understanding of the business. Consider the ATOL holder’s trading results in comparison with the management information submitted to the CAA and with that of the general performance of its sector within the wider travel industry.

12. Obtain a letter of representation from the ATOL holder signed by an authorised officer containing the appropriate paragraphs including respective responsibilities, availability of books and records and judgements.

Small Business ATOL holder
For small firms selling less than 500 Seats per year:

1. Follow all steps as above for checking revenue as for a full licence.
2. Agree the total number of licensed passengers shown in the return to the ATOL holder’s reservation system.

(b) Public licensable passenger numbers on a booking date and departure date basis
(These are the work procedures required by the CAA)

1. Read CAA Guidance Note 10 (dated March 2016) for ATOL Reporting Accountants and issued by the CAA
2. Obtain a copy of the ATOL Licence and any variation(s) filed during the year.
3. 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.
4. 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.
5. Review the reconciliation of this report to the equivalent passenger levy return and subsequent payment to the CAA of the passenger APC.
6. 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. Agree the passenger numbers shown on that report from the reservation system to the CAA return on passenger numbers.

(c) Extraction of information from the Financial Statements
(These are the work procedures required by the CAA)

1. Obtain from the ATOL holder the Financial Statements for the relevant period to which the Annual Accountants’ Report applies.
2. Agree the data entry fields included in the relevant section of Part 2 of the Annual Accountants’ Report 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]
3. 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 Annual Accountants’ Report to the line entries in the Financial Statements.
4. If the relevant data entry fields cannot be agreed back directly to the line entries in the Financial Statements, ATOL Reporting Accountants include as exceptions in the report.
5. Enquire whether the Financial Statements have been audited and agreed this to the ATOL holder’s confirmation in section 7.2.2 of Part 2 of the AAR.
6. Where the ATOL Reporting Accountant 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 ATOL holder 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.

7. 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.

(d) Airline Ticket Agent

(These are the work procedures required by the CAA)

1. 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 ATOL Reporting Accountants’ assessment of controls over the recording of the issue date of the ticket.

2. 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.

(e) Factual Confirmations

(These are the work procedures required by the CAA)

The following is a full list of potential confirmations that may be requested by the CAA. Accordingly the CAA agreed work procedures listed should be undertaken only in respect of the particular confirmations requested. In each case, in order to support their procedures, ATOL Reporting Accountants should obtain a direct confirmation from the directors of the ATOL holder regarding the requested matter in the form set out in the pro forma report in Appendix 5.

1. Confirmation of Subordinated loans

   a) 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.

   b) 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. Confirmation of receipt of a memorandum of cash gift

   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 that 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 is 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 share register held by the ATOL holder correctly reflects these changes.
(f) Ring Fencing Confirmations

(These are the work procedures required by the CAA)

These work procedures only cover the areas ATOL Reporting Accountants might be able to provide the CAA with the confirmations they are looking for. The CAA has revised its procedures for obtaining certain confirmations from ATOL holders as the ATOL Reporting Accountants are unlikely to be able to provide meaningful assurance on the ATOL holder’s confirmations — see the ATOL policy paper on Groups and Related Parties on the CAA’s website. These confirmations include the following:

- Sharing of any premises with other group companies;
- Sharing of any administrative functions with other group companies;
- Confirmation that staff and management are directly employed; and
- Whether supplier contracts are separate from other group undertakings.

The confirmations below may also be required on associated companies as defined in the ATOL policy paper on Groups and Related Parties.

The following is a full list of potential confirmations over which the CAA may request ATOL Reporting Accountants to perform the agreed work procedures. Accordingly the relevant work procedures listed should be undertaken only in respect of the particular confirmations requested. In each case, in order to support their work procedures, the ATOL Reporting Accountants should obtain a direct confirmation from the directors of the ATOL holder regarding the requested matter in the form set out in the pro forma report in Appendix 6.

1. Read the ATOL policy paper on Groups and Related Parties dated 2010/3, 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.

   Where it is unrealistic to obtain the evidence to give the confirmation do not give it but state why in your letter to the CAA.

3. Guarantees, loans and letters of support

   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 by the ATOL holder.

   Also enquire of the directors whether any Guarantees, loans or letters of support have been provided by the ATOL holder.

4. Inter-company debtors

   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).

   Test that the inter-company balance has been settled at least monthly.
Test a sample of entries for each inter-company account to backing invoices to agree that they are trading in nature.

Where the debtor relates to funding of the group undertaking this is to be separately identified to the CAA.

5. Inter-company creditors

Enquire of the directors as to the nature of all inter-company creditors to the ATOL holder and whether they all arise from trading.

Test a sample of entries for each inter-company account to backing invoices to agree that they are trading in nature.

Test that the inter-company balance has been settled at least monthly.

Where the creditor relates to funding by the group undertaking this is to be separately identified to the CAA.

6. Merchant agreements with credit card companies

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.

7. Banking arrangements

Check the ATOL holder’s bank accounts to ensure that they are in the sole name of the ATOL holder.

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 5: ACCOUNTANTS’ REPORTS

### 5 (a) Accountants’ Report Forms

Except for the Factual confirmation report and Ring fencing report, the reports from ATOL Reporting Accountants are required to be on the appropriate form from the CAA.

The following table summarises the reporting forms required for both Standard and SBA ATOL holders, under the CAA Standard ARA-ATOL Terms of Engagement developed with the Professional Accountancy Bodies.

<table>
<thead>
<tr>
<th>ATOL holder</th>
<th>Report</th>
<th>Form No</th>
<th>ATOL Reporting Accountants’ reports</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Standard ATOL</strong></td>
<td>Annual Accountants’ Report</td>
<td>3030</td>
<td>• Report on Licensable Revenue&lt;br&gt;• Report on passenger numbers, booked and departed&lt;br&gt;• Factual findings report on extraction of information from Financial Statements</td>
</tr>
<tr>
<td></td>
<td>Other Accountants’ Report</td>
<td>3039</td>
<td>Airline Ticket Agent Report</td>
</tr>
<tr>
<td><strong>Small Business ATOL</strong></td>
<td>Annual Accountants’ Report</td>
<td>3030</td>
<td>• Report on Licensable Revenue&lt;br&gt;• Report on passenger numbers, booked and departed&lt;br&gt;• Factual findings report on extraction of information from Financial Statements</td>
</tr>
<tr>
<td></td>
<td>Other Accountants’ Report</td>
<td>3039</td>
<td>Airline Ticket Agent Report</td>
</tr>
<tr>
<td><strong>Standard Trade</strong></td>
<td>Annual Accountants’ Report</td>
<td>3030</td>
<td>• Passenger numbers departed</td>
</tr>
<tr>
<td><strong>Trade Licence</strong></td>
<td>Annual Accountants’ Report</td>
<td>3030</td>
<td>• Passenger numbers departed&lt;br&gt;• Factual findings report on extraction of information from the Financial Statements</td>
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<tr>
<td>Franchise member ATOL ≥ £5 million ATOL revenue</td>
<td>Annual Accountants’ Report</td>
<td>3030</td>
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- Report on Licensable Revenue
- Report on passenger numbers, booked and departed
- Factual findings report on extraction of information from Financial Statements

S (b) Pro forma Factual Confirmation 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 dated March 2016 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, 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 requested 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 dated March 2016 [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 dated March 2016 [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 dated March 2016 [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 dated March 2016 [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 dated March 2016 [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 dated March 2016 [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 dated March 2016 [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 March 2016 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

5 (c) Pro forma Ring Fencing Confirmations Report

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

Ring Fencing 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 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 dated March 2016 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, and with the Civil Aviation (Contributions to the Air Travel Trust) Regulations 2007, as amended and our findings are summarised as follows:

[Notes: The following is a full list of potential confirmations. Delete those confirmations not requested by the CAA. Where it is unrealistic to obtain the evidence to give a confirmation do not give it but state why below.

Where there are associates, similarly worded confirmations will be required.]

[*Delete the inapplicable option where indicated below.]

Licensing requirements

We have read the CAA’s ATOL Policy and Regulations papers on Groups and Related Parties 2010/3 and ATOL Bonding 2010/08, for ATOL holders about licensing requirements for firms that are part of a group or have associates.

Ring fencing criteria

We obtained a copy of the ATOL holder’s ATOL licence offer letter dated [date] and the variation offer and grant letter(s) dated [dates] 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

The directors of the ATOL holder confirmed to us that during the financial year to [date] no guarantees, loans or letters of support were given by [company name] in favour of any group companies.
In respect of the confirmation above, we performed the work procedures set out in CAA Guidance Note 10 [without exception.] [and noted the following exceptions: List exceptions including any guarantees, loans or letters of support.]*

Inter-company balances or balances with associated companies

The directors of the ATOL holder confirmed to us that during the financial year to [date] all trading with group companies was transacted on normal commercial terms, with balances settled at least monthly.

In respect of the confirmation above, we performed the work procedures set out in CAA Guidance Note 10 dated March 2016 [without exception.][and noted the following exceptions: List exceptions including any inter-company debtors not settled on a monthly basis and/or any inter-company debtors or creditors not of a trading nature including funding by group undertakings.]*

Merchant agreements with credit card companies

The directors of the ATOL holder confirmed to us that during the financial year to [date] [Company name] had its own merchant agreements with credit card companies.

In respect of the confirmation above, we performed the work procedures set out in CAA Guidance Note 10 dated March 2016 [without exception.][and noted the following exceptions: List exceptions including any merchant agreements with credit card companies not in the ATOL holder’s name nor solely for the ATOL holder.]*

Banking arrangements

The directors of the ATOL holder confirmed to us that during the financial year to [date] [Company name] maintained its own separate bank accounts and its cash is not managed centrally with other group companies.

In respect of the confirmation above, we performed the work procedures set out in CAA Guidance Note 10 dated March 2016 [without exception.][and noted the following exceptions: List exceptions including any bank accounts not in the sole name of the ATOL holder or any accounts that are subject to rights of set-off against the accounts of other entities.]*

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 March 2016 set out in the CAA Guidance Note 10 dated March 2016. [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 6: LETTER FROM CAA TO ATOL HOLDERS AND ATOL REPORTING ACCOUNTANTS REQUESTING ADDITIONAL WORK PROCEDURES

We refer to [name of ATOL holder]’s (the ATOL holder) application for an Air Travel Organiser’s Licence and the reports we have received from the ATOL holder’s ATOL Reporting Accountants, [name of ATOL Reporting Accountants].

We request that the ATOL holder’s ATOL Reporting Accountants perform the additional procedures listed in the appendix to this letter and report their findings to us.

The work performed in accordance with this letter is an extension of the scope of work set out in section 3 of the CAA Standard ARA-ATOL Terms of Engagement dated March 2016 set out in CAA Guidance Note 10 dated March 2016 and will be performed subject to the CAA Standard ARA-ATOL Terms of Engagement.
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