

CONFIDENTIAL

Prime Minister²

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Secretary of State for Industry

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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

Patel

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