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PREM 19/1044

PART 2

Confidential Film

Review of the Exchequer & Audit Dept Acts.

GOVERNMENT
MACHINERY

Role of the Comptroller & Auditor General

Part 1: May 1979

Part 2: Nov 1981

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
18.11.81		18.2.83					
24.11.81		21.2.83					
2.2.82		22.2.83					
9.2.82		24.2.83					
1.3.82		23.83					
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PREM 19/10/44

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● PART 2 ends:-

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PART 3 begins:-

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TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
MISC 92(83) 1	04/02/1983
L(83) 3 rd Meeting, item 1	26/01/1983
L(83) 20	21/01/1983
CC(83) 1 st Meeting, item 6 Limited Circulation Annx	21/01/1983
CC(83) 1 st Meeting, item 6	20/01/1983
C(83) 4	19/01/1983
C(83) 2	17/01/1983
CC(82) 53 rd Meeting, item 6 Limited Circulation Annx	17/12/1982
CC(82) 53 rd Meeting, item 6	16/12/1982
C(82) 42	14/12/1982
C(82) 44	14/12/1982
CC(82) 52 nd Meeting, item 1	09/12/1982
E(82) 34	26/03/1982
E(82) 27	11/03/1982
E(82) 4 th Meeting, item 1	09/02/1982

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate CAB (CABINET OFFICE) CLASSES

Signed J. Gray Date 25/1/2013

PREM Records Team



Prime Minister (2)

To note.

MIS 9/2

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

A handwritten signature or set of initials in blue ink, possibly 'MJS', located to the right of the address.

PRIME MINISTER

PARLIAMENTARY CONTROL OF EXPENDITURE (REFORM) BILL

The Ministerial Group on Parliamentary Control of Expenditure (MISC 92) met this morning under my chairmanship to discuss the line we should take during the Committee Stage of the Bill.

2. Committee Stage is likely to begin on 2 or 9 March. The Committee's members will be selected tomorrow; they are likely to include some backbenchers from both sides of the House who share some of our doubts about the Bill. The Chief Secretary, Treasury will represent the Government, together with a Minister from either the Department of Industry or the Department of Energy.

Money Resolution

3. The Chief Secretary undertook during the Second Reading Debate that the Government would allow a Money Resolution on the Bill. It is possible that Mr St John Stevas will try to have the Bill committed to a Standing Committee other than Standing Committee C. If so, MISC 92 agreed that we should delay presenting the Money Resolution until the time when it would have been presented had the Bill followed its normal course.

Clauses 2 and 4

4. Our opposition to the Bill centres on these clauses, which would permit the C&AG to investigate nationalised industries, publicly owned companies, and other bodies mainly supported directly or indirectly from public funds, together with the proposed repeal of the power to submit nationalised industries to an efficiency audit by the Monopolies and Mergers Commission (part of schedule 5 read with clause 17). The major



tactical question before MISC 92 was how we can best have these provisions removed or satisfactorily modified.

5. MISC 92's assessment is as follows.

(i) We can almost certainly block the Bill at Report Stage if we wish.

(ii) But it would be politically difficult for us to take the lead in blocking it. We do not want to seem to be shielding unpopular nationalised industries from proper scrutiny; the Bill has in general met with favourable reactions in the press. Moreover, we are unlikely to be able to persuade either Standing Committee or the House to throw the relevant clauses out. We may therefore have to be prepared, at the appropriate time, to try to secure an acceptable compromise on clauses 2 and 4.

(iii) Norman St John-Stevas is also likely to be prepared to negotiate a compromise, rather than see the Bill talked out. We have every reason to believe that he greatly wishes to see passed into law a measure which secures an enhanced role for Parliament in this area even if it falls far short of the Bill as drafted.

6. The Group therefore concluded that we should study possible compromises giving Parliament an enhanced role in relation to the nationalised industries, and perhaps some other major recipients of government financial assistance, without reducing the effectiveness of our present arrangements in this area. The Secretary of State for Industry and Mr Sparrow have already suggested possible ways of achieving this objective. Officials will consider their suggestions and other possible approaches, taking account of our general policies towards the nationalised industries. MISC 92 will probably need to return to this question in due course. The Group agreed that meanwhile, in Committee, we should oppose clauses 2



and 4 outright and try to vote them down, both so as to make clear the reasons for our opposition to these proposals and because, until further work has been done on possible compromises, we do not know which of them might turn out to be acceptable. If the Bill's sponsors ask what plans the Government has for a compromise, we should turn the question on them and ask what proposals they have.

Other Clauses

7. Much of the Bill is technically defective; and we still have difficulties on the substance of, for example, clause 5 (which permits the C&AG to audit health authorities) and clause 11, which deals with the appointment of the C&AG; and on the precise scope of clause 3, which gives him powers (or in some cases confirms his powers) to investigate non-departmental public bodies. MISC 92 takes the view that it should however be possible to resolve these difficulties by negotiations with the sponsors, and that we should offer or put down amendments to correct the Bill's technical deficiencies. This should be done during Committee Stage: it would not be practicable or desirable to wait until Report. The Treasury is coordinating this work with other Departments; the Chief Secretary will take up with colleagues, if necessary in MISC 92, any points which cannot be resolved at official level.

8. To sum up, MISC 92's conclusions are

(i) we should use the Money Resolution to ensure that the Bill is considered on its normal timetable by Standing Committee;

(ii) that in Committee we should

(a) oppose completely and try to vote down clauses 2 and 4 (together with the associated repeal of part of Section 11 of the Competition Act 1980);

(b) negotiate with the sponsors to resolve other differences of substance;

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(c) seek to amend the technical deficiencies in clauses other than 2 and 4;

(iii) that officials and, as necessary, MISC 92 should consider possible compromise arrangements to replace clauses 2 and 4; and

(iv) that we should be prepared to negotiate such a compromise with the Bill's sponsors between Committee and Report Stages, against the threat that the Government could if it chose block the Bill on Report.

9. There is one other tactic which MISC 92 agreed should be looked at. It could be argued that the present Bill is suitable for reference to a Special Standing Committee, under the experimental procedure which Mr St John-Stevas himself introduced as Leader of the House. Investigation by a Special Standing Committee would give those private and public sector businesses potentially affected by the Bill a chance to make known their views on it. On the other hand, reference to such a Committee could backfire on us if, for example, nationalised industry chairmen seemed concerned only to defend their position. The Chief Whip is considering whether we should explore this possibility; it may, in any case, be too late to move the necessary motion.

10. I am copying this minute to other members of the Cabinet, the Chief Whip, Mr Sparrow and Sir Robert Armstrong.

Margaret Thorne

G.H.

9 February 1983

*(approved by the Chancellor
and signed in his absence)*

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Le AG,
A 2

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COMMUNIST

11 12 57

CONFIDENTIAL

Prime Minister²

JH 775



Secretary of State for Industry

DEPARTMENT OF INDUSTRY *John Sparrow's*
ASHDOWN HOUSE *ideas.*
123 VICTORIA STREET
LONDON SW1E 6RB *Mus 4/2*
TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

3 February 1983

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
London SW1

Dear Geoffrey,

PARLIAMENTARY CONTROL OF EXPENDITURE (REFORM) BILL

Like John Sparrow I have been giving some thought to ways in which we might meet the feeling in the House that change is needed but which avoids the quite unsatisfactory course taken by the Bill. "Value for Money" audit of the nationalised industries is clearly the central issue, and if we can find a satisfactory solution in this area we should be better placed to combat the other unacceptable features of the Bill, notably the question of the C&AG's access to Government-owned and private sector companies.

2 I believe that, as John Sparrow suggests, the way forward is to use private sector auditors to carry out the value for money work. I envisage that we would normally look to the auditors employed on the 'regularity' audit to carry out the task, and would extend their terms of reference accordingly. This would encourage a systems-based approach (in contrast to the C&AG's predilection for scandal-searching) and should be compatible with, and supportive of, the audit committees that many of the industries have instituted. In this way we could hope to enlist the support of the industries and reinforce their own efforts on the audit of efficiency. The extended audit report, which would be submitted to the sponsor Minister, would be the vehicle by which Parliamentary interest was pursued.

3 A major question for further consideration would be the determination of the detailed value for money work programme that would stem from the extended terms of reference - ie the area that the VFM work would cover in a particular year. I believe that the responsibility for setting this must rest with the sponsor Minister, but to recognise Parliamentary interest some form of consultation process might be needed. Consultation with the C&AG would seem to have fewer disadvantages than the closer involvement of the House itself, though the protagonists of the Bill might not see it that way.



4 As I understand it, the expansion of the auditors' terms of reference in this way would, at least for some nationalised industries, require legislation. This has obvious presentational advantages, and it would also enable us to tidy up the present auditing provisions which, I am told, are in some cases anomalous or out of date. At the appropriate time it may be worth while building on the informal discussions which the Head of the Government Accounting Service has been having with Nationalised Industry auditors on the question of efficiency audits.

5 Apart from consultation with the C&AG on the terms of reference, I think we will need to find some way of associating the House of Commons with the VFM reports. If the reports were to Ministers as well as to the NI Boards, they would be within the purview of the PAC which could presumably call the auditors before them and question them. Some might see this as difficult, but I believe that it is the least we could offer. An alternative would be to legislate that the auditors should report in parallel to the Board, the sponsor Minister and the C&AG. While we would need to consider the implications of these alternative courses and other possible drawbacks I believe that some solution along these lines would prove acceptable both to the industries and to the House.

6 One other possibility, which I am not at all attracted to but mention for completeness, is that the C&AG might be appointed to act jointly with the private sector auditors, probably for the whole nationalised industry audit remit. His association with the private sector firm might help to keep the C&AG on the rails, but there would remain awkward questions of accountability - would the C&AG and the House accept that the C&AG should report to the sponsoring Minister in the first instance? - and the very presence of the C&AG in the audit process, even in association with a private sector firm, would presumably be as unacceptable to the NI chairmen as the proposals in the Bill. So I would regard this idea as one only to be contemplated if we really had reached the very last ditch.

7 Another issue that we would need to consider is how, if at all, the approach outlined above for the nationalised industries should read across to the audit of Government-owned companies, or companies in which the Government has a majority interest. It is of course quite as important that the C&AG does not gain access to them (and still more so that he is not allowed to "follow public money" into private sector companies). I would hope that a move on nationalised industries alone would suffice to satisfy many of the Bill's present supporters, but we ought to think through our response if it does not.

8 I hope that these thoughts will be helpful background for the first meeting of MISC 92 at which we shall no doubt be



considering our future tactics on the Bill. We may well not want to expose the kind of approach I have outlined, or any alternatives, for some time yet - that will be a major tactical decision for MISC 92 and Cabinet - but if we are to be in a position to bring forward such proposals later on we will clearly need to set in hand a good deal of exploratory work.

9 I am copying this letter to the Prime Minister, other Cabinet colleagues, John Sparrow and Sir Robert Armstrong.

Your ever

Ratcl

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10 DOWNING STREET

31.1.83

From the Principal Private Secretary

Dear John,

THE CIVIL LIST AND THE STEVAS
BILL

Many thanks for your letter of 26 January covering a note on the Stevas Bill in relation to the Civil List.

I have shown the note to the Prime Minister, who is grateful to the Chancellor for having persuaded Mr Stevas to deal with this matter in the way he has.

Yours ever,

Robin Butler

John Kerr Esq.,
HM Treasury.

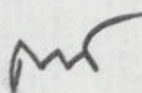
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10 DOWNING STREET

Prime Minister

Since the Stevas Bill
is going ahead, you may
like to see the attached.
It shows that the Bill has
been drafted in a way
which excludes grants to
the Civil List, without
advertising the fact that it
does so.

 FERB
28.1.



10 DOWNING STREET

Prime Minister

Norman St John Stevas Bill
had an unopposed second
reading. There were 111 votes
for the closure motion.

The Chief Secretary did not get a
very favourable reception. The
mood was generally that there was
a chance for Parliament to
reassert its control, though several
backbenchers spoke against the Bill.
The Chief Secretary's office feel there
is ~~not~~ enough support for some
amendment of the Bill, but not
for amendments that would be
sufficient to satisfy nationalised
industry ministers such as Nigel Lawson.

ms

WML
28th



2 pps

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

F E R Butler Esq
No 10

26 January 1983

~~New Ref'n.~~ PERS

THE CIVIL LIST, AND THE STEVAS BILL

You asked for a short note on the extent to which
Mr St John Stevas' Bill, in its published form,
... protects the Civil List position. The attached
note shows that it does so pretty well, but that
the problem of possible Amendments of course remains.

Yours ever,
J O Kerr

J O KERR
Principal Private Secretary

PARLIAMENTARY CONTROL OF EXPENDITURE (REFORM) BILL

CIVIL LIST AUDIT

The Chancellor's minute to the Prime Minister of 23 December sets out the implications of Mr St. John-Stevas' Bill for the Civil List audit.

Mr Flesher's letter of 29 December suggested, on behalf of the Prime Minister, that the Chancellor had a private word with Mr St. John-Stevas.

The Chancellor did this on 12 January and received assurances from Mr St. John-Stevas that he would make the Bill as presented "as fire proof as possible".

The Bill as presented appears to be intended to achieve this as follows :

"4(1) The C & AG shall have access..... to bodies mainly supported directly or indirectly from moneys provided by Parliament and/or moneys issued from the NLF

4(3) In subsection (1) above "bodies" shall not include any person in receipt of emoluments, expenses, pensions, allowances or benefits paid out of moneys provided by Parliament."

This form of words will keep the Civil List payments themselves out of the C & AG's range because they are paid direct from the Consolidated Fund. The supplements financed from Votes are excluded by virtue of the exclusion in Clause 4(3)

... There remains the threat of amendments which might be put down by e.g. Mr Hamilton, or by Mr English who submitted the views attached to the PAC during their inquiry into the role of the C & AG. (The Committee did not make any recommendations about the Civil List in its report.).

The Clause may attract amendments anyway because the word "person" is far too wide, in law, for Mr St. John-Stevas' purpose.

25. An odd omission from the Green Paper is Northern Ireland. The Government of Ireland Act, 1920, devolved expenditure and created a separate Consolidated Fund of Northern Ireland but did not devolve the audit of it. This was surely correct but unfortunately the Act did devolve the power to legislate about the audit so Stormont passed the Exchequer and Audit (Northern Ireland) Act, 1921, which deprived the C&AG of his functions and gave them to the C&AG for Northern Ireland. This principle was then inserted into the recent abortive Scottish and Welsh Devolution Acts which would have both devolved the audit. This shows, however, a misunderstanding of the whole situation. If one devolves a power to tax, eg to impose rates, it is arguable that the devolved authority should audit the expenditure of its own taxes (though this is not exactly what happens with English local authorities) but, if the taxing power is not devolved, if central money is paid as a grant, the audit should not be devolved. The Northern Ireland Committee of the House should be asked to consider this with a view to repealing the 1921 NI Act and returning the situation to that intended by the United Kingdom Parliament in 1920, bringing the nearly 70 staff of the E&AD (NI) into the E&AD (UK).

26. That there should be a principle (with perhaps a list of exceptions), as the Select Committee proposed, rather than merely a list of bodies included within the C&AG's audit (as the Green Paper seems to propose, though it is not clear upon this point) is illustrated, rather singularly, by the Green Paper itself. The Civil List and its auditor is not mentioned and, since he happens to be the Permanent Secretary to the Treasury, it shows how easily particular bodies and their audit can be forgotten if the author (presumably in the Treasury) of the Green Paper was not aware of this. The reason why the Auditor of the Civil List is not the C&AG is twofold: The office was created by the Civil List Audit Act, 1816, 60 years before the posts of CG and AG were united to create the post of C&AG. The 1816 Act's ss. 8 & 9 gave the Treasury power to appoint "a proper person" to the office of ACL, required him to "obey such orders" as the Treasury gave him and gave the Treasury power to instruct him. In other words, he was not independent. It might be thought that "a proper person" would be an accountant or, at least, a person with audit experience but since 1831 the ACL has always been a Treasury civil servant and no change was ever made in this after the modern accountancy institutes came into existence. Originally the ACL was the second civil servant in the Treasury but nowadays the job is given to the Treasury's Permanent Secretary, presumably on the advice of the same Treasury Permanent Secretary. He could have had the C&AG appointed but prefers to have himself appointed. Clearly the posts of ACL and C&AG should be combined by law, leaving the Treasury as accountants, not auditors and accountants.

27. The full flavour of this almost incredible omission from the Green Paper will only be understood when it is realised that the Green Paper makes no mention of who audits the C&AG and E&AD. It would appear that the C&AG is legally required to audit his own accounts and did so until 1889. This was obviously somewhat unsatisfactory, as the PAC pointed out. Thereafter the ACL was associated with the C&AG in auditing the E&AD accounts. There was obviously no particular reason against this (given that the law had not been changed) but then, under the 1921 E&AD Act, the Assistant Comptroller and Auditor's post was abolished. The Assistant C&A had been the Accounting Officer but thereafter the C&AG became the Accounting Officer of the E&AD. He (the C&AG) then, from 1922 onwards, ceased to certify his department's accounts. This seems to be a breach of the law. The 1866 E&AD Act provides in its s. 22 that: "... the Comptroller and Auditor General should certify and report upon such accounts ..." (ie all appropriation accounts, including those of the E&AD) "and the reports thereon shall be signed by the Comptroller and Auditor General ..." They are not. They are signed by the Permanent Secretary to the Treasury (in his capacity as Auditor of the Civil List; of course, neither the C&AG nor the E&AD staff are paid from the Civil List), an illustration of how far Treasury influence over the auditor has gone, even against the law.

28. Whilst the law has been ignored, consideration of what is really necessary has also been ignored in the Green Paper. The temptation of all auditors is narrowness and someone outside E&AD (and outside the Executive) ought to look at it regularly,



Prime Minister ²

CABINET OFFICE
Central Policy Review Staff

MUS 28/1

70 Whitehall, London SW1A 2AS Telephone 01-233 7765

Qa 06232

From: John Sparrow

CONFIDENTIAL

26 January 1983

The Rt Hon Sir Geoffrey Howe QC MP
HM TREASURY
S W 1

Dear Geoffrey,

Nationalised Industries: The Role of the
Comptroller and Auditor General

I wrote on 13 December setting out our views about the Private Member's Bill. We have been watching subsequent developments closely and I see no reason to modify in any way what I have already written to you. The course preferred by the CPRS remains to remove the offending clauses from the Bill.

The Government understandably wants to avoid a head-on confrontation. The Bill's promoters are so far reluctant to compromise. There is therefore a distinct possibility that our preferred course will not prove practicable and we have been wondering whether there is any constructive way of resolving the differences.

It seems to us that there would be presentational advantage in trying to move to a position where Government and Parliament were seeking out common ground. Parliament and Government share a common objective in trying to improve the efficiency of the nationalised industries and both recognise that each has a role to play in supervising them.

I set out below some ideas which we have developed. These might provide a way forward and are consistent with the framework of relationships which we believe to be right. That framework is one in which Parliament seeks to hold Ministers as sharply accountable to it for the efficient conduct of their operations as Ministers seek to do in respect of the Nationalised Industry Chairmen. It follows from this that

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Parliament should be drawing back from detailed involvement, setting clear terms of reference for Ministers and making sure that Ministers carry out the requirements laid down in those terms of reference.

This leads to the following specific suggestions:

(a) In our report we identified the need for some kind of systems-based efficiency audit. We sought to provide for this through the role of non-executive directors/efficiency audit committees but that proposal was not well received. An alternative approach which would give Parliament a role would be for Parliament to lay down broad requirements for an annual systems-based efficiency audit for all nationalised industries. Ministers would be responsible for ensuring that these audits were carried out by qualified private sector auditors in individual nationalised industries. Summary reports would be prepared by the auditors and submitted by Ministers to Parliament with the Annual Report and Accounts of each individual industry. The detailed audit reports would be given to the industries and they would also be on departmental files and hence available to the C & A G.

(b) Parliament should have a mechanism for examining Ministers on the Annual Reports of the Boards and reports of the auditors and it would be normal for Ministers to be accompanied to such inquiries by the relevant Chairman. A revived SCNI could be used for this purpose and the primary aim of those examinations would be to test whether Ministers had effectively discharged the responsibilities placed upon them by Parliament.

(c) The periodic Monopolies Commission reports, as proposed in the CPRS study, would continue but to demonstrate Ministers' accountability to Parliament they would have to consult Parliament about the timing and terms of reference for each MMC investigation. The reports would be made to the Minister and published in the normal way. Parliament would, through the activities of the C & A G in scrutinising the performance of sponsor Departments, have ample opportunity for satisfying itself that recommendations made by the MMC were being implemented.

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These suggestions do not do violence to the accountability chain which we favour although they do provide scope for Parliament to be involved a little more in the process and they reinforce the role of Parliament as an instrument for ensuring that Ministers and Departments carry out their supervisory functions more effectively. I cannot say whether such ideas would be saleable to the promoters of the Bill or indeed to Ministers. Maybe they would not but they might, at a suitable moment, help to focus the debate into a more constructive clarification of the respective roles of Ministers and Parliament and so provide a way out of the present impasse.

I am sending copies of this letter to the Prime Minister, other members of E(NI), and to Sir Robert Armstrong.

Yours sincerely,

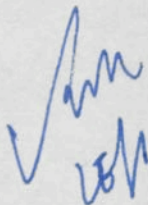
John.

John Sparrow

Privy Council Office,
Whitehall,
London, SW1A 2AT

*With the Compliments
of the
Private Secretary
to the*

Lord President of the Council

A handwritten signature in blue ink, consisting of several stylized, overlapping loops and lines, positioned to the right of the main text.

CONFIDENTIAL

Prime Minister 2

Govt Machinery W/V

PRIVY COUNCIL OFFICE 25/1

WHITEHALL, LONDON SW1A 2AJ

25 January 1983



Dear John,

PARLIAMENTARY CONTROL OF EXPENDITURE (REFORM) BILL

As you know, the Lord President was invited by Cabinet last week to consider with the Chief Whip who should speak for the Government during the passage of this Bill.

The Lord President's view, with which the Chief Whip agrees, is that the weight of those who support the Bill in the House requires that a Cabinet Minister should speak on behalf of the Government at Second Reading and take the Bill through Committee. The Lord President and Chief Whip therefore consider that, if the Chancellor of the Exchequer agrees, it would be most appropriate for the Chief Secretary to handle the Bill.

I am copying this to Willie Rickett (No 10) and Murdo Maclean (Chief Whip's Office).

Yours ever,

David

D C R HEYHOE
Private Secretary

J Kerr Esq
Private Secretary to the
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Parliament Street
London SW1

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Geert Mach
Eve AG, P+2

25 JAN 1963



Ref. A083/0208

PRIME MINISTER

Parliamentary Control of Expenditure (Reform) Bill
(C(83) 2)

BACKGROUND

FLAKA
Mr Norman St John-Stevas MP is promoting the Parliamentary Control of Expenditure (Reform) Bill to change the role and status of the Comptroller and Auditor General (C & AG). At their meeting on 16 December (CC(82) 53rd Conclusions, Minute 5), the Cabinet considered what the Government's attitude to the Bill should be in the light of the likely provisions of the Bill, the discussions which had taken place between the Chancellor of the Exchequer and the Bill's promoters, and the widespread Parliamentary support for the Bill. The main conclusions were as follows:

(a) Appointment and Status of the C & AG

The C & AG should continue to be appointed by the Crown; appointment would be on the recommendation of a Commission consisting of the Prime Minister and the Speaker. He should not be subject to direction either by the Government or by Parliament. His staff would cease to be civil servants. The budget of his office (to be known as the National Audit Office) would be controlled by a House of Commons Commission.

(b) Nationalised Industries

The Government should continue to resist giving the C & AG access to the books of the nationalised industries, and should draw the defects and dangers of the Bill to the attention of their supporters in Parliament.

(c) Access to Other Organisations receiving Public Funds

There were signs that Mr St John-Stevas would be willing to reduce the scope of his proposals regarding access by the C & AG to the books of other organisations receiving public funds so as to catch only those in which the Government had a controlling interest. This was to be welcomed.

(d) Drafting Assistance

The Government should offer no assistance with the drafting of the Bill.

(e) Parliamentary Tactics

There should be no suggestion that the Government would try to block the passage of the Bill. The Cabinet would need to consider tactics further in the light of the Bill's progress before and during Committee.

FLAG B

2. In the Chancellor of the Exchequer's memorandum (C(83) 2), which was circulated on 17 January before the Bill was published, he expressed the hope, based on discussion with Mr St John-Stevas, that the Bill would largely meet the Government's wishes as to the independence of the C & AG and his status and appointment. He therefore proposed that in the Second Reading debate the Government should concentrate criticism on the nationalised industry issues, that the handling of the Committee Stage should be considered again after Second Reading and that meanwhile officials should be asked to draft amendments both to remove technical faults and to implement the Government's views.

FLAG C

3. The Bill was published on 18 January; copies have been circulated under cover of C(83) 4. It differs in several important respects from the outline in C(83) 2. In particular it does little to safeguard the independence of the C & AG. Its main proposals, under the headings at paragraph 1(a)-(c) above, are as follows:

(a) Appointment and Status

The C & AG is to be appointed by the Crown, following an address by the House of Commons on a motion by the Chairman of the Public Accounts Committee (PAC) (Clause 11(1)). This differs fundamentally from the suggestion in the Chancellor's memorandum that the motion must be in the name of the Prime Minister. Besides his general power to conduct examinations of the "economy, efficiency and effectiveness in the use of resources" (Clauses 1-4) and to audit and certify the accounts of health authorities (Clause 5), he may conduct particular inquiries at the request of the PAC (Clause 12). He is to be an officer of the House of Commons (Clause 11(2)).

(b) Nationalised Industries

The C & AG is to have inspection rights "to carry out economy, efficiency and effectiveness examinations of the use of resources by nationalised industries" (Clause 2(1)); but major examinations are to be undertaken only after consultation with the responsible Government Departments (Clause 2(2)).

(c) Other Organisations

The same inspection rights will apply in respect of publicly owned corporations, any company of which more than 50 per cent of the voting shares are publicly owned, and any public sector body which is mainly supported directly or indirectly from moneys provided by Parliament and/or moneys issued from the National Loans Fund. In addition the C & AG shall have access to other bodies (ie private sector bodies) which are mainly supported directly or indirectly from moneys provided by Parliament and/or moneys issued from the National Loans Fund so far as he considers this to be necessary in order to enable him to examine the use of such moneys (Clauses 2-4).

FLAG D. 4. The Chancellor of the Exchequer has also circulated, with his letter of 17 January to the Secretary of State for Industry, a briefing note for use by backbench MPs sympathetic to the Government's position. He suggests that the Cabinet should discuss whether it should be distributed to all Conservative backbenchers.

MAIN ISSUES

5. The main issues before the Cabinet are as follows:

(i) How far, if at all, are each of the main proposals in the Bill acceptable?

(ii) What should the Government's Parliamentary tactics be?

The Cabinet may also wish to discuss arrangements for handling the questions that will inevitably arise during the Bill's progress. It will obviously not be practicable to refer every issue to full Cabinet. On the other hand there are so many interests affected that I do not think that this can be left to the Treasury alone. I suggest the formation of a group of

Ministers under the chairmanship of the Chancellor of the Exchequer, to include the Lord President, the Secretaries of State for Energy, the Environment, Industry, Social Services and Trade, the Lord Privy Seal and the Chief Whip.

Acceptability of Proposals

Appointment

6. It has been an important issue of principle for the Government that the C & AG should be independent of both Government and Parliament. The provision in Clause 11 that the C & AG should be appointed by the Crown following a motion from the Chairman of the PAC is plainly contrary to this principle. The Chancellor had originally proposed that the appointment should be on the recommendation of a Commission consisting of the Prime Minister and the Speaker. In C(83) 2 he had been prepared to consider an alternative apparently favoured by Mr St John-Stevas under which the motion should be moved by the Prime Minister after consultation with the Chairman of the PAC. In my earlier minute of 15 December (A082/0542) I drew attention to the need to protect the position of The Queen in this matter, and suggested how this might be done. You will wish to seek the Cabinet's views on the importance of this issue and on whether the Government should continue to promote the proposal for a joint recommendation by the Prime Minister and Speaker as approved by the Cabinet on 16 December.

FLAG

Status

7. The Bill proposes to make the C & AG explicitly subject to directions (politely termed "requests", but in practice they could hardly be rejected) of the PAC: it may well be that as an officer of the House he would also be subject to directions from the House or any of its committees. The Cabinet is likely to agree that it is essential to try to amend the Bill so as to make the C & AG independent of directions from either Parliament or the Government.

Access: Nationalised Industries

8. The Bill is completely at variance with the position taken by the Cabinet on 16 December. The Cabinet will presumably continue to take the view that these provisions should be rigorously opposed.

Access: Other Bodies

9. The coverage of the Bill goes much wider than companies in which the Government has a controlling interest. It is drafted in very vague terms. For example, how is "mainly supported" to be defined? What is "indirect support"? And can a body receiving and repaying loans on normal commercial terms be said to be "supported" by them at all? The Cabinet will no doubt wish the Government spokesman in the debate to draw attention to the very wide scope of these powers and their imprecision.

Drafting

10. In addition to the major problems of substance, there are many technical deficiencies in the drafting. Mr St John-Stevas is reported as being quite unmoved by this: his attitude is that he has ample backing in the House for the principle of his Bill, and that it is up to the Government to get the technicalities right. He is therefore likely to be receptive to Government drafting amendments, so long as they do not change the substance of his proposals. The discussion on 16 December suggests that the Cabinet may see advantage in withholding such amendments, either to concentrate on the Bill's defects of substance or with the aim of being able to use bad drafting as an argument for resistance at a later stage. However, as the Cabinet recognised on 16 December, this approach runs the risk of putting thoroughly defective legislation on the Statute Book and would need to be kept under review.

Parliamentary Tactics

11. The gap between the Government and Mr St John-Stevas is as wide as on 16 December: indeed, on appointment and status it seems to have widened. The Cabinet may wish to consider whether the Government should now adopt an attitude of outright hostility, and perhaps use such procedural devices as refusing The Queen's Recommendation for the Money Resolution which the Bill will presumably require.

12. The Cabinet will also wish to consider how it can influence Parliamentary opinion, whether by circulating the briefing note attached to the Chancellor of the Exchequer's letter of

17 January or otherwise, and what more can be done, now that the Bill has been published, to influence outside opinion and thus bring influence to bear on Parliamentary opinion.

Further Work

13. It is clear that full Cabinet cannot manage the day-to-day handling of the Bill. I suggest the setting up of a new Ministerial Group for the purpose, to be chaired by the Chancellor of the Exchequer and to include the Lord President, the Secretaries of State for Energy, the Environment, Industry, Social Services and Trade, the Lord Privy Seal and the Chief Whip. The broad strategy for handling the Bill is however a matter in which the whole Cabinet will continue to have a keen interest. They will no doubt wish to review this after the Second Reading debate. The Treasury have already set up an interdepartmental group to co-ordinate the work at official level.

HANDLING

14. You will wish to ask the Chancellor of the Exchequer to introduce his memorandum and to give an up-to-date account of his negotiations with Mr St John-Stevas. The Lord President of the Council and the Chief Whip will be able to advise on the Parliamentary tactics. Many members of the Cabinet, and particularly those with sponsoring responsibilities for the nationalised industries, may wish to contribute.

CONCLUSIONS

15. You will wish the Cabinet to reach conclusions on the following:

- (i) What attitude should the Government take to the proposals in the Parliamentary Control of Expenditure (Reform) Bill, particularly on -
 - (a) the appointment and status of the C & AG;
 - (b) access to the books of the nationalised industries;
 - (c) access to the books of other organisations?
- (ii) What should be its Parliamentary tactics? In particular, should it try to improve the technical aspects of the Bill by promoting drafting amendments; or should it take the attitude that the Bill is so bad in substance that there is no point in trying to improve it? How should the Government try to influence Parliamentary opinion?

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16. You will also wish the Cabinet to endorse (by taking note of) any recommendation you make for setting up a Ministerial Group to co-ordinate the Government's position as the Bill proceeds, and advise on opinion-handling.

A handwritten signature in dark ink, appearing to read 'R. Armstrong', is written above the typed name.

Approved by
ROBERT ARMSTRONG
and signed in his absence

19 January 1983

conqueror

CONFIDENTIAL

Parliamentary Control of Expenditure (Reform) Bill

ARRANGEMENT OF CLAUSES

PART I

AUDITS AND EXAMINATIONS BY COMPTROLLER AND AUDITOR GENERAL

Clause

1. Economy, efficiency and effectiveness examinations of public departments and other bodies.
2. Economy, efficiency and effectiveness examinations of nationalised industries and publicly owned corporations and companies.
3. Economy, efficiency and effectiveness examinations of other public sector bodies.
4. Examination of other bodies.
5. Audit of the accounts of Health Authorities.
6. Right to obtain documents and information.
7. Reports by Comptroller and Auditor General.

PART II

PUBLIC ACCOUNTS COMMISSION AND NATIONAL AUDIT OFFICE

8. Public Accounts Commission.
9. Functions of Commission.
10. National Audit Office.
11. Appointment of Comptroller and Auditor General.
12. Requests by Committee of Public Accounts.
13. Audit fees.
14. Indemnity for liabilities arising from audits and examinations.
15. Occupancy of Land.

PART III

16. Consequential amendments.
17. Repeals.
18. Expenditure.
19. Short title and commencement.

A
B I L L
T O

Strengthen Parliamentary control and supervision of expenditure of public money by making new provision as to the duties and powers of the Comptroller and Auditor General; by establishing a Public Accounts Commission and a National Audit Office; to make provision as to the post and duties of accounting officer; and for connected purposes.

BE IT ENACTED by the Queen's most Excellent Majesty, by and with the advice and consent of the Lords Spiritual and Temporal, and Commons, in this present Parliament assembled, and by the authority of the same, as follows:—

PART I

AUDITS AND EXAMINATIONS BY COMPTROLLER AND AUDITOR GENERAL

- 1. The Comptroller and Auditor General shall have power to carry out economy, efficiency and effectiveness examinations of the use of resources by public departments and all other bodies of which he is the appointed auditor or to which he has statutory or other inspection rights. Economy, efficiency and effectiveness examinations of public departments and other bodies.
- 2.—(1) The Comptroller and Auditor General shall have inspection rights to carry out economy, efficiency and effectiveness examinations of the use of resources by nationalised industries, publicly owned corporations and any company of which more than 50 per cent. of the voting shares are publicly owned. Economy, efficiency and effectiveness examinations of nationalised industries and publicly owned corporations and companies.
- (2) Any major examination under this section shall be undertaken only after consultation with the responsible government departments.

PART I

1973 c.65.
1982 c. 41.

(3) In subsection (1) above the bodies referred to do not include any public body to which sections 96 and 106 of the Local Government (Scotland) Act 1973 or sections 12 and 31 of the Local Government Finance Act 1982 apply.

Economy, efficiency and effectiveness examinations of other public sector bodies.

3.—(1) The Comptroller and Auditor General shall have inspection rights to carry out economy, efficiency and effectiveness examinations of the use of resources by any public sector body which is mainly supported directly or indirectly from moneys provided by Parliament and/or moneys issued from the National Loans Fund.

(2) In subsection (1) above "public sector body" shall not include any body to which section 2 of this Act, sections 96 and 106 of the Local Government (Scotland) Act 1973 or sections 12 and 31 of the Local Government Finance Act 1982 apply.

Examination of other bodies.

4.—(1) The Comptroller and Auditor General shall have access to bodies other than those referred to in sections 2 and 3 above which are mainly supported directly or indirectly from moneys provided by Parliament and/or moneys issued from the National Loans Fund so far as he considers this to be necessary in order to enable him to examine the use of such moneys.

(2) In subsection (1) above "bodies" shall not include any body to which sections 96 and 106 of the Local Government (Scotland) Act 1973 or sections 12 and 31 of the Local Government Finance Act 1982 apply.

(3) In subsection (1) above "bodies" shall not include any person in receipt of emoluments, expenses, pensions, allowances or benefits paid out of moneys provided by Parliament.

Audit of the accounts of Health Authorities.

5. The Comptroller and Auditor General shall have power to audit and certify the accounts of Health Authorities.

Right to obtain documents and information.

6. The Comptroller and Auditor General or any person appointed by him shall have a right at all reasonable times to obtain all such documents relating to a body referred to in sections 1 to 5 of this Act as appear to him necessary for the purposes of carrying out his duties under those sections and shall be entitled to require from any person holding or accountable for any such documents such information and explanation as he considers necessary for those purposes.

Reports by Comptroller and Auditor General.

7. The Comptroller and Auditor General shall have power to report the results of his audits and examinations under sections 1 to 5 of this Act to Parliament or to the House of Commons at any time.

PART II

PUBLIC ACCOUNTS COMMISSION AND NATIONAL AUDIT OFFICE

3.—(1) There shall be a body of Commissioners named the Public Accounts Commission which shall perform the functions conferred on it by this Act.

(2) The Commission shall consist of:

(a) a member of the House of Commons who is for the time being the Chairman of the Committee of Public Accounts; and

(b) five other members of the House of Commons appointed by the House of Commons.

(3) The Commission shall from time to time present to the House of Commons a report on the exercise of its functions.

(4) Schedule 1 to this Act shall have effect as respects the Commission.

9.—(1) The Commission, acting on the advice of the Committee of Public Accounts after consultation with the Treasury, shall have power to examine an annual estimate of the expenses of the National Audit Office prepared by the Comptroller and Auditor General, and shall lay the estimate before the House of Commons.

(2) The Commission shall appoint and determine the duties of an officer ("the accounting officer") responsible for accounting for the sums paid out of money provided by Parliament for the service of the National Audit Office.

(3) The Commission shall appoint an auditor for the National Audit Office and Schedule 2 to this Act shall have effect with respect to the appointment and duties of the auditor.

10.—(1) A National Audit Office shall be established of which the Comptroller and Auditor General shall be the head and which shall consist of the staff appointed by the Comptroller and Auditor General to assist him in the performance of his duties and Schedule 3 to this Act shall have effect with respect to the staff of the National Audit Office.

(2) The expenses of the National Audit Office shall be borne on a separate Vote.

11.—(1) On the death, resignation or other vacancy in the office of the Comptroller and Auditor General a new appointment may be made under letters patent by the Crown following an Address of the House of Commons, and no motion shall be

PART II made for such an Address unless it is made by the Chairman of the Committee of Public Accounts.

(2) The Comptroller and Auditor General shall be an officer of the House of Commons in virtue of his appointment.

Requests by Committee of Public Accounts.

12.—(1) In addition to powers conferred by Part I of this Act, the Comptroller and Auditor General may examine the economy, efficiency and effectiveness in the use of resources by a body which either he audits or to which he has inspection rights when requested to do so by the Committee of Public Accounts, and the results of any such examination shall be reported to the House of Commons.

(2) The Comptroller and Auditor General shall have complete discretion as to the manner in which examinations are conducted under this section.

Audit fees.

13.—(1) Where the Comptroller and Auditor General is appointed under any statute to audit the accounts of any body he shall have power to charge a fee for carrying out that audit.

(2) *All fees and other sums payable to the Comptroller and Auditor General shall be paid into the Consolidated Fund.*

Indemnity for liabilities arising from audits and examinations.

14. *The Consolidated Fund of the United Kingdom shall be liable to make good all sums required to discharge any liability which the Comptroller and Auditor General or any officer of the National Audit Office in carrying out their duties imposed by statute or by agreement would be personally liable to discharge.*

Occupancy of Land.

15.—(1) The Comptroller and Auditor General may

(a) enter into contracts or other agreements, including agreements for the occupation of land and other property by himself and the National Audit Office, and

(b) acquire and dispose of land and other property.

(2) Land and other property occupied by the Comptroller and Auditor General and the National Audit Office shall not be regarded as property of, or held on behalf of, the Crown.

PART III

MISCELLANEOUS

Consequential amendments.

16. The enactments mentioned in Schedule 4 to this Act shall have effect with the amendments there specified, being amendments consequential on the provisions of this Act.

17. The enactments mentioned in Schedule 5 to this Act are hereby repealed to the extent specified in the third column of that Schedule.

18. *Expenditure by the Comptroller and Auditor General and the National Audit Office under the provisions of this Act or any increased expenditure under any other enactment which is attributable to this Act shall be defrayed out of moneys provided by Parliament.*

19.—(1) This Act may be cited as the Parliamentary Control of Expenditure (Reform) Act 1983.

(2) This Act shall come into operation on 1st January 1984.

Short title and commencement.

SCHEDULES

Section 8.

SCHEDULE 1

THE COMMISSION

Incorporation

1. The Commission shall be a body corporate. 5

Appointment of Members

2.—(1) Subject to paragraph 3 of this Schedule, a member of the Commission, other than the ex officio member, shall vacate his office—

- (a) if he ceases to be a member of the House of Commons, or 10
(b) if another person is nominated or appointed in his place.

(2) Subject to sub-paragraph (1) above, a member of the Commission, other than the ex officio member, shall hold office for the duration of the Parliament in which he is nominated or appointed, and for the further period provided by paragraph 3 of this Schedule. 15

(3) A member of the Commission, other than the ex officio member, may resign at any time by notice to the Commission.

(4) Past service is no bar to nomination or appointment as a member of the Commission.

(5) In this paragraph, and paragraph 3 of this Schedule, "ex officio member" means the Chairman of the Committee of Public Accounts. 20

Dissolution of Parliament

3.—(1) On a dissolution of Parliament the person who is then the Chairman of the Committee of Public Accounts shall continue 25 in office as a member of the Commission until a new Chairman of that Committee is elected or appointed.

(2) Subject to sub-paragraph (3) below, on a dissolution of Parliament the members of the Commission who are not ex officio members shall continue in office until members are nominated or 30 appointed in their place.

(3) Where at any time after Parliament has been dissolved it appears that a member of the Commission who is not an ex officio member—

- (a) has not been validly nominated as a candidate at the en- 35 suing general election; or
(b) although so nominated, has not been elected a Member of Parliament at that election,

that member shall resign from the Commission forthwith; but nothing in sub-paragraph (2) above or this sub-paragraph shall be taken 40 as preventing any such member from resigning otherwise than in pursuance of this sub-paragraph.

Chairman

SCH. 1

4. The Commission shall elect a Chairman from amongst its members.

Proceedings and business

5 5.—(1) The validity of any proceedings of the Commission shall not be affected by any vacancy among the members of the Commission, or by any defect in the appointment or nomination of any Commissioners.

(2) The Commission may determine its own procedure.

10 (3) The Commission may appoint one of the Commissioners to act as chairman at any meeting of the Commission in the absence of the elected chairman of the Commission.

SCHEDULE 2

Section 9.

APPOINTMENT AND DUTIES OF THE AUDITOR OF THE NATIONAL AUDIT OFFICE

15

1.—(1) The auditor appointed by the Public Accounts Commission to audit the appropriation account of the National Audit Office shall be a member of one or more of the bodies mentioned in sub-paragraph (2) below or shall have such other qualifications as may 20 be approved for the purposes of this Schedule by the Commission; and a firm shall not be so appointed unless each of its members is a member of one or more of those bodies.

(2) The bodies referred to in sub-paragraph (1) above are:—

- (a) the Institute of Chartered Accountants in England and 25 Wales;
(b) the Institute of Chartered Accountants of Scotland;
(c) the Association of Certified Accountants;
(d) the Chartered Institute of Public Finance and Accountancy;
(e) the Institute of Chartered Accountants in Ireland; and
30 (f) any other body of accountants established in the United Kingdom and for the time being approved by the Public Accounts Commission for the purposes of this Schedule.

(3) The appointment of an auditor under the provisions of this Schedule shall be on such terms and for such period as the Com- 35 mission may determine.

2. The auditor of the National Audit Office shall have power to carry out economy, efficiency and effectiveness examinations of the use of resources by the National Audit Office.

3. The auditor of the National Audit Office shall have a right 40 of access at all reasonable times to all such documents as appear to him necessary for the purposes of the audit and shall be entitled to require from any person holding or accountable for any such

SCH. 2 document such information and explanation as he thinks necessary for those purposes.

4.—(1) When the auditor has concluded his audit of the appropriation account of the National Audit Office he shall—

1866 c. 39.
1921 c. 52.

(a) certify that he has completed his examination in accordance with the provisions of this Act and of the Exchequer and Audit Departments Acts 1866 and 1921, and

(b) state whether in his opinion the sums expended have been applied for the purposes authorised by Parliament and the account properly presents the expenditure and receipts of the National Audit Office.

(2) On completion of his examination, the auditor shall submit the appropriation account of the National Audit Office, together with his audit report thereon, to the Public Accounts Commission for presentation to the House of Commons.

Section 10.

SCHEDULE 3

THE NATIONAL AUDIT OFFICE

1. The National Audit Office shall not be regarded as acting on behalf of the Crown and its staff shall not be regarded as Crown servants.

Staff

2.—(1) The Comptroller and Auditor General shall appoint such staff as he considers necessary for the discharge of his functions and duties.

(2) The staff shall be appointed at such remuneration and on such other terms and conditions as the Comptroller and Auditor General may determine.

(3) The Comptroller and Auditor General shall in the case of any of his staff as he may determine—

(a) pay such pensions to or in respect of them;

(b) make such payments towards the provision of such pensions; or

(c) provide and maintain such schemes (whether contributory or not) for the payment of such pensions, as he may determine.

(4) In this paragraph any reference to the payment of pensions to or in respect of the Comptroller and Auditor General's staff includes a reference to the payment of pensions by way of compensation to or in respect of any of the Comptroller and Auditor General's staff who suffers loss of office or employment or diminution of emoluments.

3.—(1) Employment by the Comptroller and Auditor General shall be included among the kinds of employment to which a superannuation scheme under section 1 of the Superannuation Act 1972 can apply, and accordingly in Schedule 1 to that Act (in which those

1972 c. 11.

kinds of employment are listed) the words "National Audit Office" shall be inserted after the words "Countryside Commission".

SCH. 3

(2) The Comptroller and Auditor General shall pay to the Minister at such times in each financial year as may be determined by the Minister, subject to any directions of the Treasury, sums of such amounts as he may so determine for the purposes of this paragraph as being equivalent to the increase during the year of such liabilities of his under the Principal Civil Service Pension Scheme as are attributable to the provision of pensions to or in respect of persons who are or have been, in the service of the Comptroller and Auditor General in so far as that increase results from the service of those persons during that financial year and to the expense to be incurred in administering those pensions.

4.—(1) It shall be the duty of the Comptroller and Auditor General to make, by such date as the Public Accounts Commission may determine, an offer of employment by the Comptroller and Auditor General to each person employed in the civil service of the State in the Exchequer and Audit Department immediately before the appointed day; and the terms of the offer must be such that they are, taken as a whole, not less favourable to the person to whom the offer is made than the terms on which he is employed on the date on which the offer is made.

(2) An offer made in pursuance of this paragraph shall not be revocable during the period of three months beginning with the date on which it is made.

(3) Where a person becomes a member of staff of the Comptroller and Auditor General in consequence of this paragraph, then for the purposes of the Employment Protection Act 1978, his period of employment in the civil service of the State shall count as a period of employment by the Comptroller and Auditor General and the change of employment shall not break the continuity of the period of employment.

(4) Where a person ceases to be employed as mentioned in subparagraph (1) above—

(a) on becoming a member of staff of the Comptroller and Auditor General in consequence of this paragraph; or

(b) having unreasonably refused an offer made to him in pursuance of this paragraph,

he shall not, on ceasing to be so employed, be treated for the purposes of any scheme under section 1 of the Superannuation Act 1972 as having been retired on redundancy.

Interpretation

5. In this Schedule—

"appointed day" means the day appointed for the coming into force of this Schedule;

"the Minister" means the Minister for the Civil Service;

"pension" includes allowance or gratuity.

Section 16.

SCHEDULE 4

CONSEQUENTIAL AMENDMENTS

Exchequer and Audit Departments Act 1921

1921 c. 52. 1. For section 3 of the Exchequer and Audit Departments Act 1921 there shall be substituted the following section:— 5

“3.—(1) The Comptroller and Auditor General may on request undertake the audit of the accounts of any body where he is not disqualified from doing so by any other enactment.

(2) All directions made by the Treasury under this section as originally enacted shall cease to have effect.” 10

Public Records Act 1958

1958 c. 51. 2. In Part II of the Table in Schedule 1 to the Public Records Act 1958, there shall be added after “Monopolies and Mergers Commission” the words “National Audit Office”.

National Health Service Act 1977

1977 c. 49. 3. In section 98(1) of the National Health Service Act 1977 for the words from “Those accounts” onwards there shall be substituted the words “shall be audited by the Comptroller and Auditor General or by auditors appointed by the Secretary of State and where the Comptroller and Auditor General is not the auditor, he may examine all such accounts and any records relating to them and any report of the auditor on them.” 15

4. In section 98(3) of that Act after the words “with respect to the audit” there shall be inserted the words “by auditors appointed by him”. 20

National Health Service (Scotland) Act 1978

1978 c. 29. 5. In section 86(1) of the National Health Service (Scotland) Act 1978 for the words from “those accounts” onwards there shall be substituted the words “shall be audited by the Comptroller and Auditor General or by auditors appointed by the Secretary of State and where the Comptroller and Auditor General is not the auditor, he may examine all such accounts and any records relating to them and any report of the auditor on them.” 25

6. In section 86(2) of that Act after the words “with respect to the audit” there shall be inserted the words “by auditors appointed by him”. 30

House of Commons (Administration) Act 1978

1978 c. 36. 7. In section 4 of the House of Commons (Administration) Act 1978 there shall be added the following subsection:—

“(7) The National Audit Office shall not be regarded as a House Department and section 4(4) above does not apply to the Comptroller and Auditor General or any officer or post in the National Audit Office.” 35

SCHEDULE 5

Section 17.

REPEALS

Chapter	Short Title	Extent of Repeal
29 & 30 Vict. c. 39. 11 and 12 Geo. 5 c. 52.	Exchequer & Audit Departments Act 1866. Exchequer & Audit Departments Act 1921.	Sections 6 and 24. In section 1(2) the words “Provided that” to “shall take action accordingly”. Section 1(3). Section 8(1). Section 8(2). Section 11(1)(a). In section 11(1) the reference to paragraph (a).
1980 c. 21.	Competition Act 1980.	

Parliamentary Control of
Expenditure (Reform)

A
B I L L

To strengthen Parliamentary control and supervision of expenditure of public money by making new provision as to the duties and powers of the Comptroller and Auditor General; by establishing a Public Accounts Commission and a National Audit Office; to make provision as to the post and duties of accounting officer; and for connected purposes.

*Presented by Mr. Norman St. John-Stevas,
supported by
Mr. Joel Barnett, Mr. Edward du Cann,
Mr. Richard Wainwright, Mr. John Roper,
Mr. Terence L. Higgins,
Sir John Biggs-Davison, Mrs. Renée Short,
Mr. Peter Tapsell, Mr. John Garrett,
Mr. Peter Horder and Mr. Robert Maclennan*

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Prime Minister 2
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Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

17 January 1983

The Rt Hon Patrick Jenkin MP
Secretary of State for Industry

Dear Patrick

ms

PARLIAMENTARY CONTROL OF EXPENDITURE (REFORM) BILL

Thank you for your letter of 12 January.

I am circulating for Cabinet on 20 January a memorandum reporting the discussions I have had with Norman St John Stevas since Cabinet on 16 December. This will give us an opportunity to discuss the Parliamentary tactics. Of course I agree that we should mobilise all the support we can from our backbenchers at Second Reading and thereafter.

It was agreed at Cabinet on 16 December that we should point out the defects in the Bill. I am therefore sending a copy of the enclosed briefing note which you and our Cabinet colleagues may find helpful when explaining the Government's position. The Chief Whip is content for the note to be sent selectively to those backbenchers who will support us. We have so far identified only a few, who will also receive a copy of this note. I should be grateful if colleagues would do their best to let me know the names of any others likely to respond favourably to briefing of this kind. We can discuss on 20 January whether it should be distributed to all our backbenchers.

I am copying this to other members of the Cabinet and the Chief Whip.

Geoffrey Howe

GEOFFREY HOWE

PARLIAMENTARY CONTROL OF EXPENDITURE (REFORM) BILL

This Bill is concerned with the functions and status of the Comptroller and Auditor General (C&AG).

The Public Accounts Committee, in its 1981 Report on the Role of the C&AG based its recommendations with regard to the range of functions of the C&AG on the principle that he should have right of access to the books and records of every body in receipt of money voted by Parliament. This would mean that the C&AG and his staff had right of entry and investigation into thousands of privately owned industrial, commercial and farming businesses, and large numbers of other bodies (such as denominational schools) which receive grants and loans (however small) from the Government.

In view of the many objections to giving the C&AG such widespread access the Bill may reject the PAC's principle and take a narrower and pragmatic view of the range of his duties. This would be welcome. But the Bill may provide for the C&AG to have access to the books and records of the nationalised industries, other public corporations, and companies mainly dependent on Government grants and loans. He would use that access to publicly question and criticise the decisions of management. This would not be in the interests of the undertakings or the tax payer.

Nationalised Industries

The Government has set a firm framework of control for the nationalised industries - three year financial targets, performance

aims, and external financing limits - and within this framework the industries have been encouraged to operate commercially.

Competition is being increased wherever possible. The Monopolies and Mergers Commission and management consultants are helping to ensure that there is an external check on the industries' efficiency.

There is a long way to go to improve the efficiency of the industries. But to give the C&AG access to them would be a backward step, making the industries less commercial and more like Government departments.

For example British Telecom are finding it a painful process to develop from their origins as a Government department to a corporation trading in a commercial environment. Until it separated from the Post Office in 1980 it was not possible to measure the profitability of the various parts of BT. Decision making and accountability were highly centralised with cumbersome procedures and too much paper work.

The Government fully support BT's move away from these arrangements towards a more devolved and business-orientated organisation. The type of control appropriate to Government departments is not appropriate for the commercial operations of nationalised industries. But that is the direction in which the industries would be pushed if they were subject to constant scrutiny by the C&AG, leading to questioning by the PAC.

In those circumstances the industries would face detailed enquiries about their commercial decisions, eg on tariff levels and quality of service. This would tend to make them cautious and defensive. A commercial approach calls for speed of analysis and decision, and the willingness to take risks. It would be incompatible with that for the C&AG to watch constantly over managements' decisions.

It would be even more difficult to attract top quality people from the private sector into the industries. Good management would not accept that its decisions should be subject to constant outside supervision and retrospective criticism.

Relations between Parliament, Ministers and the industries would be confused. At present there is a clear line of responsibility from

the industries through Ministers to Parliament. However Parliament has always accepted that Ministers should not be held responsible for the day to day running of the industries.

If the C&AG, reporting directly to Parliament, was monitoring and reporting on the day to day activities of the industries this would cut across the existing line of responsibility. The danger would be that the Government would be drawn into accepting responsibility to Parliament for the detailed management of the industries. In that case departments would need more staff, and the industries would have yet another layer of supervision imposed upon them.

Access for the C&AG, together with increased Parliamentary scrutiny, of their commercial operations, would create a situation in which it was much more difficult to privatise the industries.

The C&AG and his staff do not have the expertise to carry out a proper scrutiny into the efficiency of the industries. The Monopolies and Mergers Commission, which already carries out this function under a Competition Act 1980, is better suited to the task because of its commercial outlook.

Companies

If the Bill gives the C&AG access to the books and records of those companies in which the Government has a major stake the commercial performance of those companies and the value of the country's investment in them might well suffer. Rolls Royce and BL (and Shorts and Harland and Wolff) operate in a fiercely competitive market. Constant investigation and criticism by the C&AG would be bound to affect their management style, and it would be more difficult to attract top class executives. Cooperation with other companies would be more difficult. Overall, the commercial performance of the companies would suffer.

Also, inward investment could be discouraged if the C&AG is given access to the books and records of British subsidiaries of foreign corporations which are predominately funded by the government. Foreign companies investing in the UK would be concerned about the public disclosure and questioning of their commercial policy and

day to day operations.

The Independence of the C&AG

With regard to the status of the C&AG, the Government believe: that the Bill must maintain his complete independence from both the Executive and Parliament. The Government are willing to see the Exchequer and Audit Departments Acts amended so that it is clear that the C&AG is completely independent from the Executive, and the staff of the Exchequer and Audit Department would no longer be civil servants but employees of the C&AG.

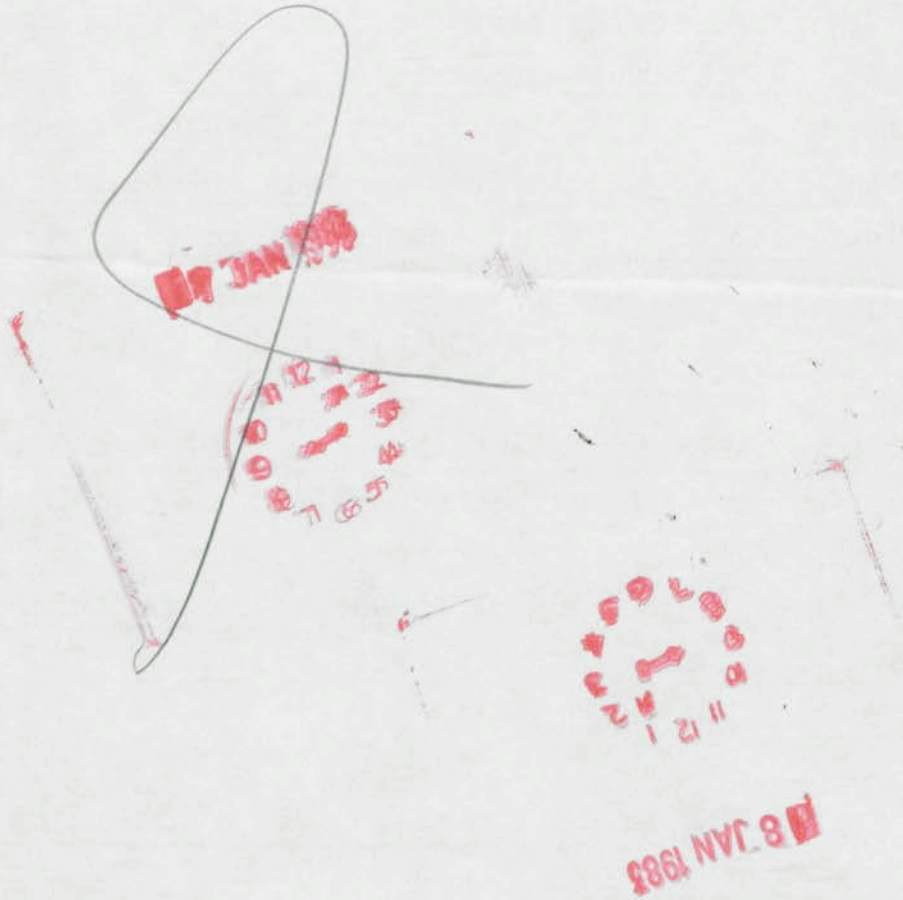
It is equally important that the C&AG should be independent from Parliament. Of course he works closely with the PAC, and would normally accede to their requests for reports on particular subjects. But it would be very different if he was forced to carry out investigations on the instructions of the PAC or any other Select Committee.

There would then be a risk that he would be pushed into examining question of policy - an area he has always avoided - and the non political nature of his activities might be put at risk. In that case the whole nature of the C&AG's activities would be changed, and his current free access to departmental files would have to be reconsidered. The previous PAC (Session 1978-79) warned against the dangers of the C&AG being subject to direction.

The independent status of auditors is widely recognised. The C&AG should be independent to pursue proper audit objectives, and he should be the judge of where his staff can be used most efficiently.

Gov Mach

Exchequer & Audit Dept



COMPTROLLER AND AUDITOR GENERAL

An outline of the present status, duties and responsibilities of the Comptroller and Auditor General, and the organisation and staffing of the Exchequer and Audit Department.

- Chapter 1: The Comptroller and Auditor General
- Chapter 2: The C&AG, Parliament and the Executive
- Chapter 3: The C&AG's responsibilities
- Chapter 4: Certification Audit
- Chapter 5: Value for Money Audit
- Chapter 6: Inspection Audits
- Chapter 7: Organisation
- Chapter 8: Staffing
- Chapter 9: Recruitment and Training
- Chapter 10: C&AG's Annual Reports
- Chapter 11: The Committee of Public Accounts
- Chapter 12: Relations with other auditors

- Appendix I: Accounts audited by the C&AG
- Appendix II: Main Stages of a typical major audit investigation
- Appendix III: E&AD Organisation Chart

CHAPTER 1: THE COMPTROLLER AND AUDITOR GENERAL

1.1 Public sector auditing in the United Kingdom has a long pedigree. The first Comptroller General of the Exchequer was appointed in 1314 and successive audit bodies were established and re-established over the next 500 years. Following the major Parliamentary and public sector reforms in the 19th century the present office of Comptroller and Auditor General (C&AG) was created by the Exchequer and Audit Departments Act, 1866.

1.2 The full title of the C&AG is 'Comptroller General of the Receipt and Issue of Her Majesty's Exchequer and Auditor General of Public Accounts'.

As Comptroller General

- the C&AG authorises the issue of public funds to Government departments and other public sector bodies. This is a relatively straightforward task and requires only a few staff.

As Auditor General

- the C&AG's statutory duties are to certify the accounts of all government departments and a wide range of other public sector bodies; to examine revenue and store accounts; and to report the results of his examinations to Parliament.
- his non-statutory responsibilities are to carry out, and report to Parliament on, examinations of the economy, efficiency and effectiveness with which public funds are spent and public resources consumed. This work – though non-statutory – is an essential part of the C&AG's Parliamentary responsibilities; and it has been carried out for many years with the active encouragement and support of successive Committees of Public Accounts.

1.3 The nature and objectives of these different elements of the audit are described further in chapters 4 to 6.

1.4 The C&AG is thus an important link in the chain of accountability and stewardship of public funds. His work provides independent information and assurance to Parliament and the public about the financial operations of the government departments and other organisations he audits.

1.5 The C&AG's department – the Exchequer and Audit Department (E&AD) – has some 800 staff, of whom some 600 are trained auditors. Members of E&AD are civil servants, though the C&AG is not.

CHAPTER 2: THE C&AG, PARLIAMENT AND THE EXECUTIVE

2.1 The C&AG has a high degree of independence from both Parliament and the Executive.

- He is appointed by the Queen by Letters Patent
- He can only be removed from office by the Queen on an address from both Houses of Parliament
- He is paid directly from the Consolidated Fund
- He appoints his own staff.

2.2 His present responsibilities are defined by legislation; and by long established conventions accepted by both Parliament and the Executive. In carrying out his work

- he has rights of access to all relevant documents in the bodies which he audits
- he is not subject to direction from any quarter on how he should discharge his responsibilities.

2.3 The C&AG's main duties are undertaken on behalf of Parliament. He works in close partnership with the Committee of Public Accounts, most of whose work is based on the C&AG's reports on economy, efficiency and effectiveness.

2.4 But the pay and grading of his staff are subject to approval by the Treasury, who also determine the total number of staff and the total annual cash limit for E&AD – taking account of any views expressed by the Committee of Public Accounts.

CHAPTER 3: THE C&AG'S RESPONSIBILITIES

What the C&AG MUST do

He must:

Audit the appropriation accounts of all Government departments

Audit the Revenue accounts

Audit departmental trading accounts and related activities

Examine departmental store accounts

Audit other accounts as laid down by the E&AD Acts and other statutes

Report to Parliament on the results of these audits

What the C&AG DOES NOT do

He does not:

Formally disallow expenditure nor himself give judgements or rulings on questions of legality

Report other than to Parliament or separately from the accounts

Audit or have access to the accounts of nationalised industries or local authorities (though he has certain rights of access to the new Audit Commission under the Local Government Finance Act 1982)

Have a general right of access to companies or individuals who receive grants, subsidies or other assistance from public funds

Examine questions of maladministration by departments affecting individual members of the public (this is the field of the Parliamentary Commissioner for Administration)

What the C&AG MAY do

He may:

Audit other accounts by agreement

Carry out 'inspection audits' of certain bodies where he is not the appointed auditor (See Chapter 6).

Examine the economy, efficiency and effectiveness of expenditure on all accounts where he is the appointed auditor or has rights of access

Report to Parliament on the results of these and other examinations.

CHAPTER 4: CERTIFICATION AUDIT

4.1 The C&AG is the appointed auditor for some 500 public sector accounts, with expenditure and revenue of many billions of pounds (see Appendix I). His certification audit of these accounts comprises both a financial and a regularity audit which enables him to provide assurances that

- the figures in the accounts are properly stated and that the form and content of the accounts conform to Treasury requirements
- the funds have been applied on the services and for the purposes intended by Parliament
- the payments and receipts are in accordance with Parliamentary and other authority.

4.2 Though audit objectives in the public sector may differ from those in the private sector, the audit standards, approach and methods adopted for E&AD's certification audit are in significant respects similar to those applied within the audit profession generally. A systems based approach is normal, with levels of materiality and risk related to public sector requirements. Planning, monitoring and review procedures are directed towards achieving a modern and cost-effective audit carried out to a high professional standard.

Form of certificate

4.3 The standard form of the C&AG's certificate to the appropriation accounts and, with minor modifications, to other cash accounts is as follows:

"I certify that I have examined the above account in accordance with the Exchequer and Audit Departments Acts 1866 and 1921. [Subject to the observations in paragraphs of my report] In my opinion the sums expended have been applied for the purposes authorised by Parliament and the account properly presents the expenditure and receipts of for the year ended 31 March"

4.4 The certificate to departmental trading accounts and other accounts prepared on an accruals basis, with a profit and loss account and balance sheet, is the standard 'true and fair' opinion as adopted for company and other accounts in the private sector.

CHAPTER 5: VALUE FOR MONEY AUDIT

5.1 The objective of the C&AG's value for money audit is to provide independent information, advice and assurance to Parliament about economy, efficiency and effectiveness in the use of resources in the departments and other organisations concerned.

5.2 The audit is directed towards establishing

- (i) that proper arrangements exist for securing economy, efficiency and effectiveness — ie that there are appropriate financial control and management information systems
- (ii) that those systems are operating satisfactorily in practice, by a selective examination of projects and programmes.

5.3 It is not always possible — or desirable — to distinguish satisfactorily between the different elements of value for money audit. The broad classification adopted in practice is:

Economy	is concerned with minimising the cost of resources used while maintaining an adequate standard of quality or service.
Efficiency	is concerned with the relationship between the immediate output of goods or services and the resources used to produce them; an efficient operation achieves the maximum output for a given input or the minimum input for a given output.
Effectiveness	is concerned with ultimate results as distinct from immediate outputs; a fully effective activity achieves its operational objectives and, in turn, the basic aims of the organisation.

5.4 **Typical areas for E&AD value for money audit**

- Research, development and production for major capital programmes in military and civil fields
- Financial and contractual control over major capital works projects and associated areas
- Provisioning and procurement systems for equipment, stores, transport and other services
- Control and utilisation of fixed assets and other resources
- Costs of administration and support services
- Control and utilisation of manpower
- Effectiveness of grants, subsidies, loans, agricultural and industrial support and overseas aid.

5.5 The present range of value for money examinations covers individual large cases of waste or extravagance, systems of control over standard operations, and lessons to be learned on large projects or programmes. As resources permit it is intended that an increasing proportion of value for money effort should be devoted to areas of major importance and larger scale studies. One consequence will be a growing number of rounded studies, not confined to the identification of faults and weaknesses.

5.6 A more structured and systems based approach to value for money examinations is also being developed. A Special Studies Unit is carrying out wider ranging exercises in this area and developing appropriate methods and guidelines for general application. These exercises use staff trained in operational research and economics, in teams with audit staff.

5.7 All E&AD value for money audit avoids criticism of policy or policy objectives. It is concerned only with the effective implementation or administration of agreed policy.

5.8 The main stages of a typical major VFM investigation are indicated at Appendix II.

CHAPTER 6: INSPECTION AUDITS

6.1 Where the C&AG is the appointed auditor, he carries out both a full certification (financial and regularity) audit of the accounts and also selective value for money examinations. In addition, there is a range of bodies for which he is not the appointed auditor — and where he does not therefore carry out a full certification audit — but where he has inspection rights. Using these rights of access, he can look at a body's books and records, and report to Parliament on matters which he considers should be brought to attention.

6.2 The bodies concerned are normally among those which derive a substantial part of their resources from voted funds. The expenditure in many cases is under £2 million a year (eg the British Institute of Recorded Sound and the National Film School). It is somewhat larger in a few cases (eg Remploy Ltd and the Health Education Council). In the largest cases — the universities and the Housing Corporation and housing associations — the expenditure runs into hundred of millions of pounds a year. (For full list see Annex B to Cmnd 7845 "The Role of the Comptroller and Auditor General".)

6.3 The nature and purpose of the inspection audits varies. In broad terms:

- (a) Where finance is provided as general support for a body's operations (or to meet a net deficit):

The audit is directed mainly towards systems of financial control and questions of economy, efficiency and effectiveness.

- (b) Where finance is provided for a specific purpose, or subject to specific conditions:

The audit may be primarily directed at examining whether the specific purpose is being achieved and qualifying conditions have been met. It would not be concerned with the body's operations as a whole, only with those areas supported from public funds.

CHAPTER 7: ORGANISATION

7.1 Departmental policy and the general audit management of E&AD are considered within the E&AD Senior Management Group. This comprises the C&AG, the Secretary and three Deputy Secretaries who are his principal advisers, and the Director of Establishments and Accounts. The power of final decision rests with the C&AG.

7.2 The main body of the Department comprises 17 Divisions, each of which is headed by a Director of Audit. Fifteen Divisions are assigned to the audit of individual departments and other bodies, or cover specialist audit areas such as computers or pay and pensions. One of the remaining Divisions is responsible for establishments, personnel, administration and training; the other is responsible for guidance on audit policy, planning, audit standards and methods, research and international liaison.

7.3 See organisation chart at Appendix III.

7.4 The senior management and certain other staff are located at E&AD's London headquarters, but the staff are mainly accommodated with the departments and other organisations they audit in London and elsewhere in the UK. There are overseas offices in Paris, Geneva and Rome. Staff in both UK and overseas locations may travel widely in carrying out local audits of smaller departments and outstations.

CHAPTER 8: STAFFING

8.1 E&AD's present strength of some 800 audit and supporting staff comprises:

17 Directors of Audit and **22 Deputy Directors of Audit** responsible for the overall planning, management and performance of the line audit and other Divisions.

98 Chief Auditors as managers of audit sections of up to 10 staff, with wide responsibility for the audit of individual accounts, the conduct of value for money and other exercises, and the supervision and training of staff.

215 Senior Auditors and **284 Auditors and Assistant Auditors** on the audit field work, individually or in audit teams. Work is allocated to staff in accordance with their skills and experience, giving them significant personal responsibility for defined areas of the audit.

165 other staff on audit support, clerical, secretarial and administrative services.

8.2 The Department employs a small number of specialist advisers in such disciplines as economics and operational research, seconded from government departments. There are also secondments and exchanges with staff from leading firms of professional accountants.

CHAPTER 9: RECRUITMENT AND TRAINING

9.1 E&AD recruits honours graduates from a wide range of disciplines. Unless they have relevant degrees, all recruits undertake a 13 week conversion course in accountancy, economics, mathematics, statistics and law. They are then required to train for 3-4 years to acquire a full professional accountancy qualification, normally that of the Chartered Institute of Public Finance and Accountancy (CIPFA).

9.2 The Department has of the order of 250 trainees (Assistant Auditors) under professional training at any one time.

9.3 Professional training at college is supplemented by an in-house training programme. Practical experience and training on the job, under the supervision of Chief Auditors and other staff, is an integral part of the professional development of new entrants.

9.4 For experienced and more senior staff there is a programme of continuing professional education, to help ensure that they keep up to date with the latest audit techniques and developments. About 50 courses and seminars, on a wide range of subjects, are run each year. Staff also attend external courses organised by CIPFA and by the Civil Service College.

CHAPTER 10: C&AG's ANNUAL REPORTS

10.1 In addition to certifying the accounts, the C&AG reports to Parliament each year the main results of his audit. In some circumstances — as in his United Nations audits — the C&AG reports to the governing bodies of the organisations concerned.

10.2 These reports are highly selective. Many matters arising from certification audit or value for money enquiries are raised and resolved satisfactorily with the audited bodies without the need for a formal published report.

10.3 The form of the C&AG's reports is not prescribed. He has wide discretion to decide on their timing and content. They are always discussed with the audited bodies before publication to ensure that the facts are complete and fairly presented. The reports normally incorporate their replies to the criticisms and other issues raised. The final decisions on report rest always with the C&AG.

When and how the C&AG reports

10.4 The C&AG's main reports are published with the related accounts when these are certified and presented to Parliament. This is normally during the period July - December each year. The C&AG may also report by means of memoranda submitted to the Committee of Public Accounts and published by the Committee periodically during the year, before or after taking evidence from the audited bodies concerned.

What the C&AG reports

10.5 The C&AG always reports on qualifications of his audit certificate. He is also required to report each year on the results of his examination of revenue and store accounts under the E&AD Acts.

10.6 But the bulk of the C&AG's reports are concerned with the results of his value for money examinations. In deciding whether and what to report, the main factors taken into account include:

- The size, nature and general importance of the subject.
- Whether or not Parliament has already been made aware of the financial and other issues involved.
- Any requests from the Committee of Public Accounts, or other indications of the circumstances or the areas of expenditure which they are likely to find most rewarding for their enquiries.
- The nature and extent of any failings in control, the reasons, and the financial effects.
- The extent to which the particular case illustrates wider weaknesses in systems of financial information and control, affecting other projects or programmes.
- How far any weaknesses have already been recognised or accepted by the audited body concerned, the corrective action taken or proposed, and how effective this seems likely to be in establishing sound financial control.

10.7 Generally the C&AG feels free to include in his reports all matters on which he considers Parliament should be informed. But he does not in practice disclose certain information classified on security grounds, unpublished opinions relating to the formation of policy, or advice given to Ministers by their departments. Nor does he attempt to second-guess either policy or commercial decisions.

CHAPTER 11: THE COMMITTEE OF PUBLIC ACCOUNTS

11.1 The Committee of Public Accounts was established in 1861 and is the senior Parliamentary Select Committee dealing with financial matters.

11.2 Under Standing Orders all accounts certified by the C&AG and submitted to Parliament are referred to the Committee for examination, together with the C&AG's reports thereon. In practice, the Committee concentrates largely upon pursuing those matters included in the C&AG's reports, and seldom examines the details of the accounts concerned.

11.3 The Committee comprises up to 15 members. It is chaired by a senior member of the Opposition, normally an ex-Minister with relevant financial experience. The Committee does not concern itself with policy issues, and conducts its business on non-party political lines. It meets twice a week throughout most of the Parliamentary session, and takes evidence primarily from the Accounting Officer (the permanent head) of the audited department concerned.

11.4 The Committee submits reports to Parliament throughout the year on the results of its enquiries, with recommendations for further action. The Government responds to each report in a published Treasury Minute, giving information on the steps taken to implement the Committee's recommendations and to apply the wider lessons learned. The Committee may in turn follow up this subsequent action. The Committee's reports and the Treasury Minutes are also debated once a year on the floor of the House of Commons.

11.5 The close co-operation between the C&AG and the Committee of Public Accounts, within their respective independence, was endorsed by a former Chairman of the Committee in the following terms:

"The C&AG's effectiveness largely depends on the fact that his Reports are considered and followed through by the Committee; the Committee's effectiveness on the fact that it has his Reports as a starting point."

11.6 These mutual benefits have been consolidated and developed in subsequent years. More recently the Committee has also been consulted on the C&AG's forward work programme and on his estimates of overall staffing requirements and budgets before these are formally submitted for Treasury approval.

12.1 E&AD has established links with other public sector audit bodies in the UK and overseas, and with the audit profession in the private sector. These are currently being further developed.

12.2 As well as contacts and exchanges on an individual basis with other auditors in the public and private sectors, in the UK and overseas, the main areas of E&AD participation are:

- through membership of CIPFA and service on its Council and professional committees
- with the Consultative Committee of Accountancy Bodies on audit and accounting standards
- with the European Court of Audit, including secondment of senior E&AD staff
- with national audit offices in Europe through the Contact Committee of EEC auditors
- through the conferences of the Commonwealth Auditors General and of the International Organisation of Supreme Audit Institutions.

ACCOUNTS AUDITED BY THE CAG

Appropriation Accounts	The main annual accounts of government departments. Prepared on a cash basis. Financial year runs 1 April to 31 March.	Some 200 accounts. Annual expenditure by individual departments ranges from £.5 million to over £12,000 million. Aggregate annual expenditure over £81,000 million in 1981-82 with receipts of more than £10,000 million.
Revenue Accounts	The main accounts of revenue paid into the Exchequer from taxation, Customs and Excise duties etc. Prepared on a cash basis. Financial year runs 1 April to 31 March.	8 accounts. Net receipts of over £60,000 million in 1981-82.
Production, Trading and Trading Fund Accounts	Accounts of trading and manufacturing activities, such as the Royal Ordnance Factories, Royal Dockyards and Stationery Office. Prepared on a commercial basis. Financial year runs 1 April to 31 March.	13 accounts. Aggregate expenditure over £1,600 million in 1981-82.
Other Accounts of Departments and Public Sector Bodies	Miscellaneous accounts ranging from small cash and minor trust funds accounts to those of bodies dealing with regional development, unemployment measures etc. Basis of accounts and financial years vary.	Some 220 accounts with annual expenditure ranging from £.01 million to more than £780 million.
United Nations, Commonwealth and other International Accounts.	These accounts are prepared on both a cash and accruals basis. Financial years vary. UN accounts are prepared biennially.	Some 50 accounts. Aggregate annual expenditure amounts to over £1,100 million which is largely matched by contributions from member states.

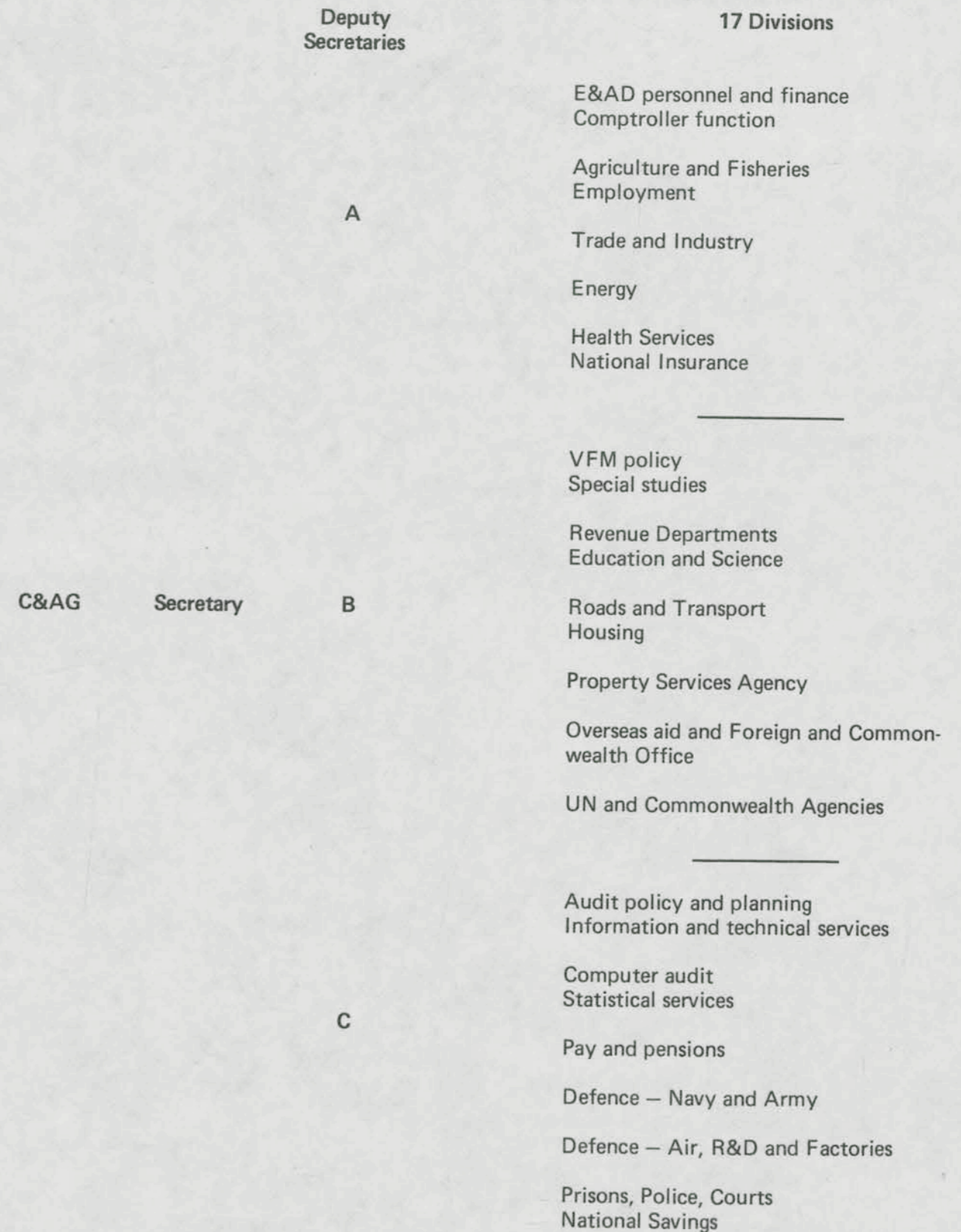
MAIN STAGES OF A TYPICAL MAJOR AUDIT INVESTIGATION

1. Survey of main areas of expenditure and risk.
2. Selection of area, programme or project for examination.
3. Preliminary study to determine scope, objectives, timescale, staffing of main exercise, and to prepare plans and work allocations.
4. Main exercise carried out by auditor or audit team. Progress and results monitored as study proceeds.
5. Results reviewed by senior staff; decisions taken on necessary audit action.
6. Correspondence and discussion with audited body, leading up to draft report or memorandum (if necessary).
7. Report or memorandum approved by C&AG; sent to Accounting Officer for confirmation of fairness and accuracy.
8. Considered by Committee of Public Accounts.
9. Committee report published and presented to Parliament.
10. Treasury Minute published in response to criticisms, comments and recommendations made; confirms remedial action taken or proposed.

Footnote

The target timescale for completion of stages 3-7 would normally not exceed 6-9 months, so as to maintain topicality and impact. Later stages might then occupy a further 3-9 months from the date of the PAC hearing, depending on the scale of the further examination and the nature of the Government's response to the matters raised.

E&AD ORGANISATION CHART





Comptroller and
Auditor General
Gordon Downey C.B.

EXCHEQUER AND AUDIT DEPARTMENT
AUDIT HOUSE VICTORIA EMBANKMENT
LONDON EC4Y 0DS

✓ R1811.

To all Members of Parliament

The Parliamentary Control of Expenditure (Reform) Bill, introduced by Mr Norman St John-Stevás, receives its Second Reading on 28 January. The Bill is concerned with the status, role and responsibilities of the Comptroller and Auditor General (C&AG) and his staff and their relationship with the House of Commons.

In considering this Bill, Members may have difficulty in finding any conveniently brief summary of the present position. They may therefore find it useful to have the attached paper which, although not produced with Mr St John-Stevás' Bill in mind, provides a relevant outline of the C&AG's present responsibilities and of the scope and nature of his work.

Gordon Downey

GORDON DOWNEY



Prime Minister (2)
Ms 14/1

From the Secretary of State

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Parliament Street
London
SW1P 3AG

13 January 1983

Handwritten initials 'JW'

Dear Geoffrey

PARLIAMENTARY CONTROL OF EXPENDITURE (REFORM) BILL

pm's Box

I have seen a copy of Patrick Jenkin's letter to you of 12 January.

I entirely support his view that the most immediate task is to convince our backbenchers that the extension of the C & AG's - and hence the PAC's - role to the nationalised industries will run counter to the policy we are pursuing to take them out of the public sector as far and as fast as we can. I know from contacts I have had that Chairmen of nationalised industries, like John King, entirely share this perception.

Assuming the Bill will get a second reading, our next task is to ensure adequate preparation of material which would help right-minded members of the Committee to subject the draft Bill to rigorous and substantial criticism. I assume the Treasury will take the lead in this but my Department would have a contribution.

Lastly we must be careful to avoid giving any impression that our dislike of these aspects of the Bill could be mollified if its promoters were to be more sympathetic to our point of view in regard to the appointment and status of the C & AG. I

Govt Mach
Comptroller &
Auditor General
A 25



From the Secretary of State

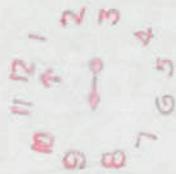
support what you are doing here, but I regard a sustained campaign against the other provisions of the Bill as of no less importance.

I am copying this to Cabinet colleagues.

John
Arthur

LORD GOCKFIELD

4 JAN 1983





JF2392
Secretary of State for Industry

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

12 January 1983

The Rt Hon Geoffrey Howe QC MP
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Parliament Street
LONDON SW1P 3AG

Dear Geoffrey,

PARLIAMENTARY CONTROL OF EXPENDITURE (REFORM) BILL

I followed with interest your exchange of minutes of the 24 and 30 December with No 10 about your further discussions with Norman St John Stevas and Joel Barnett.

2 Naturally I support the specific efforts you are making to ensure that the parts of the Bill dealing with the appointment and status of the C&AG are acceptable to us. I take it we are to understand that Norman at least is sympathetic to the view that the C&AG should remain completely independent of both the House and the executive and that there should be no question of his becoming as you so strikingly put it, a "Department of the Opposition". I have always argued that we should be ready to go as far as we can to meet the promoters on this part of the Bill.

3 However as you recognise there are other important matters upon which no meeting of minds seems in sight - C&AG access to the books of Nationalised Industries, publicly owned companies and perhaps also, though there seems to have been some modification of earlier views, private businesses in receipt of, for example, Industry Act assistance. My concern about the threats to fundamental Government policies in these areas was set out in my letter of 13 December and, as their letters and papers of 13th, 14th December demonstrate, is shared by Arthur Cockfield, David Howell, Nigel Lawson and John Sparrow. I am sure I need not in this letter rehearse the powerful arguments against these aspects of the Bill. Suffice it to say that the whole movement towards a public sector more accountable to market forces (which includes of course our privatisation plans) is at risk. And, as if this were not enough, unless the first printed version of the Bill shows a dramatic improvement in its drafting we risk being saddled with some dangerously obscure legislation.

[Handwritten mark]

Prime Minister
Mr Jenkin makes some suggestions (overleaf) for preparing for the Second Reading debate on this Bill on 28 January, and asks the Chancellor to ensure that the Dept of Industry are consulted.

*WJ
12/1*

Govt Mach.
Comptroller & Auditor
General. #72



4 This all points to the need for energetic steps to assume some control, short of course of actual drafting assistance, over the Bill's proceedings - and I should like to know what arrangements the Treasury have in mind to consult interested Departments. The immediate tasks for officials once the Bill has been published will be to marshal the arguments to be deployed in the Second Reading debate and to identify those parts of the Bill which on grounds of substance or drafting cannot be left unchallenged. The official contact here would be Sydney Treadgold in our FEA Division on 212 0020.

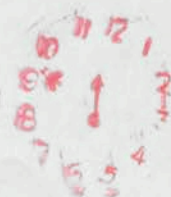
5 Perhaps however our most immediate concern must be to persuade as many as possible of those Members who do accept the Government's views actually to speak in the debate on the 28th to ensure that our arguments are supported and that the Standing Committee will have members who are prepared to put down "Government" amendments. No doubt these matters have been very much in your own mind, but I should welcome an assurance that everything possible is being done in that quarter.

6 I remain convinced that when Conservative MPs have time to reflect on the substance and details of the issue which concerns us, many, if not most, may be persuaded of the real dangers of the course on which the promoters of the Bill are set.

7 I am copying this to Cabinet colleagues and the Chief Whip.

Your
Patric

NT 72A 1985



CONFIDENTIAL



FILE

10 DOWNING STREET

From the Private Secretary

29 December, 1982.

The Prime Minister has now seen the Chancellor's minute of 24 December about the Parliamentary Control of Expenditure (Reform) Bill. On the handling of the Bill, the Prime Minister confirms the Chancellor's understanding of the Cabinet's decision not to oppose the Bill on second reading, and not to offer drafting assistance. She considers, however, that the Chancellor's proposal as set out in paragraph 4 of his minute would be consistent with the decisions of Cabinet. Subject, therefore, to the views of Cabinet colleagues, the Chancellor should as he proposes offer Mr. St. John-Stevas a detailed critique of the appointment and status parts of his Bill with the objective of obtaining at least a proper framework for that part of the Bill which would form the basis of draft instructions to Counsel.

I am sending copies of this letter to the Private Secretaries to the members of the Cabinet, Murdo Maclean (Chief Whip's Office), and Richard Hatfield (Cabinet Office).

Timothy Flesher

Miss Margaret O'Mara,
HM Treasury.

CONFIDENTIAL

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CONFIDENTIAL



Govt
Mach.

10 DOWNING STREET

From the Private Secretary

29 December, 1982.

The Prime Minister has now seen the Chancellor's minute of 23 December about the implications for the Audit of the Civil List of the Parliamentary Control of Expenditure (Reform) Bill. Mrs. Thatcher suggests that the Chancellor might like to have a private word with Mr. Norman St. John-Stevas about the points raised in his minute.

Timothy Flesher

Miss Margaret O'Mara,
HM Treasury.

CONFIDENTIAL

CM



Prime Minister (1)
Agree, subject to Cabinet
colleagues, to these
proposals?

- ① We agreed not to vote against 2nd reading
- ② We cannot offer drafting assistance.
- ③ We can do as you suggest in principle in order to get a framework for the C&AG.

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

PRIME MINISTER

MUS 24/12

I do not think that
would want to draft assistance.
If he gets the right framework, that gives him the means to
draft instructions to Counsel.

Following Cabinet on 16 December, I have again seen Norman St John Stevas and Joel Barnett about the former's Bill.

2. As you will have seen from the record of the meeting, I told them that the Bill's proposals on the scope of the audit were unacceptable; and that I could not offer drafting assistance. The problem now is where we go from there, not so much on the nationalised industries etc, where the difference between our position and theirs is hardly negotiable, but on the independence of the C&AG and related points, where it may well be possible to shift them to propositions we could accept.

3. Cabinet agreed that it would be desirable to try to persuade the promoters of the Bill to adopt the sort of formulation set out in my paper C(82)42 which is intended to secure the C&AG's complete independence. This is important because it is the only basis on which I think we can continue to be willing to open the Government's books and records to him. If he is to be subject to directions from the PAC (and, through them, any other Select Committee), his department would become, potentially at least, very like a Department of the Opposition, with full access to Government papers. We cannot allow the Barnett and PAC formulation, which would make the C&AG an Officer of the House, to go through. Yet Barnett, and members from the Opposition benches, is at present very much in the lead on this aspect.

CONFIDENTIAL



4. I believe we need to provide St John Stevas with some alternative advice which could lead him, on some issues at least, in the right direction. It would be in our interest to offer him a fairly detailed critique of the appointment and status parts of his Bill, with the object of persuading him not to publish it in the form recommended by the PAC. If we do not, and thus allow the Bill to be published in a form objectionable on this ground as well as that of the nationalised industries, it will be all the more difficult to change later.

5. But before I take this step I need your agreement that I may interpret the Cabinet minutes of 16 December accordingly. For in one sense what I suggest would amount to drafting assistance, which Cabinet did not favour. But it need not amount to professional help in the shape of Parliamentary Counsel's services, or at least not yet.

6. Of course we shall need to discuss again in Cabinet, but that cannot be until mid January, by which time it will be too late to influence the Bill before publication.

6. I am not, of course, anxious to help St John Stevas in a matter which is causing us such difficulty. But I do think that it will help us when the Bill is before the House if we can prevent its being introduced in a form which requires us to resist not only that part of it which concerns the nationalised industries etc, where our objectives are readily explicable and should be understood by many in the House, but also that part which on the face of it will be presented as "reasonable", ie that the House should take charge of the appointment of an official who reports to it.

...
7. The attached letter which St John Stevas has written me does seem to indicate a willingness to listen to us, as well as to Barnett and the PAC.

CONFIDENTIAL



8. I should be glad to know whether you agree, in the circumstances, that I should offer a proper critique by the Treasury of those parts of the Bill which concern the appointment and status of the C&AG and his staff. I should like it also to cover a number of technical points which are probably uncontroversial.

9. You will also wish to know that Edward du Cann has complained to me about our speaking to journalists against the Bill. I am telling him it is only right for us to make known the significant problems which could be produced by a Bill in the present form, but not of course committing us to oppose it on Second Reading.

10. I am copying this minute to all Members of the Cabinet, to the Chief Whip, and to Sir Robert Armstrong.

G.H

24 December 1982

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HOUSE OF COMMONS
LONDON SW1A 0AA

20th December 1982

My dear Geoffrey,

Thank you for arranging the second meeting this afternoon between Ministers and myself and Joel Barnett which was most kind of you. I am sorry that we cannot reach agreement on the Bill's contents. However, I am sure our positions are not so far apart as to preclude agreement in the future. In view of the massive support for the principle of the Bill in the House (over 300 Members have indicated their views in support) and the very powerful support in the press from the newspapers, which include The Times, The Daily Telegraph, The Economist and The Financial Times, it would be highly desirable to proceed in an agreed and orderly fashion.

I am sorry you are unable to offer full drafting assistance with the Bill which I would very much have liked but I understand your difficulties. However, I did leave with you a copy of the third and latest draft of the Bill and I would be grateful if your advisers could have a look at it and offer any advice of a technical character that they feel able to proffer. It may well be that they will see some technical error or inadequacy on the face of the Bill which could be rectified at this point. In particular, might I ask you for help on the following points which neither I nor the Public Bills Office in the House feel particularly competent to deal with.

1. We need a draft for a clause and schedule establishing the Public Accounts Commission. What I have in mind is something similar to that provided in the House of Commons (Administration) Act in relation to numbers, ex-officio appointments, basis of nominating members etc. A schedule will probably be needed for the following purposes:

- (i) to establish a corporate status;
- (ii) to stipulate terms on which members shall hold office, vacate office and resign;
- (iii) specify how the Commission will operate over a dissolution;
and
- (iv) specify Chairmanship and method of conducting business, including the situation where the Chairman is absent.



2. A schedule to make provision for the transfer of the existing E. & A.D. staff to the Commission and consequentially, for e.g. the application to the N.A.O. staff of the Employment Protection (Consolidation) Act 1978.

3. A schedule of repeals, particularly in relation to the 1866 and 1921 Acts, which may be required.

4. A clause providing an indemnity to the C.A.G. and his staff, if they are no longer civil servants, against claims arising from the exercise of statutory duties, including those undertaken under the new provisions.

I am proposing to publish the Bill either in the second or third week of January, ie some time between January 12th and January 23rd but I have not yet reached a firm conclusion as to the actual date.

With all good wishes,

Yours ever,

Nam JHR Stevas

2 + DEC 1982



CONFIDENTIAL



*C.H. It might be
as well to have a
power - would will
Norman (M.G. Skani
—*

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

PRIME MINISTER

ROLE OF THE COMPTROLLER AND AUDITOR GENERAL:
CIVIL LIST AUDIT

Following discussions within the Treasury on the role of the Comptroller and Auditor General in the context of the St John Stevas Bill, I would like to draw your attention to the present arrangements for audit of the Civil List, and the probable effect of the Bill on them.

2. At present the Civil List expenditure is required, under the Civil List Act 1816, to be audited by an officer appointed by the Treasury. Until 1860 the officers were sometimes independent persons and sometimes Treasury officials. Since that date all auditors have been appointed from the Treasury, and for many years now the officer appointed has been the Permanent Secretary.

3. Since 1889, following a recommendation of the Public Accounts Committee (Fourth Report), the Auditor of the Civil List also audits the Appropriation Account of the Exchequer and Audit Department.

4. As you know, besides the annuity payments to members of the Royal Family and the Queen's Civil List payment direct from the Consolidated Fund, provision is now made for an annual grant-in-aid to the Royal Trustees on the Treasury Vote in supplementation of the basic statutory payments. The payments direct from the Consolidated Fund are, of course, subject to the provisions of Section 13 of the Exchequer and Audit Department Act 1866, which require the Treasury to obtain credit from the Comptroller

/and



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FREEDOM OF INFORMATION
ACT 2000

and Auditor General prior to any issue from the Consolidated Fund. The Comptroller and Auditor General also carries out the audit of the Treasury Vote and the Consolidated Fund - up to the point where the payment from the Consolidated Fund is made to the annuitants, or from Votes to the Royal Trustees. Douglas Wass, as Auditor of the Civil List appointed under the 1816 Act, carried out the audit of the expenditure by the Queen and other members of the Royal Family in respect of payments made to them under the Civil List Acts.

5. Given that Civil List expenditure is subject to independent audit in this way and that Douglas Wass can, if need be, be required by a Parliamentary Select Committee (including the Public Accounts Committee) to give an account of his activities, a case can be made for not giving the Comptroller and Auditor General the job of auditing the Civil List and not allowing him access. On the other hand Parliament could argue that the Permanent Secretary of the Treasury does not have anything like the same duties to the PAC and that the C and AG does, and that he is not accustomed to reporting to the PAC on issues that arise in the course of his audit; so de facto Parliamentary oversight of Civil List expenditure is minimal. This is how many people, would like things to be. The opportunity of Parliamentary investigation of Civil List expenditure could be used by critics of the monarchy to generate hostile publicity. But in reality the C and AG would probably not report very often on such a small item as the Civil List, and the additional opportunities for criticism would therefore be small.

/If



6.

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ACT 2000

It seems to me better to try and avoid such a situation, which I am sure could be achieved by resisting any attempt by the supporters of the Stevas Bill to change the existing arrangements for the Civil List. Such resistance could be justified, not only by reference to the argument in paragraph 5 above, but also by praying in aid the provision of the Civil List Acts whereby the Royal Trustee (you and I and the Keeper of the Privy Purse) are obliged to make a Report to the Treasury on the sums available under the Civil List Acts and related matters. Statutorily such reports must be made at intervals of not more than ten years; since the last one was dated 31 December 1974, the next one will be no later than 31 December 1984.

7. We have avoided this topic in our current discussions with Mr Du Cann and others. My inclination is to go on doing so. But I thought that you should be aware of the potential problem which we might have to face at some stage if the principle of "following public money wherever it goes" were to be enshrined in new legislation.

A handwritten signature in dark ink, appearing to be 'G. Howe'.



Treasury Chambers, Parliament
01-233 3000

Note (Mr. Kerr)
I have asked the Treasury to
let me have a further minute say in how
this matter is dealt with in the Stevas Bill
as published. This
note should arrive
in 1 week.

BJ

Pl. chase if it has not
come by 27.1.

PRIME MINISTER

ROLE OF THE COMPTROLLER AND AUDITOR GENERAL:
CIVIL LIST AUDIT

TCRB

20.1.

Following discussions within the Treasury on the role of the Comptroller and Auditor General in the context of the St John Stevas Bill, I would like to draw your attention to the present arrangements for audit of the Civil List, and the probable effect of the Bill on them.

2. At present the Civil List expenditure is required, under the Civil List Act 1816, to be audited by an officer appointed by the Treasury. Until 1860 the officers were sometimes independent persons and sometimes Treasury officials. Since that date all auditors have been appointed from the Treasury, and for many years now the officer appointed has been the Permanent Secretary.

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/and



and Auditor General prior to any issue from the Consolidated Fund. The Comptroller and Auditor General also carries out the audit of the Treasury Vote and the Consolidated Fund - up to the point where the payment from the Consolidated Fund is made to the annuitants, or from Votes to the Royal Trustees. Douglas Wass, as Auditor of the Civil List appointed under the 1816 Act, carried out the audit of the expenditure by the Queen and other members of the Royal Family in respect of payments made to them under the Civil List Acts.

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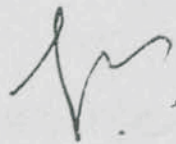
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7. We have avoided this topic in our current discussions with Mr Du Cann and others. My inclination is to go on doing so. But I thought that you should be aware of the potential problem which we might have to face at some stage if the principle of "following public money wherever it goes" were to be enshrined in new legislation.



GEOFFREY HOWE
23 December 1982

Comptroller

/and

FRS SW



10 DOWNING STREET

From the Private Secretary

SIR ROBERT ARMSTRONG

Appointment of the Comptroller
and Auditor General

The Prime Minister has seen your minute of 15 December.

She agrees with the advice in the minute, and has commented that she prefers the solution in paragraph 4.

May I leave you to pass this on to the Treasury.

M. C. SCHOLAR

17 December, 1982

82

CONFIDENTIAL

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Prime Minister
To note

MS 15/12

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

PRIME MINISTER

PARLIAMENTARY CONTROL OF EXPENDITURE (REFORM) BILL

We had a word yesterday about the problems posed by Norman St John Stevas' Bill; and I circulated last night a paper to serve as the basis for our discussion in Cabinet tomorrow. Before then, you might like to see the attached record of the talk that John Biffen, Patrick Jenkin, Leon Brittan and I had this morning with St John Stevas, Barnett and Du Cann. It shows that:-

- a. on the questions of appointment and status of the C&AG, we made some progress, particularly with St John Stevas and Du Cann. Barnett remains adamant that you should not be involved at all in the appointment of the C&AG, and that he should be open to direction by the Public Accounts Committee; but we have inserted a wedge there.
- b. on the nationalised industries, they gave no ground at all, despite Patrick Jenkin's warning of the damage which E&AD access could do. My judgement is that we shall not make progress on this one; but
- c. on companies, we gave them much food for thought. I had the distinct impression that St John Stevas had not realised quite how sweeping were the powers his Bill envisages, and quite how unpopular they would be in the country at large. I believe that we can make further progress on this one.

/John Biffen

CONFIDENTIAL



2. John Biffen and I will of course be ready to report all this in Cabinet tomorrow. Copies of this minute go to him and to Sir Robert Armstrong.

A handwritten signature in black ink, appearing to be the initials "G.H." with a flourish.

G.H.

15 December 1982

CONQUEROR

11

Prime Minister (1)

Ref. A082/0542

Agree with this advice?

PRIME MINISTER

Yes - prefer

MCS 16/12

The 106 is in

para 4.

Appointment of the Comptroller and Auditor General

The Chancellor of the Exchequer sent me a copy of his minute of 10th December.

2. If the Comptroller and Auditor General were to be an officer of the House of Commons, then he would be appointed by the House of Commons, and The Queen need not come into it. If the office of Comptroller and Auditor General is to have independent status, however, and is to remain a Crown appointment, then I think it is difficult for anyone other than you to have formal responsibility for advising The Queen. There would be no objection to you accepting a non-statutory obligation to consult the Speaker, or the Leader of the Opposition, or the Chairman of the PAC, before advising The Queen. But I think that the statutory position would have to be that the Comptroller and Auditor General was appointed by The Queen and The Queen's adviser on appointments is you.

3. It is clearly important that The Queen should not be put into a position where she might get conflicting advice on such an appointment. I do not therefore think that it would be at all attractive to make statutory provision for The Queen to be advised by the Speaker on the appointment of the Comptroller and Auditor General. I do not think that such a provision could exclude the provision of advice by you, which could conflict with that of the Speaker; and I think that it would be undesirable to create a precedent for statutorily specifying some other source of advice to The Queen on appointments of this kind.

4. If a non-statutory obligation to consult is not sufficient to meet the demands of Mr St. John-Stevas and Mr du Cann, then I think a possible alternative is for legislation to provide for the Comptroller and Auditor General to be appointed by The Queen on the



advice of a Commission consisting of you and the Speaker whose advice must be unanimous. That is the solution envisaged in the annex to the Chancellor of the Exchequer's paper (it is one which I in fact suggested to the Treasury); and I think that it would be just about tolerable, if it was not possible to persuade Mr St. John-Stevas and Mr du Cann to accept a non-statutory obligation to consult as being sufficient protection for Parliament's interest in the appointment.

REA

ROBERT ARMSTRONG

15th December 1982

CONQUEROR



DEC 1962



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11



RECORD OF A MEETING AT NO.11 DOWNING STREET AT 9.30 A.M. ON 15 DECEMBER
1982 TO DISCUSS THE PARLIAMENTARY CONTROL OF EXPENDITURE (REFORM) BILL

Present:-

Chancellor	The Rt. Hon. Norman St. John Stevas MP
Lord President	The Rt. Hon. Edward Du Cann MP
Secretary of State for Industry	The Rt. Hon. Joel Barnett MP
Chief Secretary	

(a) Status of the meeting

Mr. St. John Stevas and Mr. Du Cann thanked the Lord President for arranging the meeting. The Lord President made it clear that, while discussions on the issues covered in the draft Bill were important, it would remain a Private Members' Bill. Mr. St. John Stevas agreed, and undertook to circulate a new, and revised, version of the Bill.

(b) Appointment of the Comptroller and Auditor General

The Chancellor recalled that at the last such meeting Mr. Barnett and Mr. Du Cann had agreed to prepare a note setting out their views on the correct future status, and method of appointment, of the C&AG. Mr. Barnett said that the Bill, in its revised form, solved the problem, by providing for appointment by the Crown, on the direct advice of Parliament. Mr. St. John Stevas suggested that this was in line with the precedent of the appointment of the Clerk of the House; but it was pointed out that the Clerk was in fact appointed by the Queen on the advice of the Prime Minister, consulting the Speaker. It was also noted that the Parliamentary Commissioner for Administration was also appointed by the Queen on the advice of the Prime Minister, consulting the Chairman of the Select Committee on the PCA. Mr. St. John Stevas conceded the possibility of amending his draft Bill to provide for consultation with the Prime Minister, and he and Mr. Du Cann thought that there could conceivably be a case for advice to the Crown coming from a joint Commission consisting of the Prime Minister and the Speaker. Mr. Barnett however thought that the Prime Minister should not be involved.

(c) Independence of the Comptroller and Auditor General

The Chancellor thought it essential that the C&AG should not be subject



to direction by either the executive or the legislature. The Treasury's powers of direction under the 1921 Act were a dead letter; and he was prepared to see them repealed. But the draft Bill would give the Public Accounts Committee a new power of direction, which would destroy the valuable independence of the C&AG. Mr. St. John Stevas thought that the PAC should have such a power of direction, but was prepared to envisage amending his Bill to ensure that the priority which the C&AG should give to investigations resulting from a direction should be left to him. Mr. Barnett thought that an amendment to exclude directions to investigate policy issues, as distinct from the propriety, and effectiveness, of expenditure, was conceivable. The Chancellor thought it important to exclude any power of direction.

(d) Staffing of the Exchequer and Audit Department.

The Chancellor said that he assumed that the intention was that the staff of the new National Audit Office would be employed by the C&AG, and would no longer be civil servants. Mr. St. John Stevas said that his Bill provided for the appointment of staff by the House of Commons Commission; but Mr. Barnett said that in practice this could, and should, be delegated to the C&AG. The Chancellor and the Lord President stressed the importance of maintaining a cash limit on the expenditure in question: Mr. Barnett agreed, but foresaw some problems in the House. The Chief Secretary suggested that estimates would have to be presented by the Speaker, but with the consent of the Treasury. Mr. St. John Stevas saw no objection of principle to the idea of a cash limit, but thought that the suggestion of "Treasury consent" would create difficulties. The Chief Secretary did not see how a cash limit could work without this requirement.

(e) Scope of the audit : (i) Non-Departmental public bodies

Mr. Barnett said that he would circulate a note by the C&AG setting out his proposals for the enlargement of the scope of his audit.

Mr. St. John Stevas said that the draft Bill would mean that his writ ran in all non-departmental public bodies where the Government provided more than 50 per cent of the finance. The Chancellor pointed out that this would mean infringing the constitutional independence of the BBC. Mr. Barnett said that in a number of cases, perhaps including the BBC,



it would be sufficient for the C&AG to have right of inspection, but not of audit.

(f) Scope of the Audit: (ii) nationalised industries

The Secretary of State for Industry expressed grave concern at the suggestion of future E&AD access to a nationalised industry accounts. The Government, and the House, were concerned to encourage nationalised industries to act commercially. Ministers were accountable for voted monies made available to the industries; but Whitehall's role should be limited to giving the industries a clear framework in which to operate: they should not be made to feel that their daily business decisions were subject to supervision, and retrospective examination. British Telecom had, for example, been run until recently virtually as a Government department, with full accountability and hence heavy over-centralisation. They had employed not accountants but book-keepers: only now were they being transformed into a truly commercial operation. To insert the C&AG would mean reversing this welcome development. It would also mean vast increases in departmental staff in Whitehall, for sponsor Ministers would be obliged to ensure that their knowledge of the day to day workings of their nationalised industries matched that of the National Audit Office.

Mr Barnett said that he would oppose the Bill, if it would have this effect. But it would not. Value for money audit of nationalised industries would help, rather than hinder, the drive to make the industries act commercially. Mr St John Stevas said that E&AD had ample experience of working co-operatively not only with Government departments but with trading funds, the AEA, the CAA etc. But the Secretary of State for Industry suggested, and Mr Du Cann agreed, that the current E&AD staff, and modus operandi, would be quite inappropriate to investigations of nationalised industries, and it was agreed that any such investigations by E&AD would have to be carried out by specialist trained staff in a self-contained branch of the department.



Mr Du Cann acknowledged that the nationalised industries were concerned about the proposals in the draft Bill. But their concern centred not so much on the insertion of E&AD but on the duplication of supervision, given the involvement of the MMC. The Secretary of State for Industry thought that the least damaging way of allowing greater Parliamentary scrutiny of nationalised industry finances might be not to insert E&AD, but to make the MMC report, on relevant investigations, to the PAC. It was agreed that, if E&AD were inserted, the MMC would have to be withdrawn.

Mr St John Stevas said that nationalised industry fears of the effects of inserting E&AD were misplaced. The PAC, and E&AD, were known to act responsibly. The Secretary of State for Industry pointed out that it was precisely because nationalised industries knew how E&AD worked, and what effect E&AD scrutiny would have on their own working methods, that they opposed the proposals in the Bill. And they were right to do so: E&AD involvement would be inimical to proper commercial management.

(g) Scope of the Audit: (iii) companies Act companies

The Chancellor said that he assumed that the Bill's sponsors envisaged that the writ of the new National Audit Office would not run to companies where the Government's shareholding was less than 50 per cent.

Mr Barnett and Mr Du Cann agreed. It was noted that the Government shareholding in Cable and Wireless was just over 50 per cent, but Mr Barnett indicated that he saw Cable and Wireless as falling outside the NAO ambit.

The Chancellor however pointed out that the Bill appeared to envisage that any company in receipt of money voted by Parliament - eg under Section 8 of the Industry Act - would have to open its books to investigation in respect of the use made of such monies. The effect on potential inward investment by foreign companies could be considerable. And if the Bill's sponsors really meant to "follow public money wherever



it went", they presumably envisaged that every farmer in receipt of a Grant, or every church school wholly or partly financed by Government, would have to open its books. This seemed absurd, and would be very unpopular in the country.

Mr St John Stevas said that, when Parliament voted money, it had a right to ensure that such money was properly used. But though the powers taken in the Bill might be wide, they would be used with discretion. He was asked what changes were in practice envisaged, if the anxieties expressed were, as he said, unreal; and how he envisaged limiting the powers taken in the Bill, in order to set such anxieties at rest. Mr Du Cann agreed that the Bill as at present drafted would open a new, and very wide, door; and Mr St John Stevas said that he would be prepared to consider amendments imposing limits on the National Audit Office's access in respect of private companies. He would consider the matter further.

(h) Further discussions

It was envisaged that a further meeting might be arranged for 20 or 21 December.

JOK

J O KERR

15 December 1982

Distribution:

PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
PS/Minister of State (C)
PS/Minister of State (R)
Sir Douglas Wass
Sir Anthony Rawlinson
Mr Bailey

Mr Wilding
Mr Burgner
Mr Judd
Mr Kemp
Mr Perry
Mr Ridley

Mr Scholar No 10
PS/Lord President
PS/Secretary of State
for Industry
PS/Sir Robert Armstrong

CONFIDENTIAL

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de



cc CO

bc JV

10 DOWNING STREET

From the Private Secretary

15 December 1982

Dear John,

Appointment of the Comptroller and Auditor General

The Prime Minister and the Chancellor had a word about the problems raised in the Chancellor's minute of 10 December on this subject.

As I told you on the telephone yesterday, the Prime Minister agreed, without enthusiasm, to the notion that, as part of a compromise with Mr. St. John-Stevas, Mr. Barnett and Mr. Du Cann, the Government could make a move in the direction of the proposal that the Comptroller and Auditor General should be appointed by the Crown upon the joint advice of the Prime Minister and Mr. Speaker. The Prime Minister agreed that the essential point was to maintain and enhance the Comptroller and Auditor General's independent status, so that he should not be an Officer of the House and subject to its direction. On the scope of the audit, the Prime Minister said she shared the Chancellor's dismay about the idea that the Comptroller and Auditor General should scrutinise the accounts of nationalised industries, and private sector companies who had been recipients of Government funds. This would be a snoopers' charter. The Prime Minister suggested that a list be drawn up, constituency by constituency, of the companies (including, presumably, Lonrho) who had received public funds from whatever source: such a list, or even the threat of producing such a list, should do much to alert Members of Parliament to the unpopularity of what was being suggested. I have since passed on this idea to Jonathan Spencer (Department of Industry); but, clearly, if it were to be pursued it would involve many other departments.

I am sending a copy of this letter to Richard Hatfield (Cabinet Office).

Yours sincerely,

Michael Scholar

John Kerr, Esq.,
HM Treasury.

CONFIDENTIAL

CONFIDENTIAL

01 211 6402

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of The Exchequer
HM Treasury
Treasury Chambers
Parliament St
London SW1P 3AG

15 December 1982

Dear Chancellor,

PARLIAMENTARY CONTROL OF EXPENDITURE (REFORM) BILL

I am writing to give colleagues my views on your paper (C(82)42) and that from Arthur Cockfield (C(82)44).

I share the strong concern expressed by Arthur, and also by Patrick Jenkin, David Howell and John Sparrow in their letters of 13 and 14 December. The proposals in this Bill are incompatible with our objective of encouraging commercial behaviour in the nationalised industries. They are also incompatible with the means - more entrepreneurial leadership; commercially-orientated scrutiny; and the injection of private capital - by which we are pursuing that objective. The Bill would also end the present arms-length relationship between Government and nationalised industries, turning them in effect into Government Departments. Among other disadvantages, this would greatly exacerbate the industrial relations problems we face, not least in the coal industry.


I fear that the possible lines of agreement between us and the Bill's sponsors, which you identify as concessions in your paper will hardly avoid all this damage.

I am also very concerned about the proposal to concede C & AG access to companies in which the Government has a majority shareholding, such as BNFL - even after a possible sale of 49% of the shares. While I note John Biffen's judgement that there is a chance that support for the Bill could carry it,

even in the face of Government opposition, this still seems far from inevitable. Consequently I suggest that colleagues continue to give serious consideration to mustering the greatest possible support for our view with the object of opposing the Bill at Second Reading. If we should fail to sway the House, we might still achieve support for subsequent amendments to the Bill which would limit the damage just as well, if not better, than could be achieved now by hurried negotiation with its sponsors.

I am copying this letter to Cabinet colleagues, Sir Robert Armstrong and John Sparrow.

Yours sincerely,

(S.C.) 

NIGEL LAWSON

(Approved by the Secretary of State and signed in his absence)



CONFIDENTIAL

PRIME MINISTER

Role of Comptroller and Auditor General:
Parliamentary Control of Expenditure (Reform) Bill
(C(82)42 and 44)

BACKGROUND

The First Special Report of the Public Accounts Committee (PAC) for the 1980-81 Session recommended, among other things, that the Comptroller and Auditor General (C & AG) should be appointed on the recommendation of the House of Commons, not on that of the Prime Minister; that the staff of the Exchequer and Audit Department should become servants of the House; that the C & AG should have access to the books of the nationalised industries, public corporations, and all companies and other bodies in receipt of public funds; and that he should take control of the District Audit Service (DAS).

2. The Government has effectively responded to the last of these recommendations by establishing the Audit Commission for local government, and providing that the C & AG is to have access to documents relating to certain studies by the Commission and is to report to Parliament on matters arising from them.

3. The Government has resisted the substance of the remaining recommendations. When the Ministerial Committee on Economic Strategy discussed the issues in February (E(82)4th Meeting, Item 1) it agreed that the C & AG should not be made responsible to the House of Commons; and that he should not have access to the books of the nationalised industries or companies receiving financial assistance, though certain limited concessions might be made. The Chancellor of the Exchequer, in consultation with the Lord President of the Council and the Chief Whip, was authorised to hold further discussions with Mr. du Cann MP and (separately and subsequently) with Mr. Joel Barnett MP, Chairman of the PAC, on this basis.

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4. On the instructions of E Committee I circulated a memorandum (E(82) 34) setting out the constitutional case for preserving the independence of the C & AG from directions by the House of Commons or its Committees and for ensuring that its responsibilities, and PAC enquiries, did not extend beyond the range of Ministerial responsibilities. These were proposals to which Ministers attached fundamental importance.

5. Mr. Norman St John-Stevas MP has drawn second place in the ballot for Private Members' Bills and has given notice that he intends to promote legislation giving effect to the PAC recommendations mentioned in paragraph 1 above (other than that relating to the DAS). Second Reading is down for 28th January. The business managers and the Chancellor of the Exchequer believe that he may well carry the House and Committee, even against Government objections. A previous Early Day Motion supporting the PAC recommendations attracted nearly 300 signatures.

hac c

6. The Chancellor of the Exchequer therefore recommends, in C(82) 42, that the Government should try to reach an accommodation with Mr. St John-Stevas. Its main features would be as follows:

- (a) The C & AG would remain an office-holder under the Crown, and would not be subject to direction from the House of Commons or its Committees. He would become the head of a new National Audit Office (NAO). The staff of the NAO would cease to be civil servants; its budget would be controlled by the House of Commons Commission or a similar body.
- (b) The C & AG would have access to the books of the nationalised industries, but only for the purpose of investigating questions of efficiency and value for money. Nationalised industry investigations would be undertaken by a separate command within the NAO, with a commercial orientation. The programme of investigations would be the subject of consultation between the C & AG and the Government. To avoid duplication, investigations by the Monopolies and Mergers Commission (MMC) under Section 11 of the Competition Act 1980 would cease.



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(c) The C & AG should have access to the books of companies in which the Government has a controlling interest. Further access should be refused if possible; but if concessions have to be made, they should go no further than allowing access to the books of companies receiving substantial public assistance through grants, loans or guarantees.

If a satisfactory deal could be struck with Mr. St John-Stevas, the Government should offer assistance with drafting.

7. At least some nationalised industry sponsoring Ministers see serious difficulty in the Chancellor's proposals. The Secretary of State for Trade has circulated a memorandum (C(82) 44) arguing against allowing the C & AG access to the books of the nationalised industries, mainly on the grounds that it will inhibit commercial attitudes and deter potential recruits to the Boards of the industries. He also suggests that the programme of privatisation could be put at serious risk. The Secretary of State for Industry has written (letter of 13th December) making similar points; the Secretary of State for Transport (letter of 14th December) has also expressed concern.

MAIN ISSUES

8. Ministers will presumably continue to take the view that in principle the PAC recommendations are misguided. It is however no longer a question of what the Government would prefer, but of how to secure the least damaging outcome, bearing in mind that Mr. St John-Stevas has secured a high place in the ballot and commands a good deal of support in the House. The main issues are therefore:

- (i) will the Bill command a majority in the House and in Committee?
- (ii) if so, should the Government continue to resist, or try to compromise?
- (iii) is it possible to prevent a Bill passing by procedural means?
- (iv) what might the terms of a compromise be? What are the features which Ministers would regard as essential?

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Depending on the outcome of the discussion of these issues, it may also be useful to consider:

- (v) whether enough is being done to present the arguments against the proposals?
- (vi) what consultations should there be with outside interests affected by the Bill?
- (vii) what further work needs to be done within Government?

Will the Bill Command a Majority?

9. The business managers appear to take the view that Mr. St John-Stevas can probably secure a majority. You will, however, wish to probe carefully the strength and grounds of this view. Signing an Early Day Motion is one thing: voting against the Whip another. Even if the Bill gets Second Reading, could the Government carry whatever amendments it thought necessary in Committee?

10. Alternatively, might the Government be able to persuade the House to vote down Mr. St John-Stevas's Bill by offering to present its own legislation? No doubt this legislation would have to make some concessions to Mr. St John-Stevas and the views of his Bill represents; but it would be more under the Government's control; and there would be more time to work out some of the difficult issues that are bound to arise under any attempt at compromise.

11. There is also the possibility of seeking to ensure by procedural means that whatever Bill emerges from the consultation process fails to reach the Statute book.

Should the Government resist or try to compromise?

12. If the Bill is likely to be carried against Government objection, the arguments for trying to get it into as acceptable a form as possible are clear and strong. But there are arguments on the other side which you may wish to explore.

- (i) Even a compromise on the lines suggested by the Chancellor of the Exchequer will be bitterly resented by the nationalised industries and others. The Government may be in an easier position if it can say that it resisted the proposals but was overborne



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than if it is a party to the legislation. On the other hand the passage of legislation on a matter of such importance in the face of the Government's declared opposition would be bad for the Government's general credibility.

- (ii) A satisfactory compromise may be unattainable. The Government could then find that its ability to resist had been undermined by concessions made in the (abortive) negotiations. Much will depend on the judgment of whether a satisfactory compromise is likely to be attained.

The Terms of a Compromise

13. Ministers will presumably support the Chancellor's wish to ensure that the C & AG is not subject to direction by the House or its Committees. If he were so subject, there would be a risk that he would be directed to launch a large number of investigations into matters of ephemeral or party political interest; and if, as would be likely, he was pushed towards the area of policy formulation, there would be serious potential problems of access to departmental papers. The detailed proposals in Annex A to C(82)42 are designed to avoid these difficulties.

14. The other point which the Cabinet is likely to regard as vital is that the C & AG's investigations should go no wider than Ministerial responsibility. If the C & AG's freedom from direction can be maintained, that, and his own good sense, should help to some extent. The proposal that the C & AG's programme of investigation into the nationalised industries should be the subject of consultation with the Government will also help. But the fact remains that the C & AG will report to the House of Commons and will not be able to ignore its views. The thrust of the PAC recommendations is, in part, to make nationalised industries directly responsible to the House of Commons, instead of or as well as to Ministers. Some members of the Cabinet may suggest that the compromise proposed by the Chancellor goes too far in this direction. It is not clear however that there is a more satisfactory but nevertheless realistic basis for compromise.

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15. It may also be suggested that more clarity is needed regarding the investigation of private sector companies. It is, for example, proposed that British Aerospace (BAe) should not be subject to investigation. But suppose that the company received launch aid for a new civil aircraft. If the logic of the PAC recommendations is accepted, it is hard to see how the case for access to BAe's books could be resisted, at least in respect of the particular project. There is nothing in the Chancellor's proposals which appears to prevent this access then being extended to all BAe's activities.

16. No doubt many other detailed examples of potential difficulties could be produced. It is hardly possible to foresee them all, let alone to resolve the resulting problems, before the text of the Bill is presented to Parliament (presumably around 21st January). The normal solution would be to take appropriate order-making powers. But is this likely to be acceptable to Mr. St John-Stevas?

17. Other issues which may be raised in discussion are as follows:

- (i) Is it agreed that investigations of the nationalised industries by the MMC (except as for cases of monopoly in the private sector) should cease? It seems right; investigation by both the MMC and the C & AG would lay a very heavy burden on the industries.
- (ii) What are the implications for the privatisation programme? Presumably British Telecom, in particular, would be open to investigation by the C & AG under the Chancellor's proposed compromise for as long as the Government retained a majority shareholding. Is this likely to deter private investors? If so, can anything be done about it?
- (iii) Is the fall-back position in Annex D to C(82)42 acceptable? In particular, what does the Chancellor have in mind by the phrase "companies which are in receipt of substantial selective assistance"?



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Drafting Assistance

18. If a compromise can be reached with Mr St John-Stevas, it would be natural for the Government to offer drafting assistance. You will wish to ask the Lord President whether Parliamentary Counsel can accept the additional burden.

Further Consultations

19. Paragraph 10 of Annex B to C(82)42 suggests that there should be consultation with the Nationalised Industries Chairmen's Group. Three questions arise:

- (i) Are there any others who should be consulted (for example, the chairmen of other public sector organisations whose books would be subject, for the first time, to scrutiny by the C & AG)?
- (ii) Who should conduct the consultations? The Chancellor suggests sponsoring Ministers; but there is a case for Treasury Ministers doing the job. They have conducted the negotiations with Mr. St John-Stevas and others; and the issues are matters of national financial policy and institutions, not specific to individual industries.
- (iii) When should they take place - before or after a deal is struck (if it can be struck) with Mr. St John-Stevas? Before or after the presentation of his Bill?

Further Work

20. If the Bill goes ahead, whether on the basis of a compromise or otherwise, there will presumably be many consequential issues. For example:

- (i) It is not clear whether the foundation of the claim that the C & AG should have access to the books of the nationalised industries is that they receive loans from the National Loans Fund. If it were, the industries would be likely to redouble their pressure to be allowed to borrow elsewhere, and the Government would have to consider whether this should



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be permitted. The basis of the claim may however be wider, for example the fact of public ownership of the industries and the implied financial backing which flows from that. Much will depend on exactly how the legislation is framed.

- (ii) How are investigations by the C & AG to be followed up (paragraph 9 of Annex B to C(82)42)? Is it clear that it will be for sponsor Ministers to answer to Parliament for follow-up action?
- (iii) What increases, if any, in departmental staff numbers will be needed to cope with the new situation?

21. Such questions cannot be taken far until the likely shape of any legislation is clearer. But you may wish to invite the Chancellor of the Exchequer to arrange for them to be studied in due course and to report his conclusions to the appropriate Committee or Sub-Committee.

HANDLING

22. You will wish to ask the Chancellor of the Exchequer to introduce his memorandum. Given the fundamental importance of the Parliamentary situation for the whole discussion, you might then ask the Lord President of the Council and the Chief Whip for their assessment. You will also wish to invite comments from the Secretary of State for Trade in support of his paper. Other Ministers with sponsoring responsibilities for the nationalised industries and assistance to private sector companies (Secretaries of State for Environment, Scotland, Industry, Transport and Energy may wish to contribute.

CONCLUSIONS

23. You will wish the Cabinet to reach conclusions on the following:

- (i) Should the Government resist Mr. St John-Stevas's Bill or seek a compromise?
- (ii) If the Government seeks a compromise should it be on the lines proposed in C(82) 42? What are the points which the Cabinet regards as essential?



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- (iii) Should drafting assistance be offered?
- (iv) What outside interests should be consulted?
When? By whom?
- (v) What arrangements should be made for follow-up work when the likely shape of any legislation is clearer?

Robert Armstrong

Approved by
Robert Armstrong
and signed in his absence.

15th December 1982

CONFIDENTIAL



14 DEC 1982

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

FST DEPT 14.02

The Rt Hon Sir Geoffrey Howe, QC, MP
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Parliament Street
SW1P 3AG

14 December 1982

Dear Sir

PARLIAMENTARY CONTROL OF EXPENDITURE (REFORM BILL)

John Biffen has sent me and other colleagues a copy of his letter to you of 7 December about this Bill, and his discussions with Norman St John Stevas and Edward du Cann.

I recognise from the preliminary discussion at Cabinet that the position is really very awkward. But acceptance of this Bill will mean a reversal of a decision which we took in "E", and will also have fundamental implications for our policies for nationalised industries, following the CPRS report. In these circumstances, it seems to me that it would be most undesirable to have a discussion with Norman St John Stevas, Edward du Cann and Joel Barnett, in which you would inevitably have to extend the discussion beyond the limits agreed in 'E' until we have had an opportunity to consider this collectively. It may be that our broad plan for changing the character of our 'nationalised industries' can be harmonised with, even strengthened by, the changes proposed in the Bill. But we have to be quite clear about the direction in which we are going.

Copies of this go to those to whom John Biffen copied his letter.

Yours ever
David

DAVID HOWELL

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JF2210

Secretary of State for Industry

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

Telephone Direct Line 01-212 3301
Switchboard 01-212 7676

13 December 1982

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON
SW1P 3AG

Dear Geoffrey,

I was grateful to John Biffen for copying to me his letter of 7 December on Norman St John-Stevas' proposed Bill implementing the PAC's First Special Report. We did of course have a chance to discuss this topic briefly at Cabinet last Thursday. *will request is required*

2 What we know of the Bill raises very substantial issues which we need to consider collectively and I understand you will be putting proposals to us shortly. I should however right away register my view that it will not be possible to reconcile PAC access to the books of the nationalised industries and other major publicly owned companies that the sponsors of the Bill seek and the approach to the nationalised industries we have been at pains to construct in the light of last year's CPRS report. Can we in any case, even if we wish to, draft in a few weeks, legislation which would in effect call for a refashioning of much of our nationalised industry legislation? I recognise of course the strength of feeling in the House on this issue, and I am not against attempting to go some way to meet it, but I believe John Biffen's letter is altogether too pessimistic about the chances of persuading the sponsors to see that there are other courses open to them which they ought responsibly to consider.

3 I am aware that the meeting John Biffen suggests you arrange early this week at No 11 will be essentially exploratory. I wonder, however, whether you might think there would be advantage in one of the main nationalised industry sponsor Ministers being present? It does seem to me immensely important that the sponsors of the Bill should hear direct from a Minister who actually handles day-to-day relationships with nationalised industries the very real difficulties to which the PAC's proposals will give rise.



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4 For instance, do they disagree with our policy as set out in the preceding paragraph? If not, how do they think it can be reconciled with their own approach? Again, do they realise that it would be even more difficult than now to recruit top quality managers to run the industries when candidates realise the far greater level of Parliamentary supervision that will be entailed? Or again, how far do the Bill's sponsors expect Ministers to be answerable to Parliament for the exercise of their statutory functions when Parliament itself, through the C&AG, will have greater access to the NI's books? These all seem to me issues of fundamental importance which simply have not been faced by the Bill's sponsors. Putting these points to them would not of course prevent us taking the open and constructive line John Biffen has in mind - but it might guard against the chances of foreclosing the option of resisting, as I believe we must, the fundamental point about PAC access to nationalised industries' books.

5 As you will expect I am also very concerned about application of the concept, implicit in the Special Report, that the C&AG would have the right "to follow public money wherever it goes". This sounds quite unexceptionable, but if it is to mean in practice that E&AD staff will have the right of entry to all private firms and individual businessmen who take up various kinds of Government assistance, aids to investment etc, the result could be catastrophic! It would certainly undermine business confidence in the schemes. I wonder whether this point has seriously been considered by the Bill's sponsors?

6 As I indicated in Cabinet last Thursday, I am genuinely fearful of what is proposed. I do not believe that the case against the Report has been fully exposed : certainly, it has never been understood by the House.

7 I am copying this to all members of 'E' and 'L' Committees, to John Sparrow and to Sir Robert Armstrong.

Your ever
Patel

Govt Mach. Role of the Comptroller & Auditor General
Pt 2

11 - DEC 1982



M. Scholar - to see



CABINET OFFICE

Central Policy Review Staff

With the compliments of
John Sparrow

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CABINET OFFICE
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70 Whitehall, London SW1A 2AS Telephone 01-233 7765

Qa 06188

From: John Sparrow

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13 December 1982

The Rt Hon Sir Geoffrey Howe QC MP
HM TREASURY
S W 1

Dear Geoffrey,

Nationalised Industries: The Role of the Comptroller
and Auditor General

I understand that you are shortly to meet Mr St John Stevas and others to discuss his Bill on the role of the C & AG, particularly with regard to nationalised industries. I appreciate that one cannot ignore the Parliamentary realities of the situation, but the proposed changes carry such clear disadvantages that I hope that all steps possible will be taken both to resist them and, to the extent that it is necessary, to change Parliamentary opinion to be against them.

Although I am sure that Mr St John Stevas and his supporters expect his proposals to be constructive, in fact they threaten a serious set back to the extensive efforts that are being made to improve both the efficiency of nationalised industries and the relationships between those industries and Whitehall. I comment below on some of the areas which particularly concern me.

(i) In place of Ministers' present clear responsibility for nationalised industries, there would be a blurring of responsibility and accountability between Ministers on the one hand and the PAC/C & AG on the other. The chain of accountability to Parliament is via Ministers, and a sponsor Minister who found that Parliament was being told things that he himself had not previously known would be in a very difficult position. Such a division of responsibility cannot make for good management or good communications.

2 papers 2

*Prime Minister
letter from Mr.
Jenkin attached below*

FERB

14.12.

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(ii) MMC Section 11 references are beginning to be accepted as a suitable way of investigating and improving NI efficiency. The MMC has now developed expertise and gained experience in this area, and has produced some good quality work. A change to the C & AG is bound to set back that progress.

(iii) There are real doubts about the suitability of E & AD personnel for the type of work that would be required for NIs. Even if they take on new staff, that will take time and there would still be the question whether either their goals or their approach would be as appropriate as those likely to be pursued by a Minister or a sponsor Department, who could be expected to have a deeper and continuing understanding of the areas where efficiency audits of NIs would be likely to have the greatest value. Real progress is being made in inculcating a businesslike approach on the part of sponsor Departments. It is difficult to believe that E & AD could easily bring the same approach or expertise to bear.

(iv) NI Chairmen and Boards already believe that they suffer too much interference on minor issues from Government. They are bound to see the proposed changes as likely to increase their exposure to such interference, involving still more senior management time, handling issues which they will argue should be left to them as the managers of the business. The resulting suspicions and defensiveness are the precise opposite of the attitudes we hope to achieve by the proposals in the CPRS Report. They are also likely to make it more difficult to find high calibre people prepared to become Chairmen and Board members.

(v) It is hard to see any part-way compromise that would be acceptable. Once the door is open to the C & AG, it will be difficult to devise any practical limit to his ability to probe most aspects of NI business. Even if limits are claimed, NIs will remain suspicious that they will be breached in practice.

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I believe therefore that these proposals for wider C & AG access to NI affairs should if at all possible be resisted, and the scope for changes that would do less damage to the relationship between the Government and nationalised industries, fully explored. We should continue to argue that the changes now being made on the basis of the CPRS Report and the wider and more systematic use of the MMC should be allowed to develop and to demonstrate their effectiveness in meeting the points which have concerned the PAC. To change now can only set back that process and seems likely to replace a potentially effective mechanism with a less effective alternative, which will blur responsibility and increase the NIs' resistance to change.

Lastly, whatever conclusion is reached, it is essential that careful thought be given to its communication to NI Chairmen, individually or collectively. It would be unfortunate if the Government were to be blamed for the outcome of a Private Member's Bill, or if the Chairmen felt that they had been deprived of any say in the matter. A discussion between you and the Chairman of the NICG could be one way of remedying this.

I am sending copies of this letter to the Prime Minister, other members of E(NI), and Sir Robert Armstrong.

Yours sincerely,

J. Sparrow

John Sparrow

Govt Mach. Role of Comptroller & Auditor General.

Pt 2



10 DOWNING STREET

Prime Minister : Meeting with the Chancellor

- Agenda:
1. Sir A Rawlinson etc
before 12.15 pm
 2. The Comptroller & Auditor
after 12.15
- General : may the
Chancellor circulate his
Cabinet paper ?
 3. Life Assurance premium
tax relief
 4. Thresholds - Alan
Walker's note - raising
thresholds must be the
highest priority, whatever
the CBI may say



Prime Minister

Would you like to
discuss with the

Treasury Chambers, Parliament Street, SW1P 3AG Chancellor at
01-233 3000

the meeting we have
arranged for Tuesday?

PRIME MINISTER

Yes please

APPOINTMENT OF THE COMPTROLLER AND AUDITOR GENERAL

MUS 10/12

We spoke on 8 December about the problems created by Norman St. John Stevas' Bill, and I have had an account from the Chief Secretary of the discussion in Cabinet yesterday.

-
2. You may now like to see the attached draft by officials of my paper for Cabinet next week. I cannot pretend that I like its recommendation to allow a significant widening of the scope of C&AG access, and I shall be discussing it with officials on Monday. But I think they may be right in suggesting that we face a choice of evils, for as you know, I share the Lord President's view that there is a high risk that if we oppose the Bill on Second Reading we will lose the vote. John Biffen is clear that the best course is to seek an accommodation with St. John Stevas, Barnett, and du Cann. But this does not mean that we have to accept all the recommendations of the PAC, on which the first draft of the Bill is based, and the draft paper proposes some limitations on the range of the C&AG's functions.
 3. I shall be working on the paper over the weekend, but before it is finalised I would find it very helpful to know what position you would like us to take, in our further discussions with the backbenchers, on the method of appointing the C&AG - an issue touched on in its Annex B.
 4. This too is an issue on which I would prefer to give no ground, but suspect that we shall have to concede something. The question is how much. The considerations are complex, and I apologise for burdening you with some paragraphs of more general background.
 5. On the status of the C&AG, which is relevant to the method of appointment, we should not accept that the C&AG should be an Officer of the House, and subject to direction.
 6. Of course the C&AG works closely with the PAC and in the past he has met its wishes if it wanted a particular matter investigated.



But the Committee has known that the C&AG could refuse, if he thought he was being pushed into areas which were inappropriate. If he was subject to direction that restraint would be removed, and there would be a temptation to use him for political advantage. There would then be a real risk that the PAC would split on party lines, and its effectiveness would thus be reduced.

7. The PAC recognised that a consequence of its proposal would be that other Select Committees would have the right to direct the C&AG. It sought to limit this by proposing that all directions should be made through the PAC, and the C&AG should retain discretion as to how he carried out an enquiry. But these would provide only limited safeguards against the prospect of a large and unmanageable increase in the burden which the C&AG might be driven to impose upon the bodies concerned, and against the danger that he would be pushed into examining question, of policy or into studies of "efficiency" which had strong political overtones.

8. That in turn would raise a major question about the relationship between Government departments and the C&AG. The Government could face difficult and controversial decisions about the degree of access which the C&AG and his staff should be allowed to have to departmental papers.

9. Nationalised industries and publicly owned companies would find it that much more difficult to accept scrutiny, if they knew that he would be subject to direction.

10. From all this I draw the conclusion that we have a strong case for advocating an independent status for the C&AG, and that we would find support for this in the House. (I know, for example, that Edward du Cann and Peter Hordern would agree with us.)

11. To maintain and enhance the C&AG's independent status we could make the following proposals. He should continue to be paid from



the Consolidated Fund. To facilitate attracting candidates from the private sector some provision should be made for flexibility in settling the salary attaching to the post, perhaps by way of a Resolution of the House. To emphasise his independence from the Executive all vestiges of Treasury control in the Exchequer and Audit Department would be taken out of the Civil Service. They would not be servants of the House, but employees of the C&AG. He would determine their numbers and salaries but, as is the case with the House of Commons staff, it would be reasonable to require him to keep broadly in line with Civil Service grades and other conditions. The Speaker would present the vote to the House. In our recent discussions Joel Barnett and Edward du Cann accepted that the cost should be cash limited and we would want to make this as effective as possible.

12. That is the context in which you will wish to consider the method of appointing the C&AG. The PAC proposed that he should continue to be appointed by the Queen, but on the recommendation of the House of Commons, on a motion proposed by the Chairman of a new Public Accounts Commission. This method of direct advice to the Queen from the House is not unprecedented. The Clerk Assistant to the House and the Sergeant at Arms are appointed by the Queen on the advice of the Speaker. But in the case of the most senior official of the House, the Clerk, the Queen is advised by the Prime Minister, who consults the Speaker. The appointment of the Parliamentary Commissioner for Administration is modelled on that of the C&AG, the Chairman of the Select Committee on the PCA being consulted.

13. It is apparent from our discussions with the backbenchers that they attach importance to the views of the House being at least more visibly taken into account than is the case under the present arrangements, under which you consult the Chairman of the PAC. Nevertheless, the method of appointment proposed by the PAC fails to recognise either the Government's interest in the C&AG, resulting from his access to departmental papers, or your own position as



adviser to the Crown. It is based on the view that the C&AG should be an Officer of the House, which I believe we should reject, for the reasons set out in paragraphs 5 - 10 above.

14. If you were prepared to consider some change, in order to give the House a more visible role, one possibility would be for the House to pass a resolution, while the Queen continued to take your advice on the appointment. But the difficulties with this are obvious. If the House passed a resolution before you had decided which name to put forward, it would represent an attempt to pre-empt your judgement; whereas a resolution after you had reached a decision; would be an empty formality - unless the House put forward a different nomination, which would produce an intolerable situation.

15. An alternative and perhaps more feasible solution might be to involve the Speaker. He would be seen to represent the views of the House and the close working relationship which the C&AG has with the PAC, while you would represent the legitimate interest which the Government must have in the appointment of the C&AG. The recommendation to the Queen might then be made jointly by yourself and the Speaker. Would you see any mileage in that?

16. I shall almost certainly be asked about this aspect when I meet the backbenchers again on 15 December. And I shall have to finalise my Cabinet paper early next week. It would therefore be very helpful if you could let me know, on 13 or 14 December, what you think.

17. I am copying this minute to Sir Robert Armstrong.

G.H.

10 December 1982

DRAFT CABINET PAPER

PARLIAMENTARY CONTROL OF EXPENDITURE (REFORM) BILL

Mr St John Stevas' Private Member's Bill is down for Second Reading on 28 January. It is intended to implement the recommendations of the Public Accounts Committee (PAC) in their First Special Report of 1980-81. (Other Committees had previously made similar recommendations.) The main principles of the Bill are that the appointment of the C&AG and his staff should not be in the Government's hands, and that the range of the audit should be "wherever public money goes" - in particular to include the nationalised industries and many public companies.

2. In the Government's reply to the Report (Cmd 8323) we accepted the need for new legislation to update the statutory description of the Comptroller and Auditor General's (C&AGs) functions; but were not convinced of the immediate need for the radical changes proposed by the PAC. Following an adjournment debate on 30 November 1981 an Early Day Motion collected nearly 300 signatures in favour of the PAC's recommendations. We have since been discussing minor concessions (within existing legislation) with Messrs Barnett and Du Cann and others following discussion in E Committee on 9 February 1982.

3. The initiative is however now with Mr St John Stevas. Although he has asked for co-operation in drafting the legislation, he is determined to proceed, with the support of the movers of the Early Day Motion. He is confident that his Bill will command very wide support; and the Lord President believes that this confidence is not misplaced. Our White Paper arguments were and are sound, but we cannot now expect that a majority in Parliament will accept them as overriding the constitutional argument about accountability which dominates their thinking. I believe therefore that we should now concentrate on seeking to negotiate with Mr St John Stevas and his associates a specification for the Bill which will be sensible and workable, and minimise the adverse consequences of moving too far in

/the direction

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the direction urged by some of the extremists; and if we can negotiate a specification, we should offer the services of Parliamentary Counsel to help with the drafting, working to agreed instructions. This will give us a much better chance of influencing the Bill, and ending up with a tolerable piece of legislation, than would be likely if we wait for the Bill to be presented in the form currently proposed by Mr Stevas, and then attempt piecemeal amendments against the mood of the House.

INDEPENDENCE OF THE C&AG AND HIS STAFF

4. The Comptroller and Auditor-General is at present an office holder under the Crown, appointed on the advice of the Prime Minister who consults the Chairman of the PAC. His staff are civil servants of the Exchequer and Audit Department. Any change in the manner of his appointment could involve constitutional considerations, and it is important that we should not concede that he and his staff should become employees of the House. They would then become liable to directions from the House which could include any of its Committees. That would raise serious problems about their access to the Government's files.

5. I believe we must seek to ensure the independence of the C&AG and his staff both from the Government and from Parliament (other than by Act of Parliament). The national audit should be conducted as a professional operation with proper audit objectives; it should not be made to react to particular and transient interests of Members or Parliamentary Committees or the press. The C&AG could not, of course, ignore representations made to him - from Government as well as others - but the decision on what he and his staff should do should be his and his alone.

6. On that basis it should be acceptable that he should retain his present powers of access to papers which have, by consent over many years, allowed not only for statutory certification audit but also for value-for-money and effectiveness studies. C&AG investigations, and PAC examinations, have always scrupulously avoided policy issues:

/they have

they have been audit-based, ie concerned with past, not future, expenditure. This must remain the case; for on any other basis we could easily find ourselves obliged to impose, and defend, restrictions of access for particular investigations.

SCOPE OF THE AUDIT

7. Annex A deals fully with the position of the nationalised industries. The arguments against involving the C&AG there and in such companies as BL, Rolls Royce etc are sound, but my judgement is that they will not carry the day, against the appeal of the simplistic PAC formula of "following public money wherever it goes". I therefore think we must now concentrate on how far, rather than whether, this should be accepted. As regards the nationalised industries, I suggest the following:

- a. Access to the books of nationalised industries and private companies should be through a separate branch of the proposed National Audit Office, to consist of staff with adequate qualifications and experience to understand the commercial scenario in which they operate. The MMC should be withdrawn.
- b. Studies in the nationalised industries should follow a systematic programme determined by the C&AG in consultation with the Government and others.
- c. For private-sector companies, I should prefer to confine access to those where the Government has a controlling interest (BL, Rolls Royce and possibly Cable and Wireless). There will be pressure to extend this to other companies where the Government holds shares, either directly (British Aerospace, Britoil, BP) or through BTG - but these are commercial concerns and we should resist E&AD crawling over their business if possible. There will also be pressure to "follow public money" into other companies which receive substantial assistance in grants, loans or guarantees

/eg the £200m

CONFIDENTIAL

eg the £200m guarantee to ICL). Again we should resist this if possible - but at worst I should want to try to find some way of distinguishing these cases of substantial selective assistance from the ordinary run of small-scale or automatic grants (Regional Development Grants, agriculture, and so on).

OTHER MATTERS

8. Other issues on which I believe we should seek to agree with Mr. St. John Stevas and his backers are listed in Annex B.

CONCLUSION

9. A lot of this is very disagreeable; and it will, in particular, be difficult to ensure that the change in respect of the nationalised industries is conducive to more efficient management. But I am convinced that if we do not go as far as is proposed in Annex B we shall be in a poor tactical position. We need to influence the initial drafting of the Bill. If it were to be tabled in a form which reflects only the PAC's proposals, we would, in moving amendments in Committee, appear to be trying to avoid full accountability to Parliament.

10. I therefore seek approval to negotiate with the backers of the Bill on the lines of the Annex B to this paper; and if successful to offer drafting assistance to and support for the Bill.

CONFIDENTIAL

Nationalised Industries

1. We have hitherto resisted giving the C&AG and his staff access to the nationalised industries on a number of grounds. First, C&AG activity would tend to inhibit the industries from acting commercially and lead them to adopt defensive attitudes. Second, the Government legislated in the 1980 Competition Act to enable the MMC to conduct efficiency investigations and they provide a more effective instrument. Indeed we have over the past year taken steps to increase the number of MMC references and to improve the follow-up to their reports. Third and more generally, we were concerned that the line of responsibility for the industries should continue to run through Ministers to Parliament and that the scope of C&AG activity should not therefore exceed that for which Ministers could be held responsible. Otherwise the relations between Parliament, Ministers and Departments, and the industries could be seriously affected.

2. These arguments were, and remain valid. We have already offered a number of concessions in order to maintain existing broadly arrangements. We have encouraged the C&AG to use his access to departmental papers to examine how Departments exercise their responsibilities for nationalised industries. We have agreed to encourage the PAC to become involved in the follow-up to MMC reports. And we would have been prepared (as a final concession) to consult the PAC on the selection of references.

CONFIDENTIAL

3. Leaving aside the current Parliamentary pressures, I would not want to change our existing arrangements. But it is quite clear that Mr Barnett, Mr Du Cann and their supporters regard full access by the C&AG and his staff to the industries as a crucial issue on which they are not prepared to compromise; and they are confident that they will be able, in the context of the Stevas Bill, to carry the House on this issue. I believe their judgment is correct, and that it is no longer possible to rest on our existing arguments. This view is broadly supported by the Lord President's letter of 8 December. A major concession on the nationalised industries is now unavoidable.

4. We can of course wait until the Bill comes before Parliament and seek then to resist its proposals for access to the industries. But, given the mood of the House on this issue, this course seems certain to fail; and our chances of influencing the Bill thereafter would be much diminished. We are more likely to be able to strike some sort of bargain with the Bill's promoters if we offer concessions early on.

3. In considering what move we should ^{now in response to the St John Stevas Bill,} make we should keep our underlying objectives towards the industries firmly in view. We want a mechanism for conducting investigations into the industries particularly where competition is absent or weak. We want to avoid being drawn into day-to-day issues ^{and} ^{undermine} / thereby / the responsibilities of the management. We want the industries to act commercially; and we do not want to saddle them with two parallel systems of investigation - the C&AG and MMC - since this would be an excessive burden diverting the management from their main tasks.

CONFIDENTIAL

4. The key question is what moves we can make to satisfy the Bill's promoters which would at the same time offer the best chance of meeting our objectives. I have considered whether it would be possible to make a limited concession with the aim of preserving the present MMC system on broadly unchanged lines - for example by means of an understanding that the C&AG's powers would be used infrequently e.g. only when he had some prima facie reason to think there was misuse of public funds. Or possibly by associating the C&AG more closely with the industries' existing external auditors. But it seems quite clear that the C&AG and the PAC would not accept restrictions of this kind; indeed it is the C&AG's intention to have a permanent presence in all or most of the industries and to use their work as a means of deciding when to make a fuller enquiry. I do not think therefore that options of this kind are worth pursuing. They are likely at the end of the day to mean parallel systems of enquiry by the C&AG and MMC. This would be a most undesirable outcome.

5. The only realistic option in my view is to accept the principle of C&AG access to the industries and to seek to build an effective system on that basis. By making this important concession of principle we should be able to maximise the influence we can bring to bear on the shape of a new system and to see this reflected in the Bill. As a corollary, in order to avoid duplication, the use of the MMC for the purpose of efficiency investigations in the industries would cease (although it would continue to look into monopoly questions). We would either amend Section 11 of the 1980 Competition Act or simply restrict its use. The C&AG's remit would be limited to questions of efficiency and value for money, policy questions being

CONFIDENTIAL

reserved for departmental Select Committees. I think there would be no difficulty in agreeing this with the C&AG, although in practice the dividing line is not always clear cut.

6. The main risk under this option - and it is a real one - is of the C&AG's approach and methods inducing in the industries an uncommercial and defensive attitude. Our best hope of avoiding this is if we can encourage the C&AG to separate as far as possible - in terms of staff, expertise and methods of work - his task of examining trading bodies from his traditional work with Government Departments. Our aim must be to shift his approach into a more commercial direction. Ideally one would want to see the nationalised industry investigations carried out by a wholly separate command under the C&AG, using management consultants/as well as staff directly employed by him. However it will be difficult to embody this in legislation; and although we would try to reach an understanding with the C&AG, he may be unwilling to go as far in this direction as we would like.

7. There are two other major questions which this option raises: influencing the C&AG's programme of enquiries; and following up the results.

8. On the first question, it is important that the Government continues to have a major influence on the programme of investigations. We will want to ensure that all industries are periodically scrutinised. And we will no doubt want particular industries examined from time to time in response to events. We should therefore try to ensure that there is systematic consultation between the C&AG

CONFIDENTIAL

and Government Departments before a programme is decided. We believe the C&AG would agree to this. We should try to get the point clearly embodied in the legislation.

9. On the second question (follow-up) it is less easy at this stage to see the way forward. A good deal will depend upon the nature of the reports the C&AG makes. No doubt the PAC will itself initially want to respond by questioning the industries and Departments on the report's findings. But where some major deficiency is revealed Ministers will wish to satisfy themselves that remedial action is taken by the industry. It is vital that the clear line of responsibility from the industries to their sponsor Minister is not blurred.

10. We shall need an early meeting with the industries. I propose to arrange a meeting between sponsor Ministers and the Chairmen's Group as soon as possible. These industries have hitherto supported our attempts to hold off the C&AG and they will not welcome any change in our position. We shall need to convince them that there is now no choice but to make a move of the kind outlined above. Their main concern will be to avoid an increase in the number of external enquiries and bodies concerned in their affairs. My proposal, by substituting the C&AG for the MMC, should achieve this, although the question of the C&AG's proposed method of approach to the industries will also be important.

A POSSIBLE SETTLEMENTI. Appointment and Status of C & AG and his Staff

- (a) Appointment by the Crown (on recommendation of a Commission consisting of the Prime Minister and the Speaker). Retirement at 60 (or ?65).
- (b) An independent office holder under the Crown i.e. not subject to direction either by Government or by Parliament (except by Act of Parliament). Paid direct from Consolidated Fund, as at present.
- (c) Task is to conduct :
- (i) certification audit (propriety of expenditure)
 - (ii) VFM audit (whether, accepting objectives, expenditure /collection of receipts is efficient)
 - (iii) Effectiveness audit (whether expenditure, although sound under (i) and (ii), has contributed effectively to policy aims)
- and report on them to House of Commons.
- Task is NOT
- (iv) to examine policies of Government (including future expenditure proposals e.g. Estimates).
- (d) Salary and conditions of service to be linked with those of the Clerk of the House, unless otherwise determined by the House on resolution proposed by the Speaker.
- (e) Staff of National Audit Office to be employed by C & AG on terms and conditions he thinks fit, having regard to the terms and conditions of civil servants and servants of the House. They will cease to be civil servants.
- (f) Budget of NAO to be controlled by House of Commons Commission (or a Public Accounts Commission). Estimates to be presented by the Speaker - with the consent of the Treasury to provide for a Cash Limit.

II. Range of Audit

Full audit :

- (a) All central Government accounts;
- (b) Other accounts as at present, as directed in legislation, or under a statutory instrument, subject to affirmative resolution, introduced by the Treasury.

Access to relevant papers :

- (c) Nationalised industries - on the understanding that there would be a separate part of the National Audit Office for this purpose and that there would be consultation with the Government about the C & AG's programme.
- (d) ~~All~~ Other bodies dependent or mainly dependent on Government, including public companies in which the Government has a ^[controlling] shareholding or where they are in receipt of substantial selective (non-routine) assistance from the Government.]

III. Minor items

- (a) Treasury to appoint auditor of C & AG's (NAO) Appropriation Account.
- (b) Repeal s.3 of 1921 Act (leaving II (b) above to cope).

IV. Not included

- (a) Local Authorities (covered by Audit Commission)
- (b) NHS statutory audit (C & AG already has access. NHS audit under review anyway. If C & AG took it over a new internal audit would be required by DHSS).

SENIOR STAFF IN CONFIDENCE



fleke

10 DOWNING STREET

Govt Mach

From the Principal Private Secretary

SIR ROBERT ARMSTRONG

e

Thank you for your minute of 15 November (A082/0083) about the post of Head of the Government Accountancy Service. I am grateful for this interim report and I note that you expect to make a submission to the Prime Minister before Christmas containing a complete set of proposals for the future of this post.

FELB

17 November 1982

SENIOR STAFF IN CONFIDENCE

NBPM

This accords with the direction
in which the Prime Minister wanted
to go and we can await Sir R.
Armstrong's submission.

Ref. A082/0083

MR BUTLER

TEB
17.11.

You sent me a minute on 4 October, reminding me of the plan to downgrade the post of Head of the Government Accountancy Service and transfer it to the Treasury when Mr Sharp's appointment expires in October 1983. This minute is by way of being an interim report.

2. Mr Sharp was originally appointed in 1975 for five years and this was subsequently extended in 1980 for a further three years.

3. Mr Sharp came to see me in July to discuss both the future of the post and his own personal position. He said that, now that the accountancy functional specialisation had been successfully introduced, he would like to turn his attention to the Government accounts themselves with the object of making them compatible with the increased management requirements of Government. Mr Sharp saw this as being closely linked to work on the Financial Management Initiative and other efficiency work. He suggested that for this reason his post should be relocated in the Treasury or, perhaps, the Management and Personnel Office. During the course of the interview, I gained the clear impression that Mr Sharp hoped that his own appointment would be further extended.

4. I have been considering this with Sir Douglas Wass and Sir Peter Carey. Although Mr Sharp has undoubtedly made a useful contribution to the introduction of the accountancy specialisation, his appointment has not been as successful as had been hoped. The post was graded at Second Permanent Secretary in order to try to make it attractive to outsiders, but even so the salary proved insufficient to tempt accountants of the highest quality, and this has been reflected in Mr Sharp's failure to make a really significant impact. Moreover Sir Peter Carey has told me that Mr Sharp has not made the wider contribution within the Department of Industry that is expected from a Second Permanent Secretary.



5. For these reasons, I believe that it would be best if we did not seek to extend Mr Sharp's appointment yet again. This would also leave us with a much freer hand in considering the appropriate functions, location, grading and pay of the Head of the Government Accountancy Service in the longer term. Sir Douglas Wass and Sir Peter Carey share this view.

6. If we decide not to renew Mr Sharp's appointment, we should tell him so soon. I therefore expect to make a submission to the Prime Minister before Christmas to seek her agreement to this as part of a complete set of proposals for the future of the post, based on the provisional plan already agreed.

7. The new appointment will be crucial in helping the Government Accountancy Service to come to terms with its new management responsibilities, particularly such activities as monitoring the expenditure of nationalised industries. Whoever is appointed will need to be a professionally qualified accountant; it would also be highly desirable to have someone who could provide the commercial expertise which is lacking within the Service at present. The functions and management responsibilities do not require a very senior Head of Service, and it would be difficult to justify the present grading as Second Permanent Secretary for a new appointment. Nonetheless, in order to obtain someone of the right quality we shall need to be prepared to pay them appropriately, regardless of the grading of the post.

8. I am sending copies of this to Sir Douglas Wass and Sir Peter Carey.

A handwritten signature in dark ink, appearing to read 'RCA'.

ROBERT ARMSTRONG

15 November 1982



10 DOWNING STREET

26 AH
cc Sir D. Wass

From the Principal Private Secretary

PERSONAL AND CONFIDENTIAL

SIR ROBERT ARMSTRONG

LOCATION OF THE HEAD OF THE GOVERNMENT
ACCOUNTANCY SERVICE

I am sure that this minute is unnecessary, but you will recall that the provisional plan agreed by the Prime Minister to downgrade the post of HOTGAS to Under Secretary and transfer it to the Treasury when Mr Sharp's contract ends in October 1983 was to be reviewed this autumn. No doubt you will be letting the Prime Minister have your advice when this review has been completed.

I am copying this minute to Sir Douglas Wass.

F.R.B.

4 October 1982

Govt.
Mach

* filed behind

CP's min.
to WR of 17/7/81.
Peter

Robin

I have minuted Sir R. Armstrong. But N.B. that Sir I. Bancroft's minute* of 17 July 1981, referred to in Clive's minute of 26 July does not appear to be on the file.

Re Clive's minute to Sir PERB
Lesek Rayner dated 26 July 81. 4.10

The Prime Minister agreed to review his decision on the location of the Head of the Government Accountancy Service this autumn.

Do you wish to pursue this or would you initially prefer me to contact Clive Priestley and see if there have been any developments on this front?

Peter 11/10



Secretary of State for Industry

Got. Nach. ^{wh} 7/4

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

6 April 1982

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON
SW1P 3AG

Dear Geoffrey,

ROLE OF THE COMPTROLLER AND AUDITOR GENERAL

Thank you for sending me a copy of your minute of 24 March to the Prime Minister. I agree that it would be useful for you and the Lord President to have the discussions you propose with our own back-benchers and, eventually, representatives of both sides of the House. I think it would be perfectly proper for you to draw upon the material in the two E Committee papers already circulated, but I do not think they should be shown to back-benchers in any form before the Committee itself has had an opportunity to consider them. The same reservation does not extend to Annex A to your minute which does, as you say, reflect the views of the Committee.

I am copying this as before.

Your
Pat

I would have no objection to your showing the back-benchers §§ 4, 5 and 6 of my paper E(82)27: they contain the essence of our case!



file

B/C

10 DOWNING STREET

From the Private Secretary

5 April 1982

Internal Audit in Government Departments

The Prime Minister was grateful for the Chief Secretary's minute and progress report of 31 March. She is glad to know that good progress is being made to improve internal audit and that the initiative by the Treasury and MPO and the work in hand in Departments will enable a satisfactory answer to be given to the Public Accounts Committee in June.

I am copying this letter to Peter Jenkins (HM Treasury), Jim Buckley (Chancellor of the Duchy of Lancaster's Office), David Wright (Cabinet Office) and Christopher Joubert (Sir Derek Rayner's Office).

W. F. S. RICKETT

T.F. Mathews, Esq.,
HM Treasury

885

Mr RICKETT



*Autype
wm
5/4*

INTERNAL AUDIT IN GOVERNMENT DEPARTMENTS

1. I attach a draft letter to Mr Mathews for your consideration.

- with WR?

2. The report made is satisfactory and is, in our view, an indication of genuine activity on the part of departments.

3. You may like to be reminded that the major reviews carried out by MAFF and the Department of Industry (among those referred to in para. 4 of Mr Brittan's minute) were undertaken at the request of the Prime Minister, given her concern that the very adverse report made by the Comptroller and Auditor General a year ago should be met, in part at least, by the use of management consultants to enquire into the state of financial management in some spending departments. The recent submissions by Mr Peter Walker and Mr Patrick Jenkin, dealt with on other papers, refer.

C

C PRIESTLEY
1 April 1982

Enc: Draft letter

T F Mathews Esq
HM Treasury

INTERNAL AUDIT IN GOVERNMENT DEPARTMENTS

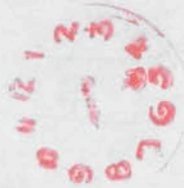
1. The Prime Minister was grateful for the Chief Secretary's minute and progress report of 31 March. She is glad to know that good progress is being made to improve internal audit and that the Treasury MPO initiative and the work in hand in Departments will enable a satisfactory answer to be given to the Public Accounts Committee in June.

2. The Prime Minister sees the up-rating of internal audit as important in itself and also as an element in the Government's general policy towards financial management in the public sector. She is conscious that the programme of work envisaged will not be completed without difficulty, but she is anxious that it should receive the necessary commitment of resources, both by the Treasury and the MPO and by other Departments.

Peter Jenkins (), Jim Buckley (),
3. I am copying this letter to ~~the private secretaries of~~ all Cabinet Ministers, David Wright (Cabinet Office) and Christopher Joubert (Sir Derek Rayner's Office).

W F S RICKETT

2 APR 1982



12

Prime Minister

(2)

Ms 2/4

From the Secretary of State

Peter Jenkins Esq
Private Secretary to the
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Parliament Street
London, SW1P 3AG

ms

1st April 1982

Dear Peter,

ROLE OF THE COMPTROLLER AND AUDITOR GENERAL

The Secretary of State has seen a copy of the Chancellor's minute of 24 March to the Prime Minister, and agrees that it would be useful for the Chancellor and the Lord President to have the discussions he proposes. My Secretary of State also thinks it would be perfectly proper for the Chancellor to draw upon the material in the two E Committee papers already circulated, but does not think these should be shown to Back Benchers before E itself has had an opportunity to consider them. The same reservation does not extend to Annex A of the Chancellor's minute. However my Secretary of State does think it most important that the square bracketed paragraph on the penultimate page, which offers Government consultation with the PAC about the programme of references to the MMC, should be excluded together with the corresponding footnote. To leave it in would, of course, betray our negotiating position.

Yours Sincerely,

J N REES
Private Secretary

2 APR 1982



Handwritten red mark, possibly initials or a signature.



Prime Minister 2

This is probably a candidate for next weekend's box, but you may wish to glance at the attached report. I do not think you need to be concerned with the annexes.

*WM
2/4*

ms

PRIME MINISTER

INTERNAL AUDIT IN GOVERNMENT DEPARTMENTS

I undertook to let you have a progress report on this at
... the end of March. It is enclosed.

2. A useful start has been made in what we know is a long campaign which needs to be sustained. Some departments have moved faster than others. This was to be expected, and will no doubt continue. But there has been plenty of action and in general the Treasury believes that the need for major improvement, especially in computer audit, has been well taken on board, and the right actions are in hand. The changes in staffing summarised in paragraph 6 of the report are important and encouraging.

3. The first stage is to identify and get into post suitable people to head audit units, to settle their objectives and terms of reference, and to prepare the necessary documentation. That stage is going quite well. It will take some months more to complete.

4. To get the audit teams fully trained and experienced and operating effectively to an acceptable standard as a routine will take a good deal longer. The aim is to bring computer audit up to a fully acceptable standard by 1984 and internal audit as a whole by 1986. These targets still look realistic but we need to keep up the impetus. I propose to report to you again in 12 months' time.

5. I am sending copies of this minute to all Cabinet colleagues, Sir Robert Armstrong and Sir Derek Rayner.

L.B.

LEON BRITTAN
31 March 1982

INTERNAL AUDIT IN GOVERNMENT DEPARTMENTS

The present programme of work was initiated by a letter which Sir Douglas Wass and Sir Ian Bancroft sent to the Permanent Secretaries of 18 major departments on 20 March 1981. A copy is at Annex A. This letter called on Permanent Secretaries -

(1) to ensure that their head of internal audit is suitably experienced, graded and qualified, and to submit for approval by the Treasury a job description and a statement of objectives for his unit by 30 September 1981;

(2) to agree with the Treasury by 31 December 1981 a course of action to bring computer audit to an acceptable standard within 3 years;

(3) to agree with the Treasury on a provisional basis the composition of their internal audit units by 30 June 1982.

2. In order to spread the Treasury's work-load, smaller departments and those sponsoring non-departmental bodies were asked on 23 October 1981 to carry through the same programme with the later target dates of 30 April, 30 September and 31 December 1982 respectively.

Stage 1

3. This stage is crucial, because the appointment of the right Head of Internal Audit and the drawing up of his job description and terms of reference set the direction in which all else will follow. To assist departments, the Treasury circulated model statements of objectives and job descriptions (Annexes B and C), and have tested departments' submissions against them.

4. In order to produce a sound foundation for future advance, 7 departments have conducted major reviews of their internal

audit arrangements. They are PSA, Land Registry, Inland Revenue, Employment, Industry, MAFF and DES. The first 4 used the Treasury's AFA Division as their consultants, Industry used Touche Ross, and MAFF used Coopers and Lybrand. These exercises have caused some delay to the completion of Stage 1 (as also of Stage 2), but in the Treasury's view the time has been well spent.

5. The position at the end of March 1982 is that the Treasury is satisfied that good terms of reference and job descriptions have been produced or will very shortly be completed for 14 of the 18 major departments. Discussions on points of substance have still to be completed with four departments. These concern the independence of the audit unit from the accounts organisation in 3 cases and the scope of the audit in the fourth. It is hoped to sort out these remaining issues by the end of April 1982.

6. As regards the grading and qualifications of heads of internal audit, good progress has been made. There have been 21 changes (including some small departments). In 11 cases the post has been upgraded. In March 1981 the number of heads who were professionally qualified was 5. They now number 15 (9 of them in the major departments) and 3 more are currently being sought, for. In several cases the Treasury has agreed with the department that an officer who is not professionally qualified but who has a thorough knowledge and experience of audit and the right personal qualities is the best man for the job.

Stage 2

8. Computer audit is the area in which there is most to do. This is true of the private sector and other governments also; the US Comptroller General reported to Congress in October 1981 that 12 out of 19 US agencies inspected had a gravely deficient capability in this field.

9. Formal submissions of plans are still outstanding from 6 major departments, in most cases because of the reviews referred to in paragraph 4. But progress is generally good; the fact that the problem is difficult and existing arrangements patently inadequate has led departments to tackle the computer aspects of audit with greater energy and a readier willingness to make changes.

The Treasury has circulated a model action plan (Annex D) and plans are being tested against it.

10. Improvements agreed so far include:-

(a) all departments have now accepted the systems-based approach;

(b) several have changed the scope of their computer audit to include all computerised systems and not just those that deal with financial transactions;

(c) the need to strengthen and upgrade the computer audit function has been generally recognised. Several posts have been upgraded and increased numbers of staff at SEO and HEO levels devoted to the task.

11. In general there is good reason to believe that departments are taking computer audit seriously, devoting much thought to it and producing systematic plans of a kind that have not existed before. The Treasury hopes to complete the agreement of those plans by the end of April, 1982.

12. But while some practical changes are beginning to appear, what has been done so far is mostly study and planning. There is a very long way still to go. The Treasury believes that the objective of reaching an acceptable standard within 3 years is attainable and that the job is generally being tackled in the right way. But all of the 3 years will be needed.

Stage 3

13. Departmental returns are not yet due, but the Treasury is holding discussions with the departments. Apart from training (see following paragraphs), the question is mainly one of numbers, grades and job descriptions. The Treasury will circulate by the end of March specimen job descriptions for the various levels of

audit task with guidance about their grading. While much of the work in the past has been performed at CO and EO level, this guidance will suggest that the responsibilities of the fully trained basic audit task are unlikely to be properly discharged below the level of HEO, and that EO is more appropriate as a training grade.

Training

14. Training is clearly crucial; it takes time to get it right.
15. A note of the present provision by the Civil Service College, including some new courses for 1982-83, is at Annex E. In addition, some departments are making use of external training provided by the Institute of Internal Auditors or in a few cases setting up training of their own.
16. These arrangements will adequately meet the existing demand. But existing demand and need are not the same thing. First, the formulation by departments of their places for the composition of their audit units (Stage 3) is likely in itself to increase demand. Secondly, the Treasury intends to review the training need with the help of the Financial Management Co-ordination Group, and to produce in collaboration with the MPO a basic profile of the training which civil service auditors at the various levels will require in order to perform to a fully acceptable standard. It will then be necessary to devise the most cost-effective pattern of supply, drawing on College, departmental and external resources.
15. It is hoped to issue the proposed training profile for consultation within the next few weeks. It is unlikely to propose major changes in training for computer audit, for which existing plans cater reasonably well. But it will propose additional training to raise the level of understanding and technical competence of general audit staff in order to meet the more exacting standards required by the systems-based approach. Much detailed work will then be necessary to determine the best pattern of supply for audit training overall, including expanded use of

external resources, eg polytechnics; to get courses up and running; and to revise them in the light of experience. It may well take 2 years or even more to bring audit training to a state which is satisfactory all along the line.

Internal Audit Manuals

17. The Treasury intends to issue a comprehensive set of manuals to all internal audit units by January 1983. A brief description of these manuals is at Annex F.

Continuing tasks

18. The completion of the three stages, the review of training and subsequent follow-up action, and the issue of the manuals will constitute a full task for 1982. Thereafter it will be necessary to keep up the impetus and monitor progress. Tasks for the Treasury will include

- (a) liaison with, and practical assistance to, departments;
- (b) assisting the further development of training;
- (c) maintaining and up-dating manuals, instructions and other documentation;
- (d) maintaining strong links with the professional institutes, serving on their appropriate committees and influencing developments which will concern government auditors;
- (e) organising conferences, seminars etc for dissemination of experience;
- (f) inspection on the ground, calling for reports etc to monitor progress.

PAC Inquiry

19. The PAC have asked the Treasury for a memorandum on progress, to reach them by the end of June, 1982. They may then take

oral evidence. Their list of questions is at Annex G. They largely deal with the matters summarised in this report.

THE TREASURY
Parliament Street
LONDON
SW1

CIVIL SERVICE DEPARTMENT
Whitehall
LONDON
SW1

20 March 1981

Dear Brian,

INTERNAL AUDIT

We are writing jointly to you, after consultation with the Head of the Government Accountancy Service, about the general problem of the quality of internal audit service-wide, in the light of three recent indications of the need for fresh attention and action in this field.

2. Of particular importance is the Memorandum submitted by the C & AG to the Public Accounts Committee, analysing a recent survey by the Exchequer and Audit Department of internal audit in departments. It is subject to Parliamentary privilege until the PAC publishes it, but we enclose a copy, with Douglas Henley's agreement, on a confidential basis. The Memorandum is highly critical. Its message is that the general standard of internal audit units is too low and is particularly inadequate in relation to the audit of computer-based systems. These faults are attributed to insufficient involvement at senior levels in departments, a lack of professional skills and management within the audit units, personnel policies which result in staff being engaged in internal audit for too short a period, and inadequate direction from the centre.
3. The two other pieces of evidence are the results of surveys commissioned by the CSD last year on aspects of computer audit. Copies of these are also enclosed. They also report serious deficiencies.
4. These criticisms do not apply with equal force to all departments. We have already seen some comments from those who feel that they are not wholly fair. There will be opportunity later, when the report is published, to deal with its contents in more detail. But we believe that the need is demonstrated to bring the performance of internal audit up to an acceptable standard.
5. This is not just a matter of defence against criticism. Effective internal audit is an essential service for departmental management. The investigations of the Exchequer and Audit Department are no substitute for an efficient internal audit. They fulfil a different purpose; the C & AG reports to Parliament, whereas internal audit serves departmental management.
6. The range and purpose of internal audit are set out in paragraphs C 21-24 of Government Accounting. This makes clear the

Sir Brian Hayes KCB

importance of an effective system to the department, particularly to the Permanent Secretary and his senior management. It is the business of internal audit to report not only on propriety, security, completeness and accuracy of departmental activities and transactions, but also on the reliability and efficacy of financial control systems. In short, internal audit is a potent weapon to help us control our businesses, look after our assets, and secure value for money. The Head of Internal Audit should have direct access to the Principal Finance Officer, and where necessary to the Head of the Department; and get real and visible backing from them.

7. The Treasury, with the help of the CSD, has an important part to play in bringing about improvements in internal audit. The imminent transfer from the CSD to the Treasury of the Accountancy Finance Audit Division will bring together, under Treasury leadership the responsibility for setting standards and procedures in Government financial control, including internal audit, and the professional capability of developing and monitoring the standards and procedures, and helping departments to make cost effective use of their own internal audit resources. Work has already begun on producing fuller audit standards and guidelines, an audit manual, and a wide range of specimen documentation. A new computer audit manual will be produced.

8. Help from the centre must extend beyond issuing written guidance. The Treasury and the CSD are reviewing the range of assistance they can provide, including help on recruitment and training.

9. Much must depend on action by individual departments themselves. Specifically we ask you, and the Permanent Secretaries of all major departments:-

- (i) To take a personal interest in reviewing and improving your internal audit arrangements and in ensuring that their importance is understood by, and recognised in relations with, Principal Finance Officers and Line Managers. You may wish to consider establishing an Audit Committee, chaired at senior level. Some departments have found this useful.
- (ii) To ensure that your Head of Internal Audit is suitably experienced, of appropriate grade, and preferably professionally qualified. We ask you to review the statement of objectives of internal audit in your department, and the job description of the Head of Internal Audit, and to submit them to the Treasury for approval by 30 September 1981. Where the description or grading of the job is to be altered you should also let us have your proposal for ensuring that the post is appropriately filled at the earliest possible date. All new appointments to the post should be cleared with the Treasury, and this will become the standard practice in future.

'iii) To agree with the Treasury on a provisional basis, at latest by 30 June 1982, the composition of your internal audit section. The development of these sections will have to be progressive, and it is unlikely to be completed until an appropriately qualified Head of Audit has been in post for some months and has brought his judgement to bear.

(iv) Where the department has substantial computer operations, to agree with the Treasury by the end of this year a course of action to bring audit to an acceptable standard within three years.

You may want to consult the Treasury and the CSD on these actions, well ahead of the dates given, and we would welcome your doing so. On items (ii) and (iii) the point of contact will be Geoffrey Littler in the Treasury. On more technical audit questions and on computer audit, your people should get in touch with Edwin Walker, in AFA Division, Treasury. Where new posts above delegated levels or other matters affecting the CSD are involved, that department should be consulted in the normal way.

10. We recognise that the necessary improvement in the standards of internal audit in all departments will be a very large exercise. However the C & AG concludes that the need is not necessarily for larger numbers overall, but for a greater proportion of more professional, highly graded staff. We cannot do everything at once, but it is important to set and keep up momentum.

11. There will be much to be done in developing and placing adequately qualified people to work in internal audit. We think you should ask yourself whether your personnel management arrangements will ensure that adequately qualified people are available to be posted to internal audit, receive any further training that is necessary, and are retained in the internal audit section for sufficient periods (normally not less than four years) to meet the needs of the work. The current proposals for a functional specialism are relevant, as they provide some central involvement in the management of staff trained and experienced in accounting-type work, and our hope is that it will provide a substantial impetus to the input of professional accountancy skills. We believe that the importance of internal audit justifies allocating to it a due share of really able staff, both accountants and others. Periods of duty in internal audit should swell the cadre of people from whom senior financial staff can in the future be drawn.

12. The key posts are those of the Head of Internal Audit and the senior staff who help him to plan and supervise the work. It must be our aim to produce and train officers who can occupy these posts with full competence within the Civil Service. This however will take time. In a number of cases it may be necessary initially to use outside consultants, particularly on computer audit, though we have to recognise that there is a nationwide shortage of people with the combination of computer and audit skills. When we know the size of the demand (see paragraph 9(ii)).

also, we shall consider with you what needs to be done in order to inform the unions, find appropriate candidates and settle terms and conditions.

13. Training will be a particularly important part of our efforts, and we will welcome assessments from departments of their training needs, as soon as these can be made, so that we can provide the most effective assistance. The Treasury and the CSD, in consultation with departments, will specify minimum training standards. From this specification, and the forecast of needs which departments provide, we shall be able to build up a picture of the resources needed for development and training; and as departments develop their plans further, they should keep in close touch with the College and the centre so that training resources can be developed to meet departments' needs. The Civil Service College is already planning improvements in training, including seminars for senior audit managers and on the audit of more advanced computer systems and departments will be kept informed of all further developments in the training plans of the CSD and Treasury.

14. This letter is being copied to the Permanent Secretaries of major departments on the attached list. We felt that it was right to start with these departments, but a similar letter will be issued shortly to other, smaller, departments, in a slightly different form to recognise their particular problem.

Your ever

Douglas Wass

DOUGLAS WASS

Ian Bancroft

IAN BANCROFT

Sir Brian Hayes KCB
Ministry of Agriculture Fisheries & Food
Whitehall Place
LONDON SW1A 2HH

Sir Douglas Lovelock, KCB,
HM Customs & Excise
Kings Beam House
39-41 Mark Lane
LONDON EC2R 7HE

Sir Frank Cooper GCB CMG
Ministry of Defence
Main Building
Whitehall
LONDON SW1A 2HB

Sir James Hamilton KCB MBE
Department of Education & Science
Elizabeth House
York Road
LONDON SE1 7PH

Sir Kenneth Barnes KCB
Department of Employment
Caxton House
Tothill Street
LONDON SW1

Sir Donald Maitland GCMG OBE
Department of Energy
Thames House South
Millbank
LONDON SW1P 4QJ

Sir John Garlick KCB
Department of the Environment
2 Marsham Street
LONDON SW1P 3EB

Sir Robert Cox KCB
Department of the Environment
2 Marsham Street
LONDON SW1P 3EB

Sir Michael Palliser GCMG
Foreign & Commonwealth Office
Downing Street
LONDON SW1A 2AL

Sir Peter Preston KCB
Foreign & Commonwealth Office
(Overseas Development Administration)
Eland House
Stag Place
LONDON SW1E 5DH

Sir Patrick Nairne KCB MC
Department of Health & Social Security
Alexander Fleming House
Elephant & Castle
LONDON SE1 6BY

Sir Brian Cubbon KCB
Home Office
50 Queen Anne's Gate
LONDON SW1H 9AT

Sir Peter Carey KCB
Department of Industry
123 Victoria Street
LONDON SW1E 6RB

Sir Lawrence Airey KCB
Inland Revenue
Somerset House
LONDON WC2R 1LB

Sir William Fraser KCB
Scottish Office
Dover House
Whitehall
LONDON
SW1A 2AU

Sir Kenneth Clucas, KCB,
Department of Trade
1 Victoria Street
LONDON SW1H 0ET

Sir Peter Baldwin KCB
Department of Transport
2 Marsham Street
LONDON SW1P 3EB

T.P. Hughes, Esq., CB,

INTERNAL AUDIT - STATEMENT OF OBJECTIVES1. Definition:

Internal Audit is an independent appraisal within the Department for the review of accounting, financial and other operations. It functions by measuring and evaluating the effectiveness of other controls and provides a service to corporate management.

2. Aims:

- a. To provide assurance to management that:-
 - i. Internal control systems (including computer systems) are adequate and are functioning efficiently and effectively.
 - ii. The policies and procedures established by management are being complied with, are appropriate in current circumstances and are not wasteful.
 - iii. The accounting records form a reliable basis for the production of the Appropriation, White Paper, and other accounts, including management and trading accounts.
 - iv. The information furnished to management in connection with decision-making processes is reliable.
- b. To draw the attention of management to:-
 - i. Deficiencies in the organisation or system of control.
 - ii. Instances of duplicated functions, excessive checking, wastage and other inefficiencies, and to suggest remedies.
- c. To provide advice on systems of control, provided that this does not detract from the objectives of the internal audit unit.
- d. Carry out any special reviews or assignments which may be required by top management and to initiate special reviews as necessary.

3. Scope:

- a. The review of the whole systems of control, financial and otherwise, established by management to secure as far as possible the propriety of transactions and the accuracy and reliability of the Departments records and to safeguard its assets including debts.
- b. The review of the value received for money spent including efficiency, economy and effectiveness in the use of resources in all areas.
- c. Taking reasonable steps to test the Departments' systems for safeguards against fraud and corruption.
- d. To audit such other bodies as the Permanent Secretary/Accounting Officers may agree.

While it is not the responsibility of internal audit to question policy decisions, the independence of their role entitles them to draw attention to any apparently uneconomical result flowing from a decision or from a long-established practice, which may be in need of review.

4. Standards:

The internal audit unit will be expected to perform its task in accordance with current best audit practice, and the standards promulgated by the central departments.

The HIA has the Accounting Officer's authority to seek and receive in confidence all papers and information needed to discharge the unit's responsibilities.

Auditing will be based upon the evaluation systems, and will include both compliance and substantive testing.

JOB DESCRIPTION

TITLE: HEAD OF INTERNAL AUDIT

PURPOSE: The main purpose of the job is to provide Accounting Officer with an independent appraisal of the Departments internal control over its business, including efficiency, economical conduct and the safeguarding and proper use of resources throughout the organisation.

PERSON: The officer occupying this post will have appropriate experience of audit and audit management. These qualities will normally be in addition to a professional qualification in accountancy. A knowledge of government accounting and computer based systems is desirable.

MAIN ACTIVITIES:

- i. Planning and programming audits:-
 - a. Formulates long term plan.
 - b. Formulates annual operating plans based on the long term plan, both of which are agreed with top management.
 - c. Reviews progress: revises plans as shown necessary by implications of audits being performed and developments in the Department's activities, organisation and systems.
 - d. Programmes audit work on basis of plans, taking account of availability, experience of expertise of audit staff.
 - e. Advises senior management on audit resource capability to meet plans.
 - f. Audit reports will be addressed to senior managers with a copy to the PFO for all major audits. Reports will be followed up in the first instance by the HIA.
 - g. Reports to the Accounting Officer (via the Principal Finance Officer) on progress made towards fulfilling the plans and significant matters arising from audits.
- ii. Directing and monitoring audits.
- iii. Audit staff management and training.

JOB DESCRIPTION (continued)

- iv., Liaison with Divisional Management, OGD's, E&A Department, and AFA Treasury on audit matters.
- v. Representing the Department on audit matters.
- vi. Commenting on the adequacy of control in new systems.

NOTES ON ROLE:

- i. It is the Accounting Officer(s) responsibility to ensure that adequate and effective arrangements for internal audit exist in his Department. The Head of Audit has the day to day responsibility, and the appropriate authority, to ensure that this is done.
- ii. The Head of Audit is authorised to act independently in expressing opinions and recommendations arising from his work. He has a right of access to the Accounting Officer where he judges this necessary.
- iii. The Head of Audit shall have no executive or line management responsibilities outside Audit Section, neither will he be directly responsible for the development or implementation of new control systems.
- iv. The Head of Audit is expected to keep abreast of new developments in his field of interest.

SKETCH ACTION PLAN FOR COMPUTER AUDIT

1. Establish Objectives for Computer Audit
 - 1.1 Define Computer Audit Function and Terms of Reference in the light of Internal Audit's own T.O.R
 - 1.2 Agree priorities and areas of coverage. Scope of Computer Audit (Appendix)
 - 1.3 Agree the approach to audit
 - Systems Based Audit of Computerised Systems
 - Relation of Computer Audit to General Audit
 - Role of computer auditor
 - Systems Audit Techniques
 - Specialised Computer Audit Techniques
 - Procedures for performing the audit.
2. Agree the structure and organisation of the Computer Audit Function within the audit division.
3. Staffing
 - 3.1 Produce Job descriptions and specification.
 - 3.2 Decide on structure, grade, numbers and organisation.
 - 3.3 Agree on need for professional qualifications.
4. Training
 - 4.1 Produce a training profile for EO, HEO, SEC, Prin computer auditors

4.2 Plan for immediate training programme for next year and years thereafter

4.3 Levels of Competence to be attained

4.4 The need for field guidance and the way to achieve this

4.4.1 Using AFA

4.4.2 Using external consultants

4.4.3 Using experts within the department but possibly located elsewhere

4.4.4 Using experts from other departments

4.4.5 Learning on the job

4.4.6 Secondment to DP department

4.5 Produce or obtain computer audit guidance material. Use to form basis of both training and audit procedures.

5. Planning

5.1 Link with general audit. Who is responsible for the various systems.

5.2 Risk analysis

Establish Priorities

5.3 Establish cycle for reviewing systems

5.4 Develop yardstick for planning manpower/resource allocation to audits

5.5 For systems under development establish points in development cycle at which audit could examine

6. Computer Audit Procedures

6.1 Method of Working

Initiation

Fact Finding and Recording

Evaluation

Testing

Reporting

6.2 Establish standards on documentation of recording systems, working papers, reporting.

6.3 Establish method for supervising and planning audits.

6.4 Establish method of coordinating reporting and results from audits. Need to link results from different audits for high level evaluation in very large systems.

ASPECTS OF CONTROL IN COMPUTER BASED SYSTEMS1. EXISTING SYSTEMS
INSTALLATION

1.1 The effectiveness of the specific controls built into individual application systems can be jeopardised unless an acceptable standard of discipline is maintained over computer operations. It is also necessary to protect the department's investment in hardware, software and data. The auditor, therefore, needs to be concerned with the procedures for:-

1. file control eg creation, storage and use
2. program control eg amendment, testing and documentation
3. job control eg logging and review
4. data control eg conversion, validation and terminal access
5. hardware protection eg maintenance, back up and standby and inventory control.

1.2 APPLICATION

Control over individual applications may be exercised by clerical procedures and/or computer processes in either case the auditor will be concerned that

1. all input is authorised, complete and accurate and processed only once
2. processing is accurate and complete
3. master files contain accurate and authorised data
4. output is accurate and complete and distribution is controlled
5. the information trail through the system is complete.

1.3 OPERATIONAL EFFICIENCY

An efficiency audit is concerned with the department's use of the computing resource. It is a highly technical area (which will be outside of the experience of most auditors) and might include

1. job scheduling
2. system design philosophy
3. equipment utilisation
4. standards
5. maintenance policy.

2. DEVELOPING SYSTEMS

2.1 APPLICATIONS

Development control is applicable both to new systems and to amendment of existing systems. The auditor will be concerned that the final system meets the requirements outlined in para 1.2 above and will, therefore, need to be satisfied that there is adequate provision for:-

1. documentation
2. user involvement
3. testing and acceptance
4. training.

2.2 PROJECT MANAGEMENT

In addition to satisfactory system design the auditor will also be concerned with the quality of project management and will therefore be interested in standards for

1. feasibility studies and investment appraisals including costings
2. procurement of equipment
3. approval procedures
4. cost and project monitoring
5. consultation with all interested parties
6. post implementation review
7. an overall computing strategy.

TRAINING BY THE CIVIL SERVICE COLLEGE

Systems Audit

2. The basic "Systems Audit" course (Module 'A', 5 days) was made residential and more intensive in 1981/82; the new format is currently under review. We intend to run 8 courses in 1982/83.

Audit Management

3. We are introducing this year a course on "Departmental Audit Management" (5 days) which will run twice in 1982/83. A further course "Managing Audit Teams" (4 days) was reviewed this year and will also run twice in 1982/83.

Statistics for Auditors

4. A course on "Statistics for auditors and accountants" (5 days) is presented by the Statistics and Operational Research Directorate. Other courses under consideration for 1982/83 are "Analysis of costs by statistical methods" and "Sampling schemes for auditors".

Computer Audit

5. There are computer audit courses as follows:

- (a) Introduction to computers for auditors (Module 'B', 5 days)
- 2 courses in 1982/83.
- (b) Audit of computer applications (Module 'C', 5 days) - 3 courses in 1982/83.
- (c) Audit of computer administration and system development (Module 'D', 5 days) - 3 courses in 1982/83.
- (d) Principles of file tab for auditors (Module 'E', 5 days) - 3 courses in 1982/83.
- (e) Advanced computer technology for auditors (Module 'F' under development) - 1 course planned for 1982/83.

Lecturing Staff

6. The Economics and Accountancy Directorate has a complement of 5 internal audit lecturing posts (2 Chief Accountant, 3 SEO) but the 2 Chief Accountants are also required for some accountancy courses. The systems audit SEO post has been vacant but will be filled in April this year. One of the SEO computer audit lecturers is due to retire in July. We are having difficulty finding a replacement; we are currently advertising outside the Civil Service.

Institute of Internal Auditors

7. For the computer audit courses, accreditation is being sought by the College for purposes of the Institute of Internal Auditors' Qualification in Computer

Auditing. The College is also arranging with the Institute for registration as an approved tuition provider for the Institute's Diploma in Internal Audit.

Backlog

8. Our information on the present backlog (from applications actually received) shows the following numbers nominated but not placed:

Module 'B' - 15

Module 'C' - 18

Module 'D' - 7

The MOD tell us their annual requirement for computer audit courses is likely to be about 10 students for Module 'B' and 4 for each of Modules 'C', 'D' and 'E'. They are considering the members they might want to put forward for the IIA Diploma examinations (at present not likely to be more than 12).

9. We are planning to organise one extra Module 'B' and one 'C' during this academic year to clear most of the backlog as notified to us. For 1982/83 we will probably have some flexibility in that we may not need to run 3 'E' Modules and we may not necessarily develop a Module 'F' in the form so far considered. Additionally, we are investigating alternative methods of providing the basic instruction contained in Module 'B'.

Internal Audit Manuals

All internal audit units will have a comprehensive set of manuals by January 1983. These will consist of four separate loose-leafed volumes of matched size (A5) and style as follows:-

Volume I Comprehensive instructions on the organisation and operation of internal audit. Covering such things as standards, structure, objectives, training, glossary of terms etc. It will also incorporate a bibliography and an index to all volumes.

Volume II A series of papers covering techniques, types of audit and other matters of audit interest. We are planning to issue at least ten papers as the initial distribution. Each paper will comprehensively cover its subject field and will also serve as a stand-alone training handout.

Volume III Computer audit guidelines - concepts and techniques. It has been decided to adopt the Chartered Institute of Public Finance and Accountancy's (CIPFA) publication, which was developed with Treasury assistance.

Volume IV Computer audit guidelines - operations. This is a companion volume to Volume III and will be published probably in late 1982.

PAC QUESTIONNAIRE

QUESTIONS TO THE TREASURY

1. Have objectives for internal audit now been approved in all the major departments? What are these objectives and are you satisfied that they will be vigorously pursued by senior management?
2. Much will depend on the staff appointed to the key internal audit posts in departments. What grade are these posts in the major departments; how many have been filled; how many are being filled by professionally qualified staff?
3. In March 1981, the C&AG reported that over 60% of internal audit staff were in the Executive Officer or Clerical grades. What grading structure is proposed in the new plans for major departments which were due to be agreed with the Treasury on a provisional basis by 30 June 1982?
4. What is the total number of internal audit staff in the major departments? How does this compare with a year ago; what change is expected in the next 2-3 years; and are you satisfied that internal audit is being given sufficient resources for the tasks now facing it?
5. What improvements have been made in internal audit training, particularly for those involved in computer audit?
6. What firm progress has been made so far in the areas of functional specialism and career development as a means of improving internal audit standards and performance?
7. How do you propose to maintain the initial impetus given by the Wass/Bancroft letters? What arrangements have the Treasury made to monitor progress by departments in improving standards; are you limited to giving advice or do you have a more positive role; and do you have enough qualified and sufficiently senior staff to ensure the necessary impact, particularly in the difficult early stages?

8. Are there any areas of internal audit work where notable improvements have already been achieved during the past year?
9. Have you agreed with departments the action necessary to bring computer audit up to an acceptable standard within three years? What are the main features of this action?
10. What progress has been made towards producing:
- (a) a fuller statement of audit standards and guidelines?
 - (b) an internal audit manual?
 - (c) a computer audit manual?

When do you expect these to be completed?

11. What action has been taken following your letter to smaller departments and those responsible for executive non-departmental public bodies?
12. What is your latest estimate of the timescale for bringing internal audit up to a satisfactory standard in both major and smaller departments?

Gost Mack

PRIME MINISTER

PARLIAMENTARY AFFAIRS

We seem to have Parliamentary problems over the role of the Comptroller and Auditor General.

I attach the text of the amendment to the Local Government Bill tabled this week by Joel Barnett and Edward Du Cann with all-Party support.

The amendment must be taken as part of Monday's business. The business managers may well conclude that the House would be likely to carry the amendment regardless of the Government's position. It is possible, but perhaps unlikely, that the sponsors should be persuaded to withdraw if the Government promised an alternative amendment going some way to meet them. But, given the history of recent controversy about the C&AG and the specific complaints about the Government's decision to press ahead with the Audit Commission whilst the C&AG issues remained unresolved, I doubt whether Messrs. Barnett and Du Cann will fall over themselves to be accommodating.

The Financial Secretary is writing to colleagues about the problem this evening, and we will include his letter in the Cabinet folder. The Chancellor and Mr. Heseltine will be briefed to raise the matter in Cabinet. The Lord President and the Chief Whip will probably wish to contribute to the discussion.

(The consultations with senior Backbenchers about the C&AG are at present due to begin on Monday. There is some prospect that the Opposition will stir this particular pot further by taking PAC business for their half day on Wednesday).

MD

31 March 1982

Local Government Finance (No. 2) Bill continued

Accountability to Parliament

Mr Joel Barnett
Mr Edward du Cann
Mr Gerald Kaufman
Mr Gordon Oakes
Mr Michael Morris
Mr Peter Hordern

Mr Ted Graham
Mr Dick Douglas
Mr W. W. Hamilton

Mr Geoffrey Robinson
Mr Harry Cowans

Mr Michael Shaw
Mr Donald Anderson

To move the following Clause:—

(1) The Commission shall undertake or promote studies of the impact on economy, efficiency and effectiveness in the provision of local authority services and in the financial management of local authorities of statutory provisions and of guidance and instructions issued to them by Ministers of the Crown.

(2) The Comptroller and Auditor General shall have access to all documents and records held by the Commission relating to any such studies.

(3) The Comptroller and Auditor General shall report to Parliament the results of his examination of any such documents and records, provided that he shall not in any such report refer to the affairs of any individual authority in a way which identifies that authority by name or otherwise.'

Mr Joel Barnett
Mr Edward Du Cann
Mr Gerald Kaufman
Mr Gordon Oakes
Mr Michael Morris
Mr Peter Hordern

Mr Ted Graham
Mr Dick Douglas
Mr W. W. Hamilton

Mr Geoffrey Robinson
Mr Harry Cowans

Mr Michael Shaw
Mr Donald Anderson

Page 16, line 17 [Clause 21], after '20', insert 'or section (Accountability to Parliament)'

Mr Secretary Heseltine

Page 5, line 9 [Clause 5], after 'with', insert '(a)'

Mr Secretary Heseltine

Page 5, line 10 [Clause 5], leave out from 'and' to end of line 11 and insert—

'(b) such bodies of accountants, such bodies representing local authority employees, and such other organisations or persons as appear to him to be appropriate.'

Mr Secretary Heseltine

Page 7, line 26 [Clause 8], after 'prepare', insert ', and keep under review.'

BUSINESS OF THE HOUSE

Monday
5th April

3.30
≡

Remaining stages of the Local Government Finance (No.2) Bill
and of the Reserve Forces Bill (Lords).

Tuesday
6th April

≡

Second Reading of the Finance Bill.

Wednesday
7th April

7 =

Supply (17th allotted day) :

Public Business

At Seven o'clock - Opposed Private Business.

Bank Tr. Order Business

Thursday
8th April

The House will meet at 9.30 am., take Questions until 10.30 am
and Adjourn at 3.30 pm until MONDAY 19TH APRIL.

CONFIDENTIAL

HL
Saw Mac



10 DOWNING STREET

bcc John Vereker

E		
(HMT)	DTde	CDL
HO	DEngy	DTrans
FCO	CS-HMT	
DI	PGO	
DES	MOD	
DEmp	DEnv	
MAFF	NIO	

From the Private Secretary

25 March 1982

Role of the Comptroller and Auditor General

The Prime Minister was grateful for the Chancellor's minute of 24 March which recorded the latest moves in the discussions on the role of the Comptroller and Auditor General.

The Prime Minister agrees with the approach set out in the Chancellor's minute. She, in particular, agrees to the future discussions with representatives of both sides of the House, and hopes that the Lord President together with Treasury Ministers will press ahead with these so as to keep the initiative with the Government on this issue.

I am sending copies of this letter to the Private Secretaries to the other members of E Committee, David Heyhoe (Lord President's Office), Murdo Maclean (Chief Whip's Office) and David Wright (Cabinet Office).

M.C. SCHOLAR

John Kerr, Esq.,
H.M. Treasury.

CONFIDENTIAL

Saw



Prime Minister ①

Agree to these

discussions with

Treasury Chambers, Parliament Street, SW1P 3AG *backbenchers*
01-233 3000

going ahead?

PRIME MINISTER

Yes

MCS 24/3

ROLE OF THE COMPTROLLER AND AUDITOR GENERAL

On 9 February E Committee invited me, in consultation with the Lord President of the Council and the Chief Whip, to discuss with Mr. du Cann the Government's position on the role of the C&AG; and to report the outcome to the Committee.

2. The Lord President and I, with the Financial Secretary, met Mr. du Cann on 5 March. On the "status" issues his position is broadly similar to ours - that the present arrangements for appointing the C&AG work well and do not need to be changed; nor do the staffing arrangements for the Exchequer and Audit Department. But Mr. du Cann made clear his continued support for the PAC's view that the C&AG should be able to follow public money wherever it goes. He sees this as a necessary part of the apparatus for controlling public expenditure, a substantial part of which is not now subject to scrutiny by the C&AG. There should be accountability to Parliament for all voted funds, irrespective of the extent of Ministerial responsibility.

3. In the course of the meeting we were not able to change Mr. du Cann's views on this main issue. But we felt that he had not fully understood the extent of the C&AG's present oversight, nor appreciated all the implications of the PAC's proposals. This is likely to be true also of many others in the House who at present oppose the Government's position. The Lord President and I therefore concluded that the best way forward would be to arrange further discussions, first with a small group of senior Conservative back-benchers, and then with



a slightly wider group representing both sides of the House. These discussions would give us an opportunity to explain the Government's views in some depth, and thus, we hope, to widen the support for them; and the involvement of the senior back-benchers most concerned with the subject would reduce the immediate pressure in the House for the Government to make a statement.

4. We mentioned to Mr. du Cann the possibility of a meeting with representatives of both sides of the House, making clear that it was subject to the approval of colleagues. He said that he would support it, and would be willing to join in. The Lord President has also since raised the matter informally with Mr. Silkin who thought that it was the right way to proceed and would co-operate.

5. I should be grateful therefore for your agreement to these further discussions. We would set out the Government's position on the basis agreed by E Committee on 9 February. I attach a revised version of Annex A to E(82)8, which reflects the views of the Committee. Also, if the memoranda by the Secretary of State for Industry and Sir Robert Armstrong which were requested by the Committee are now circulated and agreed they could be incorporated in the exposition of the Government's approach.

6. The Lord President and I would, of course, report back to E Committee the outcome of these discussions. If we considered that any change in the Government's position was advisable, we would seek the approval of the Committee.

7. For the first meeting we have in mind to invite Mr. Peter Hordern and Sir Donald Kaberry to join Mr. du Cann. Presumably Mr. Barnett would be one of the Opposition representatives at the second, wider, meeting.

CONFIDENTIAL



8. The Lord President and I do not consider that there should be a formal announcement of the discussions as this would give them the wrong status. But we would be willing to acknowledge that they were in progress.

9. I am copying this minute to the other members of E Committee, the Lord President, the Chief Whip, and Sir Robert Armstrong.

G.H.

24 March 1982

CONFIDENTIAL

PROPOSALS CONCERNING THE COMPTROLLER AND AUDITOR GENERAL AND PAC

The Government have carefully considered the views expressed during the Debate in the House of Commons on 30 November 1981, on the Role of the Comptroller and Auditor General (C&AG).

The Government accept the principle that the C&AG should be able to follow public money wherever it goes subject only to the limits set by the extent to which Ministerial responsibility to Parliament is limited.

Under such a principle, the scope for investigation by the C&AG covers the whole of the Civil Service, and a large number of public bodies, ^{including} the National Health Service. If there are any doubts that his scope is as wide as this, the Government wish to take this opportunity to make the position abundantly clear.

The C&AG does not have access to the books of the nationalised industries, local authorities and private sector companies and individuals in receipt of Government grants or loans. The Government wish the C&AG to use his full scope to report on, and the PAC their full scope to investigate, the terms and conditions under which departments have made funds available to such bodies, whether they meet statutory requirements, and whether the terms have been complied with, and the adequacy of monitoring control arrangements and of the information available to the department.

In this important sense public money can and should be followed wherever Ministers may be held responsible for correcting any faults or weaknesses that may be discovered in the administration of the funds involved. The boundaries of the C&AG and the PAC should essentially be the same as those which limit Ministers in their relations with local authorities, nationalised industries and private companies. It is Parliament which has limited Ministers' powers in respect of such bodies, and it has effectively limited its own powers thereby. Nonetheless, in the light of the views expressed in the Debate on 30 November, the Government have re-examined the issues relating to the status of

the C&AG and the extension of his role, and they make the following proposals which can be implemented immediately under existing legislation.

Status of the C&AG and his staff

(a) Appointment of the C&AG

The Government believe that the independence of the C&AG is best preserved if he remains an office-holder under the Crown, and that as for other such appointments responsibility for advice to the Crown about the appointment of a new C&AG should remain with the Prime Minister. The Government have stated the intention, and implemented it, of consulting the Chairman of the PAC about this appointment. The Government reaffirm this intention and hope that it will become a standing convention.

(b) Staffing of the Exchequer and Audit Department

The Government share the concern of the PAC that the C&AG should have available adequate resources to carry out his responsibilities. The E&AD has been exempted from the current Civil Service manpower cuts, and is part way through a substantial five-year expansion programme, which reflects the C&AG's assessment of his requirements. The Government will continue to make the necessary provision for all reasonable plans put forward by the C&AG for staff numbers, and will take full account of any views which the PAC may wish to express about the complementing of the Department.

(c) Section 3 of the Exchequer and Audit Act 1921

The PAC accept that discretionary powers, as in Section 3(1) of the 1921 Act, to extend the range of C&AG's audit to new accounts need to be preserved in some form. The Treasury will use its powers under this sub-section only after the PAC agree that the direction should be given. The Treasury's power under Section 3(3) of the Act to arbitrate between the C&AG and departments is obsolete, and has not been used in recent times. The Treasury will not use it in future.

Audit of the E&AD

The Government accept the PAC's proposal that the Treasury should appoint auditors for the E&AD, and that their reports be laid before Parliament.

Range of C&AG and of PAC activity(a) Nationalised Industries(i) Scrutiny of Nationalised Industries' Annual Accounts

The former Select Committee on Nationalised Industries regularly held discussions with each industry. This lapsed when the Select Committee was abolished. The Government would welcome systematic Select Committee hearings on the nationalised industries. However, it would be wrong to subject the industries and their chairmen to a multiplicity of enquiries by different Select Committees. This would lead to diversion of effort and additional costs in the nationalised industries, and would be inconsistent with the commercial approach which the Government seeks to encourage. It is for Parliament to decide how in these circumstances the scrutiny of nationalised industries should be carried out. It may wish to have the advice of the Liaison Committee of Select Committee Chairmen.

The PAC proposed that they should scrutinise the nationalised industries on the basis of reports by the C&AG. The Government remain opposed to the C&AG having access to the books of the nationalised industries. This would extend his responsibilities beyond the range of Ministerial responsibility; and if Ministers were not to be put in the position of being less informed than Parliament they would need a significant increase in their staff. But if Parliament so wish, the Government see no objection to PAC hearings relating to the published annual report and accounts of the industries. The industries' sponsoring departments and their chairmen could be examined. Such hearings might be linked with any enquiries the C&AG chose to make into the monitoring and control arrangements which sponsor departments exercise over their industries. For this purpose he would have full access to information and papers available to the sponsor department concerning each industry including papers relating to the appointment of auditors to the nationalised industries, and to the form of accounts direction given by the Secretary of State. Both of these topics would be available to the PAC to investigate.

(ii) Efficiency and audits: Monopolies and Merger Commission Enquiries,

The Government consider that the arrangements for the MMC to carry out enquiries in the nationalised industries, as announced by the Financial Secretary on 30 November 1981, represent the most effective way of examining efficiency in the nationalised industries. The MMC already have the necessary skilled personnel and the experience. The Government do not, however, want these arrangements to exclude the PAC from examining the discharge of Ministerial responsibilities in respect of this work.

The Government intends that each nationalised industry will have at least one major reference every four years. The Government are willing to consult the PAC about the programme of references to the MMC. This would ensure that the PAC could play a part in deciding what efficiency audits were undertaken.7

When reports are to hand, the Government would welcome action by the PAC to assist in the follow-up to MMC reports. The Secretary of State for Trade will send a copy of each Report to the PAC Chairman. Once the industry's response to the MMC's recommendations and the Government's views thereon have been put before Parliament, the Committee will be invited to question the sponsor department, and industry Chairman, about the Report and the industry's proposals to remedy defects. (The Government do not think that it will be appropriate for the Committee to question the MMC directly on the report, since this would be incompatible with the MMC's quasijudicial role.) The PAC may also wish later to monitor the progress that has been made in implementing the industry's response to the Report. The PAC may wish to make a report, to which the Treasury and departments would respond in the normal way.

(b) National Enterprise Board (NEB)

The PAC recommended that the C&AG should have access to the books of the NEB. In preparing the legislation bringing together the NEB and the NRDC the Government will be considering the audit arrangements for the combined body. These should take account

To be offered only if necessary to achieve acceptance of the proposals as a whole.

CONFIDENTIAL

of the principle stated above that the field of responsibility of the C&AG and of the PAC should match that of Ministers, and of the intended nature of the work of the new body, including its involvement with private sector companies.

(c) Local Authorities

The Government disagree with the PAC substantially on this one issue. They do not consider that the PAC's proposals adequately recognise the responsibility that local authorities have to their ratepayers and electors. The Government's proposals for an Audit Commission for local authorities in England and Wales are already before the House of Commons. The reports of that Commission will be laid before the House, and the Government hope that the C&AG will participate fully in the work of the Commission.

H M TREASURY

11 March 1982

8 9 10 11 12 1 2 3 4 5 6 7

24 MAR 1982

Govt.
PacheryPRIME MINISTER

Role of the Comptroller and Auditor General
(E(82)8)

BACKGROUND

The Chancellor of the Exchequer makes proposals in E(82)8 on the Government's response to the views put forward during the Debate in the House of Commons on 30 November 1981 on the role of the Comptroller and Auditor General (C & AG). He seeks authority to open discussions, on the basis of the draft Statement at Annex A of his memorandum, with Mr Du Cann and Mr Barnett who put down an Early Day Motion supporting the report of the Public Accounts Committee (PAC) on the C & AG and calling on the Government to reconsider its position.

MAIN ISSUES

2. The Chancellor of the Exchequer's objective is to move sufficiently to avoid the risk of defeat in the House but not so far as to retreat from the main points of principle in the Government's White Paper of July 1981, Cmnd 8323. The draft statement brings out that there is already wide scope for the C & AG to investigate and it encourages the PAC to concern themselves more than at present with nationalised industry questions. The Chancellor of the Exchequer recommends no changes in the method of appointing the C & AG but suggests that he should be made responsible to the House, through the PAC. His proposals are governed in part by a wish to avoid legislation which, he judges, would be highly contentious.

The Status of the C & AG

3. The PAC recommended that they should be able to give the C & AG directions to investigate particular programmes or projects. The Chancellor of the Exchequer proposes that, as a substantial concession, the Government should now agree that the C & AG "should be independent of the Government and should be responsible to the House, through the PAC". He suggests that it should be possible to give practical effect to this now but the draft states that in the event of legislation "the Government would be prepared to make the C & AG directly accountable to the House".

4. Before approving the opening discussions on the draft, the Committee should establish clearly what the Chancellor of the Exchequer means by "responsible to the House" and whether the implications are acceptable; Mr Du Cann and Mr Barnett will undoubtedly probe him on this and seek to get the maximum mileage out of it. On one interpretation the concession means little. The C & AG is already accountable to the House in that the 1866 Act requires that "every appropriation account shall be examined by the C & AG on behalf of the House of Commons". He takes heed in practice of the wishes of the PAC and, through them, the House; he is open to criticism for any shortcomings in his performance. (1)

5. But the Chancellor of the Exchequer suggests, in paragraph 6(a) of E(82)8, that he has in mind a substantial concession which "could compromise [the C & AG's] independence by exposing him to direction by the House". It would be helpful if he could clarify for the Committee what would be the consequences of such direction and what in practice would be the difference from the present situation. The only example which he cites is that other Committees of the House could ask the C & AG to investigate on their behalf; the inference is that this could be a major development in that C & AG might then be concerning himself not with how policies are put into effect, which is the main concern of PAC, but with the policies themselves. If this is considered objectionable, would it be possible and desirable to ensure that members of the C & AG's staff loaned to other committees did not have the same rights of access to departmental papers that they have when operating for the PAC? (2)

6. The Committee will also wish to consider whether a proposal that the C & AG should be independent of the Government and responsible to the House, through the PAC, is consistent with maintaining that he should not be appointed by the House.

Appointment of the C & AG

7. In its report of March 1981 the PAC recommended that the C & AG should become an Officer of the House appointed by the Queen by letters patent on the recommendation of the House of Commons. The proposed draft statement - sub-paragraph (a) on page 2 of Annex A - reaffirms the Government's view that responsibility for advice on this appointment should remain with the Prime Minister who, as a matter of practice, should consult the Chairman of the PAC.



8. If the Government is to stand on the principle that the C & AG should be appointed on the recommendation of the Prime Minister, and not on the recommendation of the House of Commons, I strongly recommend you to resist any suggestion which might be made in discussion that the Government should go further by giving an assurance that the advice of the Chairman of the PAC would "normally" be followed by the Prime Minister in making a recommendation to the Queen. Such an assurance would put the nomination effectively in the hands of the Chairman of the PAC; the exercise of your responsibilities for the appointment would be devalued to the point where a recommendation other than that of the Chairman's nominee would be exceptional and abnormal, and therefore the cause of some kind of crisis.

Exchequer and Audit Department (E & AD) and 1921 Act

9. The PAC want the staff of the E & AD to become servants of the House. The draft statement - sub-paragraph (b) on page 2 of Annex A - maintains that E & AD staff should remain civil servants but points out that the E & AD has been exempted from the current manpower cuts so as not to thwart its current expansion programme. If at any stage E & AD staff were to become servants of the House - as might be thought appropriate if the C & AG himself were to be appointed by the House - legislation would be necessary and the question would arise of whether they should continue to have salaries linked with civil service grades or whether they should have their own salary structure.

10. The points in sub-paragraph (c) of the draft statement are intended to meet the criticism, largely based on misconceptions, that the C & AG is unduly vulnerable to Treasury influence. The statement gives assurances on the Treasury's use of discretionary powers under the 1921 Act and proposes that in future the Treasury should appoint auditors for the E & AD rather than carry out the audit itself.

Nationalised Industries, Public Corporations and Local Authorities

11. The PAC proposed that the C & AG should have access to the books of the nationalised industries, public corporations, and all companies and other bodies in receipt of public funds; and that he should take control of the District Audit Service.

12. The draft statement stands firmly on the principle that the C & AG's responsibilities should not extend beyond the range of Ministerial responsibility and that he should not have access to the books of the nationalised industries and other bodies. While warning against burdening the nationalised industries with a multiplicity of enquiries, it says that the Government would welcome systematic hearings by select committees on nationalised industry questions - either by the PAC itself, or by the departmental select committees or by reviving the Select Committee on Nationalised Industries. It further proposes that the Government should consult the PAC about the programme of references of nationalised industries to the Monopolies and Mergers Commission (MMC) and encourages the PAC to take an interest in the follow-up to MMC reports. The Chancellor of the Exchequer acknowledges that discussion of the programme of MMC references with the PAC could lead to difficulties and delay.

13. The question of whether the C & AG should have access to the books of the National Enterprise Board (NEB) is left over for consideration when the Government decides on the audit arrangements for the combined NEB and National Research and Development Corporation. The clear implication, however, is that the C & AG will not be allowed access to the books of the new organisation in any way which would infringe the general principle that the C & AG's responsibilities should match Ministerial responsibilities.

14. The Government has already, in introducing the current Bill to set up an Audit Commission for local authorities in England and Wales, rejected the proposals for bringing local authority audit under the C & AG.

HANDLING

15. After the Chancellor of the Exchequer has introduced his paper you might suggest that the Committee should first consider what are the implications of the general proposition that the C & AG should be "responsible to the House, through the PAC"; should then go on to look at each of the proposals in the draft statement at Annex A of E(82)8 under the two main headings of the status of the C & AG and his staff and of the range of C & AG and PAC activity; and should finally consider whether the package as a whole is likely to meet present criticisms of the Government's stance.



16. The Committee will wish to hear the views of the Lord President of the Council on the recommendations affecting the status of the C & AG and his staff and also to have his advice, and that of the Chief Whip, on the likely reception of the package as a whole. The Secretaries of State for Industry, Energy, Transport, Trade and Scotland will want to comment on the recommendations for the scrutiny of nationalised industries' accounts and for the proposed role for the PAC in relation to MMC enquiries.

CONCLUSIONS

17. In the light of the discussion you will wish to reach conclusions on the following matters:

- (i) whether the draft statement at Annex A of E(82)8 is approved as a basis for consultations either in full or subject to any changes which might be agreed in discussion;
- (ii) if it is approved, whether the Chancellor of the Exchequer, in consultation with the Lord President of the Council and the Chief Whip, should be authorised to enter into discussions with Mr Du Cann and Mr Barnett and perhaps other back-bench Members;
- (iii) if there is disagreement over points of substance, whether the Chancellor of the Exchequer, in consultation with the Lord President of the Council and the other Ministers primarily concerned, should be invited to reconsider the position and to make further proposals urgently.

A handwritten signature in dark ink, appearing to read 'RWA'.

ROBERT ARMSTRONG

8 February 1982

MCS has seen



Treasury Chambers, Parliament Street, SW1P 3AG

M C Scholar Esq
No. 10 Downing Street
London SW1

17 December 1981

Dear Michael,

ROLE OF THE C & AG

I enclose a note as requested.

Paragraph 6 records that Treasury Ministers are considering what response the Government can make in the light of the Adjournment Debate. This of course covers the debate generally, not just the nationalised industries. This is the main point the Prime Minister might like to make to Mr Du Cann. She might acknowledge the strength of feeling of certain Members on this matter but not commit herself to substantial or early legislation.

Yours sincerely
Terry Matthews

T F MATHEWS
Private Secretary

ROLE OF THE C & AG

The Government's position is set out in a White Paper of July 1981 (Cmnd 8323). There was an Adjournment Debate about it on 30 November. The Financial Secretary was practically friendless - though this was not surprising as the other speakers were, naturally, those from the Select Committees whose reports were being answered by the White Paper. There were no new arguments.

2. There is, however, now an Early Day motion on the Order Paper, sponsored by Mr Du Cann and Mr Barnett, which has over 200 signatures calling for "legislation to allow proper accountability".

THE WHITE PAPER

3. This based itself mainly on the principle that the role of the C & AG should be limited to the area where there was ministerial responsibility to Parliament for the expenditure concerned.

THE MAIN ARGUMENT

4. The real substance of the argument is about the nationalised industries, and local authorities to whom of course very large amounts of public money go. The PAC seeks agreement to the principle that the C & AG ought to be able to "follow public money wherever it goes". But this fails to distinguish between cases where the money is voted for a specific purpose and cases where Parliament actually intends the detail of its spending to be at the discretion of the organisation to which it goes. In the first case it will be a Minister's responsibility to answer to Parliament for the expenditure in detail and it is perfectly reasonable and logical that the C & AG should follow it right through. In the second case a Minister will only be responsible for handing it over on proper terms and conditions, for seeing that these terms and conditions are complied with. It is reasonable for the C & AG to follow these processes; but irrelevant for him, in the cause of accountability, to pursue the detailed expenditure for which there is deliberately not accountability to Parliament.

LOCAL AUTHORITIES

5. In the local authorities' case the Government has published its proposals for an Audit Commission for England and Wales as part of its reform of local government finance. This will be able to look at any general issues including efficiency arising out of the audit of local authorities. Local authority auditors will continue to report to local authorities and through them to their electorates.

NATIONALISED INDUSTRIES

6. In the nationalised industries' case the Government has announced its proposals for more systematic use of the Monopolies and Mergers Commission for efficiency audits. It would be unreasonable, in the context of their being run as businesses - without ministerial answerability for day to day decisions - to superimpose C & AG's efficiency audits on top of this. Treasury Ministers are considering whether anything can be conceded in this field.

THE STATUS QUO

7. This gives the C & AG full audit of all expenditure (and revenue collection) by the Government, and by a large number of quasi-government bodies such as the Manpower Services Commission, Research Councils, Arts Council and the Scottish and Welsh Development Agencies. He also has full access to the books of over 500 grant-aided bodies of a non-commercial kind, including the universities and health authorities. He, of course, has full access to all departmental papers relating to the issue of public funds, the terms and conditions on which issues are made, and the monitoring and follow-up by departments.

8. The PAC is thus already in a position to do all that the old Select Committee on Nationalised Industries used to do - with the C & AG to help as well. It has not so far attempted to do this.

STATUS OF THE C & AG

8. The PAC has also sought to make the C & AG an Officer of the House, and E & AD a "National Audit Office" under a Public Accounts Commission of the House of Commons. They have also sought the power to direct him in the conduct of his audit, on behalf of the House.

9. Apart from the latter, which would compromise the C & AG's independence, there might be scope for some concessions on these second order questions if there was legislation to amend the Exchequer and Audit Acts.

10. There would also be scope for a technical concession on a power in the 1921 Exchequer and Audit Departments Act which appears to allow the Treasury to direct the C & AG - though it has never been used for such a purpose.

AD
AW

CONFIDENTIAL

Govt Bldgs (4)
Prime Minister



Are you content
with the draft statement?

Treasury Chambers, Parliament Street, SW1P 3AG

MUS 26/11

The Rt Hon John Biffen MP
Secretary of State
Department of Trade
1 Victoria Street
London SW1H 0ET

24 November 1981

John,

Note
Told CST's
office
by telephone
MUS 1/12

Yes

DEBATE ON THE ROLE OF THE COMPTROLLER & AUDITOR GENERAL

At the meeting of E(NI) last week we agreed that we would use the forthcoming Debate on the role of the Comptroller & Auditor General as the occasion for announcing the Government's proposals for improving the external scrutiny of nationalised industries' efficiency. I was invited to circulate the text of this part of the speech to colleagues on the Sub-Committee.

I now attach the terms in which I propose that the Financial Secretary will announce the Government's proposals during the course of the Debate. The text follows the recommendations of the NIP's Report and reflects the discussions we had in E(NI).

I should be glad if you and other colleagues will let me know quickly whether you have any comments.

I am copying to all Members of E(NI) and to Mr Ibbs and Sir Robert Armstrong.

Leon

LEON BRITTON

CONFIDENTIAL

DEBATE ON THE PAC REPORT ON THE ROLE OF THE C & AG - NATIONALISED INDUSTRIES

I should now like to turn to the nationalised industries.

2. The Government's reply to the recent PAC Report on the Role of the Comptroller & Auditor General (Cmnd 8323) promised a further statement on the question of improving the external scrutiny of nationalised industries' efficiency. In the White Paper the Government made clear - and I emphasise the point again today - that we fully share the PAC's concern about the need to promote the efficiency of the nationalised sector. This is particularly true where competitive pressures are weak or absent. However we were not convinced that it would be fruitful to replace the Monopolies & Mergers Commission as the appropriate body to undertake efficiency investigations so soon after its inception. As recently as last year Parliament legislated to give the Commission new powers to investigate the industries and they have made a promising start in using them. In the 4 studies completed during the last year - into the Inner London letter post, the Severn/Trent Water Authority, the CEGB and British Rail commuter services - they have successfully identified areas of weakness in the industries' operations. In the Government's view, as was explained in the reply to the PAC, the right course is to build on the existing structure not to supplant it.

3. The Government have therefore decided on a number of steps to strengthen and supplement the role of the Commission. First, there will be an increase in the scale of the Commission's operations. The intention is to increase the number of references to 6 in each year. The effect will be that each nationalised industry has at least one major reference every 4 years but that no individual part of an industry will normally be referred more than once every 4 years. The Commission's membership and staffing will be strengthened to deal with the increased workload. The Government will announce the programme of references annually for the year ahead.

4. Second, more effective follow-up - crucial if we are to get the best out of the Commission's reports. Although it is primarily for the industries to act on the reports' findings the Government

is strengthening the procedure for follow-up action. First, we intend to encourage the Commission to identify priorities in their recommendations, to quantify their proposals as far as this is feasible, and to make specific recommendations for action to implement them. The reports would of course continue to be published. But in the interests of accountability to Parliament a statement of the industries' response to the report will be made within 3-4 months of publication and this will be followed up by a further statement of progress after 12 months.

5. Thus the Monopolies & Mergers Commission in its strengthened form will remain the main instrument for the external scrutiny of these industries. But the Commission is not the only external body with a potential contribution to make. In the private sector good use is often made of the skills and expertise of management consultants. They have also been used in the nationalised industries to good effect on occasion on the initiative of either the Government or the industries. The Government believes that greater use could be made of such consultants to supplement references to the Commission wherever this would be appropriate and cost-effective.

6. These measures will supplement the Government's more general policies to encourage efficiency, notably the introduction of greater competition into the industries wherever possible. But this is a difficult area where there are no panaceas. We will continue to learn from our experience and build on it in the future.

25 NOV 1984

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RES. RESTRICTED

See head



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EE

The Rt Hon Francis Pym MP
Lord President of the Council
Privy Council Office
68 Whitehall
LONDON SW1

18 November 1981

Dear Francis

MA

DEBATE ON THE ROLE OF THE C&AG

I have seen Nicholas Ridley's letter to you of 11 November about the possibility of an early debate on the White Paper.

I agree that a debate on the PAC's proposals for a wider role for the Comptroller and Auditor General would be difficult to handle if we were not in a position to announce our own plans for strengthening the scrutiny of nationalised efficiency. At the same time, it will not help our dealings with the nationalised Chairmen, if the various changes we have in mind in the Government's relations with them emerge in a piecemeal fashion. Provided that we allow sufficient time before the debate for our proposals on the Monopolies and Mergers Commission and management consultants to be put to the Chairmen, as part of the wider package of changes recommended by the CPRS in the discussion document currently being considered, I see no difficulties about what Nicholas Ridley is suggesting.

Copies of this letter go to the other Members of Cabinet and to Sir Robert Armstrong.

Yours
David

DAVID HOWELL

RESTRICTED



1981 NOV 1981



GORE TALK



PRIVY COUNCIL OFFICE
WHITEHALL, LONDON SW1A 2AT

17 November 1981

Dear Nicholas,

Thank you for your letter of 11 November about the timing of any debate on the Role of the Comptroller and Auditor General. I indicated during questions on the business statement last Thursday that I was sympathetic towards the case for a debate in the near future, and I will keep in touch with you about the precise timing. I note what you say about the desirability of waiting until we have announced our proposals for the efficiency audit of the nationalised industries; a further factor will obviously be the timetable for debating the Audit Commission proposals in the Local Government Finance Bill.

I am copying this letter to members of the Cabinet, the Chief Whip, and Sir Robert Armstrong.

Handwritten signature

Handwritten signature

FRANCIS PYM

The Hon Nicholas Ridley AMICE MP
Financial Secretary to the Treasury
Treasury Chambers
Parliament Street
London SW1P 3AG



1. MAP
2. MCS
MCS
This is no longer an issue. The matters will be dealt in a debate on 19/xi.

Treasury Chambers, Parliament Street, SW1P 3AG supply day

The Rt Hon Francis Pym Esq MP
Lord President of the Council
68 Whitehall
LONDON
SW1

MAP
11/xi.

11 November 1981

Dear Francis

DEBATE ON THE ROLE OF THE C & AG

I understand that following Monday's deliberative meeting of the PAC which I attended Joel Barnett has approached you and has asked if the Government would agree to a full day's debate at an early date on the Government White Paper on the Role of the C & AG (Cmnd 8323) and the previous PAC Report. This is much as expected. The urgency from the Committee's point of view is that they want a debate on their own proposals, and the Government's counter proposals, for local government audit before the Local Government Finance Bill gets to the point of substantive discussion on the floor of the House.

Clearly we have to be sympathetic to the bid for a debate. But the request for a very early debate is doubly awkward. As regards local government audit, there is I think a case for saying that, after a Government Green Paper, followed by a PAC enquiry and a Government White Paper which in turn has led to the introduction of draft legislation, the time for wide-ranging review of options is passed, and the focus for debate should now be the Government's Bill. Subject to Michael Heseltine's views, however, I would not wish to stand on that point.

A more serious problem arises on the nationalised industry side. The Government White Paper was inconclusive on this point, and made it clear that there would be a further Government statement shortly on improvement of efficiency audit in the nationalised industries. As luck would have it, E(NI) Committee will next Thursday be considering proposals, on the basis of a paper from the Chief Secretary which, if agreed, would allow us to fill this important gap in the White Paper. We have always recognised that the Government's posture in debate about the White Paper would be necessarily a defensive one. It will be even more so if the debate takes place before we have announced our full proposals for efficiency audit of the nationalised industries. Nor can I see much profit for the PAC or the House as a whole in a debate on that basis.

RESTRICTED

What I would like to suggest therefore and Leon Brittan wholeheartedly endorses this, is that we should agree to Joel Barnett's request for his debate on condition that it is delayed long enough to allow us to announce to the House our further proposals on nationalised industries efficiency audit. From my point of view an extra week would probably suffice for that purpose, though I understand this could cause problems for the future timetable of business in the House. But my own impression from attending the PAC discussion the other day is that if necessary the PAC would be well content with a half day's debate. It surely should not be beyond our powers to make room for that within the next two or three weeks.

I am copying this letter to members of the Cabinet and to Sir Robert Armstrong.

*Yours
Nicolas*

NICHOLAS RIDLEY

PART 1 ends:-

12 - 8 - 87

PART 2 begins:-

11 - 11 - 81

