

Gov. Mark

cc for information

Mr GAFFIN

- ✓ Mr Pattison *MA*
- Mr Buckley (CSD)
- Mr Green (CSD)
- Mr Colman (CSD)
- Mrs Gilmore (HM Tsy)
- Sir A Rawlinson (HM Tsy)*
- Mr Carey (HM Tsy)*

Mr HENNESSY, The Times

* with attachment

1. I understand that Mr Hennessy will probably run a piece in tomorrow's paper on Sir Derek Rayner's letter of 10 March to Sir Anthony Rawlinson (HM Treasury) on the Role of the Comptroller and Auditor General, which has just been published in evidence by the PAC. (It was copied at the time to the Prime Minister, Chancellor and CST.)
2. I attach a copy of the letter, as conveyed slightly edited, via the Treasury, to the Clerk of the Committee. This was in response to a request from her that Sir Derek Rayner should give oral evidence on the future of the E&AD, including that of the C&AG, which we resisted on the grounds that he was not an expert in that field.
3. The article may make some play with Sir Derek Rayner's view (para. 11c and d) that the C&AG should be specifically appointed and tasked by the House of Commons.

CP

C PRIESTLEY
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10 March 1980

Sir Anthony Rawlinson KCB
HM Treasury
Parliament Street
London SW1

THE ROLE OF THE COMPTROLLER AND AUDITOR GENERAL

Thank you for your letter of 22 February and for the enclosed draft Green Paper, which I found a most readable and interesting document. I should like to make the following comments, some on the text as a draft, some on the issues.

General

2. The draft says nothing about the numbers or professional training of EAD staff or about the coverage of their work, eg about how much time they spend on the basic, financial and regularity audit of departmental accounts, on examining the efficiency and economy with which funds are spent and on investigating the effectiveness of programmes and projects in meeting established policy goals. That leaves me with no real grasp of the nature of the instrument the paper is addressing - who the staff are, where they are or what they do. It is therefore hard to apply oneself authoritatively to the first question raised in paragraph 5, mainly "What kinds of audit should the C & AG undertake?".
3. My second point follows on: what are the effects of traditional EAD audit and the extension "in appropriate cases into effectiveness audit" (paragraph 11)? I am feeling for the kind of results produced, both for Parliament and the public service, of conventional and newer audit in terms of the practices and behaviours of institutions on the one hand and of actual benefits in particular cases on the other. For example, are Ministers satisfied that the C & AG's audit function is producing institutional and particular results worth having? Are there practical examples one can quote in explanation of the "further extension of VFM audit" in paragraphs 11 and 16, for instance? And what view does the Treasury take, in the light of recent practice, for the correct balance of

effort as between basic, VFM and effectiveness audits (see paragraphs 18 and 20)?

4. A related point to which I attach great importance is the way in which the auditor presents himself and is perceived. In our business, I regard our auditors as allies, very much part of the team. It is a pity if the auditors in Government are regarded as unfriendly but if their skill lies only or mainly in playing a checking role they are bound to be seen so. To my mind it is a great waste of an important national asset if the EAD is always used by Parliament as a witness for the prosecution. Nor do I believe that Parliament can make sound judgements on the behaviour of the Executive if all the evidence it receives is of failure or rule-breaking. I would like to see EAD bringing examples of good management as well as bad before Parliament. This would help produce a much needed change in the climate of opinion in Westminster and in Whitehall. But obviously this depends on EAD having staff who know good management when they see it.

5. Thirdly, I am struck by the draft's references to lack of or limitation on definition, as in paragraphs 12 and 20. I have some sympathy with the traditional British virtue of avoiding being explicit in defining powers and relationships, but I should think there would be substantial merit if the EAD Acts are to be revised in indicating with reasonable precision how the C & AG and his staff are expected to spend their time, and what skills they should develop. In the case of paragraphs 20 and 21, I do not see how the C & AG can do good work on the adequacy of departmental systems without also doing some independent work on the effectiveness and value of particular policy instruments, because systems have to be tested by reference to examples of the work they are supposed to control. Nor do I see, under existing arrangements for supporting Select Committees where they can look for independent, professional assessments of policy instruments unless to the C & AG.

6. I therefore applaud the idea (paragraph 24) that the C & AG's power to audit particular bodies should be provided for "by statute wherever practicable", provided of course that this does not exclude important classes of or particular institutions from examination.

Range of the C & AG's audit

7. While I take the point that Ministers' technical responsibility for public funds transferred to companies does not extend beyond making the payment provided for by Parliament (paragraph 30), I think it would be worth stating here how the taxpayer is assured that his tax pound has been properly and effectively spent. Similarly, at the end of paragraph 31, it would be helpful to establish who decides whether the C & AG's audit and inspection should be extended to a particular "public funded body".

Local authorities

8. I sympathise with the drift of paragraph 41, but I think that it would be worth a sentence or so more to explain the conundrum in accountability terms represented by:

- the constitutional autonomy of local authorities
- the fact that they are nonetheless funded to a large extent by national taxation
- the restrictive nature of local government Ministers' accountability to Parliament for the money spent through RSG
- the absence of any local authority accountability to Ministers or Parliament for that money
- the specific nature of Parliament's legitimate interest in respect of money voted by it to pay for RSG.

Keep section "The text" ... not

9. You might like to know, by way, that [a very senior local government officer] told me the other day that RSG should be regarded as general tax money, that it was not especially relevant that it came from Parliament rather than from local property taxes and that it was a misconception to suggest that there should be an accountability for it separate from that of Members to their local electorate. I have always regarded this as a very odd idea.

Nationalised industries

10. Does paragraph 50 mean that the Government is satisfied that nationalised industries are efficient and have appropriate means of promoting their own efficiency, again recognising that some industries have large subsidies?

Status of the C & AG and his staff

11. This is a very interesting section on which I have these points:

- a. To whom, if anyone, does the C & AG report (paragraph 56)?
- b. I see the reference to "an obsolete conception of the Treasury role in the control of public spending" (paragraph 57). It would be helpful if the current conception were stated to help point out the distinction between what the Executive does for itself and what the EAD does on behalf of (presumably) Parliament.

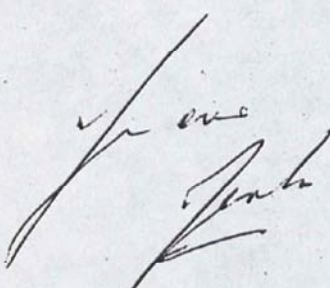
c. Who fills the post of/appoints the C & AG (paragraph 61)? My first impression is that who appoints and pays the C & AG must be assumed to have some hold over him, however tenuous, and I would not myself be all that strongly opposed to the idea of C & AG being a servant of Parliament. Are the Speaker and the Clerk of the House of Commons regarded as having insufficient independence because they are servants of the House?

d. I do not see why it would be undesirable for the C&AG to be directed by the House or a Select Committee to undertake enquiries (paragraph 62). Parliament might make mistakes - we all do - but I would think it an important strengthening of its capacity to look after the taxpayer's pound.

Annex A

12. I note in paragraph 3 the limitation on appropriation accounts with which we are all familiar. As you know, I am keen that Ministers should have an account of the value of assets in their keeping and that the Government should progressively move away from the restrictive concept of an account of the flow of receipts and payments to that of an account of stock as well as flow.

13. I am copying this to the Prime Minister, the Chancellor of the Exchequer and the Chief Secretary.



DEREK RAYNER