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PRIME MINISTER

TOUCHE ROSS & CO : REVIEW OF FINANCIAL CONTROL IN THE
DEPARTMENT OF INDUSTRY

You will recall that Touche Ross & Co were engaged to review the financial control arrangements in my Department. Since they presented their report I have been considering their findings, drawing particularly on the expert assistance of John Wakeham. I now enclose a copy of the report and set out below my main conclusions.

2 Although it was not fully satisfactory in all respects, on balance I am sure that the engagement was worthwhile, both for my Department and also in that it may well have brought out some points of more general application for the Service. In respect of my Department I accept the main conclusions of the report, namely that (i) there is a need for stronger central machinery for financial control (though this will need to be reconciled with the desirability of increasing the individual accountability of line managers); the Management Information System should be extended and developed both for the needs of central control and to assist line management; and (ii) the methods of the internal audit branch should be improved. Indeed, although the report does not bring this out at all clearly, these are all directions in which the Department was already moving.

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3 The main disappointment of the report is that Touche Ross have clearly failed adequately to understand the substantial differences between the operations of a Government Department and those of a commercial company. In particular I believe that they have given quite insufficient recognition to the heart of the process of Government - the role of Ministers. All this has led them to make detailed recommendations on organisation and resource management which are not soundly based and which could prove unworkable or excessively bureaucratic if implemented in the detailed form prescribed. In these areas we shall need to adapt the underlying ideas in the most effective way.

4 On organisation, while we fully accept the need for a strong central finance function my Permanent Secretary (as Accounting Officer) and I do not believe that it follows that the role of the Principal Finance Officer should be separated from that of Principal Establishment Officer. It is a false analogy, and disregards the role and function of Ministers, to see the PFO as the equivalent of a Finance Director in a commercial company. Moreover we believe that, Wardale considerations apart (and the Touche Ross proposal would imply the creation of an additional Deputy Secretary post), there are positive strengths in the PFO/PEO combination in that it brings together the responsibility for both money and manpower. Thus, at least for the time being,



we would not propose to adopt the radical change proposed by Touche Ross but to take other steps to ensure that the Head of the Finance Division has adequate status and authority. In reshaping the Finance Division itself we shall certainly want to build on the philosophy enunciated by Touche Ross, though we may not want to adopt their precise formulations.

5 In principle I wholly welcome Touche Ross's proposals for the development of a Management Information System for the Department. However we should be clear that what is envisaged is a very major undertaking. Touche Ross have declined to estimate the possible costs of introducing and running the kind of system they have in mind, but an estimate of upwards of £10M over the next few years may well not be too wide of the mark. However, fairly substantial expenditure on computer replacement will be needed in any event during this period. Another concomitant of the proposal is the deployment of skilled ADP staff; and indeed the availability of this scarce resource may well prove an ultimate constraint. Thus before we embark on the development of the new system we shall need to study very thoroughly what our essential information requirements are (taking into account the needs of the central Departments) and then to form a view on the resources we are prepared to commit to fulfil them. I could certainly not contemplate expenditure in this area being at the expense of funds for the support of industry.



6 In response to the report I have set the following immediate action in hand:

(a) A high level Steering Group of officials has been set up to manage the implementation of the report. Because my Department provides Common Services to the Department of Trade, for example in the areas of financial administration, management information and internal audit, the Group includes a senior representative from that Department. At Ministerial level I shall of course continue to take a close interest personally, looking to John Wakeham to assist me in this.

(b) The Resource Management Group proposed in the report has been established with the functions and membership recommended.

(c) A Project Management Team has been established to prepare detailed proposals for the new Management Information System and to be responsible for their implementation. We plan to engage expert Consultants to assist with part of this work.



(d) On the development of responsibility cost centres we envisage three pilot studies later this year, and preparation for these is well in hand. These studies will help to show how far responsibility for the resources they control can be placed on the shoulders of individual line managers.

(e) To meet the Touche Ross criticisms of the arrangements for project control my Permanent Secretary has issued an instruction to staff reiterating the need to maintain good standards of documentation, and a study is in train on the question of consistency between and within the various selective assistance schemes. Copies of the relevant sections of the report have been sent to the Scottish and Welsh Departments since the Touche Ross enquiry embraced their administration of selective assistance also.

We have ruled out, at least for the time being, the suggested creation of the post of Case Appraisal and Monitoring Reviewer since any benefit to be derived from it would seem far outweighed by the additional bureaucracy and delay in the Department's dealings with industry that would almost certainly result.



(f) Since the internal audit branch serves both my Department and the Department of Trade, a joint Audit Committee has been established covering both Departments, under the chairmanship of Mr K J Sharp. One of the first tasks of the Committee will be the consideration of the Touche Ross recommendations. Their proposals on the application of the concept of 'materiality' to internal audit have potentially far-reaching implications not only for my Department but for Whitehall as a whole, and we shall of course keep Treasury closely in touch.

7 I am copying this minute to Geoffrey Howe, to Peter Walker (since a broadly parallel study was carried out in his Department by Coopers and Lybrand), and to George Younger, John Biffen, Nick Edwards and Janet Young.

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Department of Industry
12 March 1982