

SADIS COST RECOVERY ADMINISTRATIVE GROUP

TENTH MEETING

(Paris, November 6 2009)

COST of CAPITAL

(presented by the United Kingdom)

References

SADIS Agreement

SCRAG Reports 8/9

1. INTRODUCTION

At the SCRAG/9 meeting the Group reviewed the information and calculation provided by the UK representatives included in SCRAG/9-WP/13 in support of the rate of return applied to the UKMO SADIS costs. The Group asked that an independent audit be carried out by the UK on this issue and that this audit should also ensure that such a charge is in line with the ICAO policies on en-route charges. The Group noted that the cost of this independent audit will be charged to actual SADIS costs. This paper provides information about the audit and a copy of the certificate provided by the auditors.

2. DISCUSSION

The UK National Audit Office (NAO) was appointed to conduct the audit. The NAO are also responsible for auditing the published accounts for the whole Met Office in line with UK accounting policies. The cost for carrying out the audit was £2,500. This has been included in the cost base for 2009 and a copy of the account is provided at Appendix A. The NAO carried out a detailed analysis of the SADIS costs and determined an appropriate cost of capital in line with the ICAO policies on en-route charges. This analysis was carried out on the audited accounts for the financial year April 2008-March 2009. The calculated cost of capital has been applied retrospectively to the SADIS costs for calendar year 2008. A certificate of Audit is provided at Appendix B to this paper.

3. ACTION

The SCRAG/10 is invited to note the information contained in this paper and endorse the revised cost of capital calculation for inclusion in the 2008 SADIS Cost base. It is envisaged that a similar basis of calculation will be used in 2009 and in future years.

Appendix A
National Audit Office
SADIS Cost of Capital Audit Invoice



National Audit Office

Mr Simon Willis
Financial Accountant
Met Office
Fitzroy Road
EXETER
Devon
EX1 3PB

Helping the nation spend wisely

GTN 3935
Switchboard +44 (0)20 7798 7000
Facsimile +44 (0)20 7798 7070

Direct Line +44 (0)20 7798 7031
Direct Fax +44 (0)20 7798 7519
Email mark.babington
@nao.gsi.gov.uk
Room GREEN 1.1
Date 29 June 2009

Dear Simon,

SADIS PROJECT AUDIT

Please find enclosed the original signed audit opinion for the SADIS project audit for the year ending 31 December 2008. As discussed by email, our finance department will also be sending you an invoice for £2,500 plus VAT for your attention which comes in below our quote of £3,250.

If you have any further questions, then please do not hesitate to contact me.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Mark Babington'.

MARK BABINGTON
Director



Appendix B
National Audit Office
SADIS Cost of Capital Certificate

**AUDIT CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO
THE HEAD OF THE UK MET AUTHORITY AT THE CIVIL AVIATION AUTHORITY**

I have audited the cost of capital charged by the Met Office under the Satellite Distribution System for Information relating to Air Navigation (SADIS) Cost Allocation and Recovery Arrangement (SCAR) for the year ending 31 December 2008.

Management's Responsibility

Management is responsible for the proper recovery of costs under the SCAR agreement and ICAO Doc 9082: Policies on Charges for Airports and Air Navigation Services. This responsibility includes designing and implementing a methodology for the calculation of cost of capital that is compliant with the SCAR agreement and ICAO Doc 9082.

Responsibility of the Auditor

My responsibility, acting as auditor, is to express an opinion on the cost of capital charged to SADIS under the SCAR agreement and ICAO Doc 9082 for the year ending 31 December 2008. I conducted my audit in accordance International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. These standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the information transmitted to the Civil Aviation Authority is free from material misstatement.

Basis of Audit Opinion

Under the terms of the SCAR agreement, the Met Office should calculate cost of capital through the application of the HM Treasury cost of capital rate (currently 3.5 %) to the equitable share of their net assets used in the delivery of the SADIS service. Net assets have been defined as the audited Balance Sheet position at 31 March following the calendar year to which the cost of capital charge relates.

Opinions

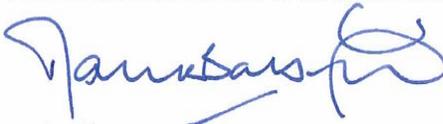
In my opinion:

- The revised methodology, including the use of the HM Treasury cost of capital rate, applied by the Met Office for the calculation of cost of capital, was in accordance with the terms of the SCAR agreement.
- The cost of capital charge of £26,794 for the year ending 31 December 2008, calculated under the revised method, and notified to the Civil Aviation Authority, is free from material misstatement.

My audit was conducted between 17/04/2009 and 29/06/2009.

Report

I have no observations to make on this financial statement.



Mark Babington
Director, for and on behalf of the
Comptroller and Auditor General
National Audit Office
151 Buckingham Palace Road
Victoria
LONDON
SW1W 9SS

29 June 2009