

CONFIDENTIAL



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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

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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.

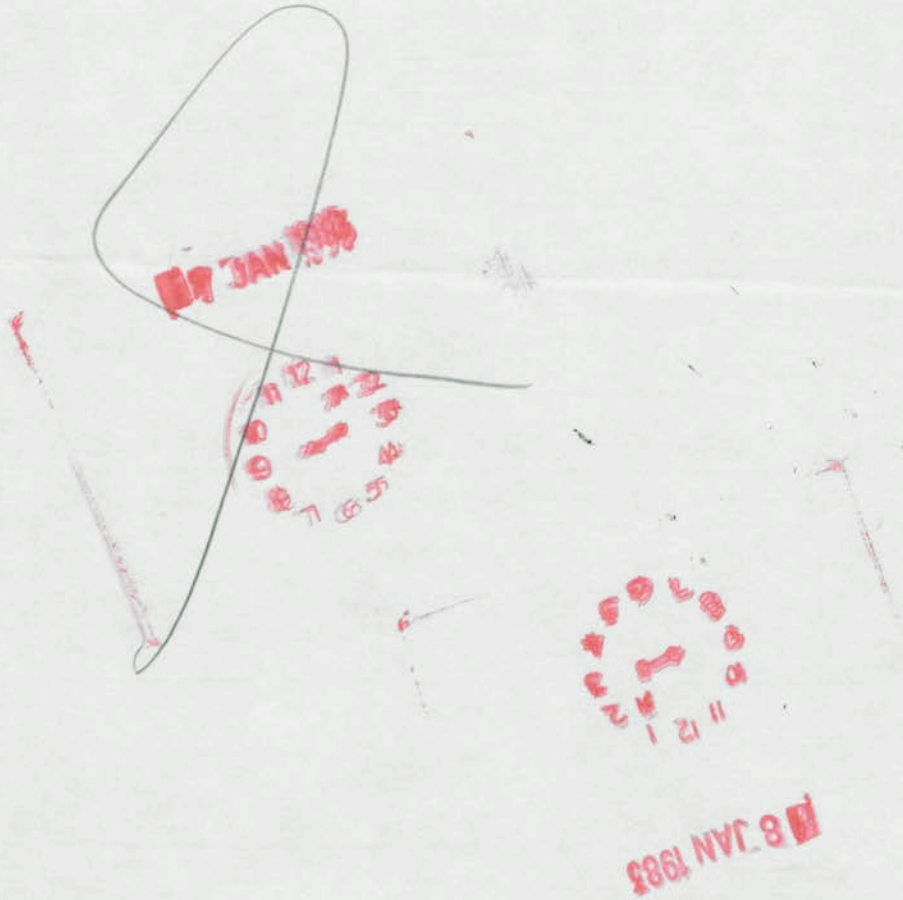
It is equally important that the C&AG should be independent from Parliament. Of course he works closely with the PAC, and would normally accede to their requests for reports on particular subjects. But it would be very different if he was forced to carry out investigations on the instructions of the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

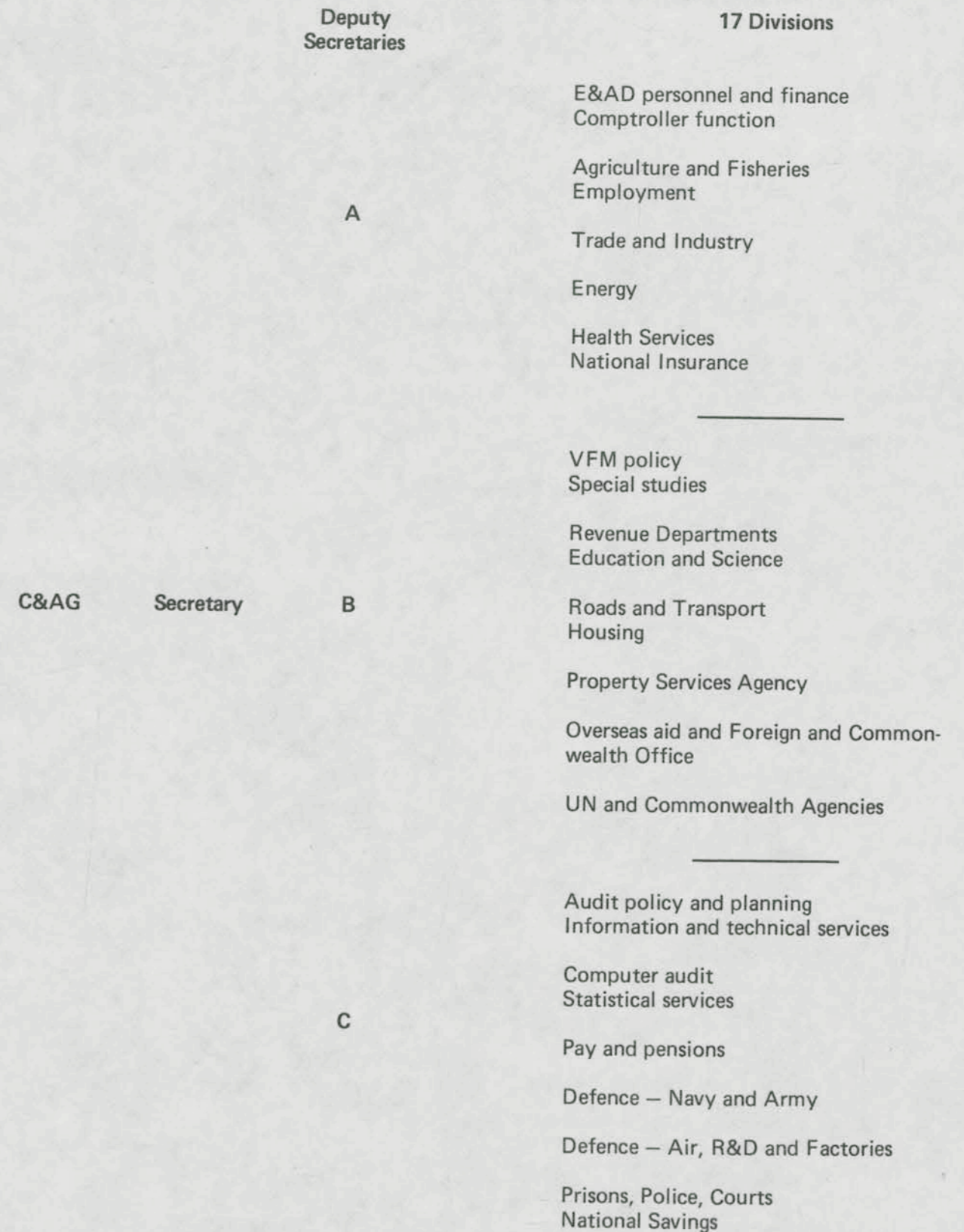
MAIN STAGES OF A TYPICAL MAJOR AUDIT INVESTIGATION

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

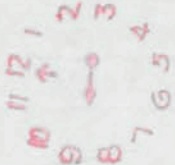
support what you are doing here, but I regard a sustained campaign against the other provisions of the Bill as of no less importance.

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

