



REBALANCING ATOL: CONSULTATION ON PROPOSALS TO ENSURE A FAIR AND PROPORTIONATE FINANCIAL PROTECTION SCHEME

ICAEW welcomes the opportunity to comment on the consultation paper *Rebalancing ATOL: consultation on proposals to ensure a fair and proportionate financial protection scheme* published by the Civil Aviation Authority on 30 June 2014, a copy of which is available from this [link](#).

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MAJOR POINTS

1. We support the CAA's objective of rebalancing the regulatory approaches it uses and extending the risk-based approach to all of the businesses that it regulates. We welcome the CAA's desire to ensure that the regulatory approaches taken to all broad groupings of ATOL holders are appropriate, offer effective safeguards against calls on the ATT and ensure that the risk of being affected by insolvency is broadly consistent for all consumers. Such an approach has the protection of consumers in mind and could potentially reduce the risks and costs of travel in the long term (with fewer claims on the compensation fund and fewer failures of agents).
2. We are supportive of the proposal for a licensed practitioner scheme for accountants who carry out this work. Having met with the Civil Aviation Authority on a number of occasions over the last couple of years to discuss the issues, we believe that this is an effective way of delivering the desired improvements in the scope and quality of the work performed by accountants that the CAA is looking for, which in turn should help to raise the reliability and usefulness of the information and reports received about ATOL holders.
3. We have restricted our response to the questions in the consultation to the particular aspects that relate to the responsibilities of the reporting accountant.
4. We would welcome the opportunity of meeting with the CAA when the consultation closes to discuss these points in more detail.

RESPONSES TO SPECIFIC QUESTIONS

Q1: Do you agree that the CAA should end the SBA arrangements, given the reasons stated and the availability of alternatives?

5. No comments.

Q2: Do you agree that the CAA should develop and implement a more sophisticated financial test for ATOL holders licensed for less than £5 million? The CAA is proposing a 3 year transition period to introduce the enhanced assessment. Do you agree with this timescale?

6. We do not have any specific comments on the financial test for ATOL holders licensed for less than £5 million. In relation to those ATOL holders authorised for over £5 million licensable revenue a year, we note the requirement that the audited accounts should include a cash flow statement (page 6, footnote 3 of the consultation paper). Some of these companies may, however, qualify as small companies under the Companies Act 2006 or qualify under other exemptions and might not, therefore, prepare a cash flow statement for their statutory accounts.

Q3: Do you agree that the CAA should make a requirement that accountants reporting on ATOL regulatory information must be Licensed Practitioners?

7. We have been working with the CAA over the last couple of years to understand its concerns and to identify solutions to achieve the desired improvements in the scope and quality of the work performed by accountants that the CAA is looking for. We support the proposal as an effective way of delivering improved quality.
8. A scheme such as the licensed practitioner scheme promotes good quality work because the firm must be able to demonstrate that it is competent to carry out the licensed work, is independent and all principals and employees are fit and proper. The firms will also be subject to monitoring, where we will seek evidence that the firm is competent and we also check the quality of the agreed upon procedures/assurance work performed.

9. We have some specific comments in relation to other proposed changes relating to the role of the reporting accountant. We note the proposed requirement in appendix B for a statement signed by the licensed practitioner to confirm that they have not identified any breach of ATOL standards or ATOL regulations during their normal control checks. This would appear to be a very broad statement and would be quite different from what reporting accountants would have been used to doing here. It will therefore be important for the scope and wording of this requirement to be very clear. Reporting accountants would need to report by exception only and would not be in a position to provide positive assurance on this. Our Technical Release TECH 07/12AAF allows either a substantive or a controls-based approach to these engagements and so where a substantive approach is followed there won't be any 'normal control checks' performed.
10. We would like to understand more clearly what the requirements will be in relation to PII cover. For instance is the confirmation in relation to PII cover per firm or per engagement? Also, on page 20 under point 4 there is a reference to PII cover relative to the size of the ATOL holder being audited or reported on for the purpose of the annual accountant's report. We are not clear why there is a reference to being 'audited for the purposes of the annual accountants report'. This is not an audit engagement. Any requirement imposed on ATOL holders for audited accounts should be completely separate to this engagement.
11. On page 27, the consultation paper refers to audit as an alternative to the proposed licensed practitioner scheme. While audited accounts may be helpful to the CAA, it is important to emphasise that they are generally prepared for a specific statutory purpose and might not, therefore, be fit for purpose to meet the CAA's objectives in terms of compliance with ATOL regulations. Similarly on page 8 there is a reference to reporting accountants 'validating' the ATOL reporting. We think it would be more appropriate to use the term 'review' here.
12. The CAA is also proposing to ask the reporting accountant to sign a statement of independence to confirm that they are independent and that the Auditing Practices Board's Ethical Standard 1 (Revised): Integrity, Objectivity and Independence has been reviewed, considered and upheld. We believe that the reference should be to Section 291 – Independence – other assurance engagements of ICAEW's Code of Ethics.

Q4: Do you agree that the CAA should introduce an online self-service facility by which ATOL holders will be able to submit financial reporting, as part of the wider move towards online applications?

13. The introduction of an online reporting facility would seem a more cost-effective and streamlined approach.

Q 5: For current SBA holders – If these proposals are introduced would you be more likely to remain with the CAA, or transfer to an Accredited Body or an ATOL franchise and, if possible, which one? What do you estimate the costs and benefits would be?

For Accredited bodies and ATOL franchises – What are the costs and the value of benefits for businesses joining your organisations, to potential new members?

14. No comments.

Q6: Do you agree with the CAA's current assessment of the costs and benefits of the proposals? Are there any other costs or benefits not identified that should be considered by the CAA when assessing the impact of the proposals?

15. We note the reference to estimated additional costs of £600 per business for the additional number of hours of work required by accountants. We do not feel it is appropriate to suggest an estimate here. The proposals require specific training to be undertaken by audit firms and licensed practitioners to demonstrate their competence to perform the work, along with additional reporting requirements and changes to the ATOL regime for smaller businesses.

This will impact on accounting firms and individual ATOL holders in different ways and will have different cost implications.