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Prime Minister 2.

Advance warning of PAC views on the role of Comptroller and Auditor-General. I am sure that informed discussion of these possibilities will be generally helpful.

Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000

Prime Minister.

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You saw the PAC's report last week in connection with the appointment of a successor to the present C & AG. AMW 24.ii.

MJD 24/2.

THE ROLE OF THE COMPTROLLER AND AUDITOR GENERAL

This minute is to give you advance notice that the Committee of Public Accounts (PAC) are expected to publish soon, probably on 4 March, their report on the enquiry which they have been conducting over recent months into the role of the Comptroller and Auditor General.

2. The starting point of their enquiry was the Government Green Paper (Cmd 7845) of last March "The Role of the Comptroller and Auditor General". Between them the Green Paper and the PAC Report amount to a major review of our public audit system, the first comprehensive review for over a hundred years.

3. Because of Nigel Lawson's formal position as a member of the Committee the Treasury have had a private sight of the Report. The PAC will be jealous of the privacy of their report at this stage, so our knowledge of it should be treated with discretion.

4. Under present legislation the C and AG is an independent office holder under the Crown and his audit reporting is mainly but not exclusively about the expenditure of central Government money. The PAC recommend some fundamental changes in these arrangements, of which the most important proposals are:

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- In addition to his present duties concerning Government Departments, the C and AG should scrutinise the accounts of the nationalised industries, of all other public corporations, and of any private body in receipt of Government grant or loan, in order to advise Parliament on the efficiency and effectiveness of the use made of public funds.

- The District Audit Service should come under the C and AG, who would report to the PAC on general issues, not specific to particular local authorities.

- The C and AG, and his staff in E and AD, should become servants of the House, supervised by a new Public Accounts Commission.

5. The PAC Report will be a unanimous one. The same proposals were advocated by the Expenditure and Procedure Committees of the last Parliament, and judging by Edward du Cann's evidence to the PAC recently the first two proposals above would certainly be supported by the Treasury and Civil Service Committee.

6. The Government's Green Paper took a more conventional line on these issues, but it was a Green Paper, and I see no reason for defensive or hostile reaction on our part to the PAC Report when it appears. The Report is bound to provoke debate, and I welcome this prospect. There are, of course, other developments going on in the area covered by the Report which we will need to take into account in deciding our reaction. For example in the case of nationalised industries we have been considering with the CPRS rather different possibilities for introducing efficiency audits and hope to be able to put proposals for colleagues shortly.

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Similarly Michael Heseltine has recently put forward rather different ideas for reforming local authority audit in the form of an Accounts Commission in England and Wales; similar to that which already exists in Scotland. When the Budget is out of the way, I should like to give more thought to these important issues, and I think we shall need to consider our collective attitude rather carefully, taking account of the work already in hand in this area as well as public and Parliamentary reaction. There is also the point that Sir Douglas Henley's successor may soon be in post, and we might want to seek his views on all this. The PAC's recommendations about nationalised industries and local authorities were heavily influenced by suggestions from Sir Douglas Henley in evidence to them

7. Most of the PAC's proposals would require legislation. We need be in no particular hurry to make up our mind about this, but I think we must reckon on a debate in Government time before the Summer Recess. In the meantime I am asking my officials to start the preliminary work, with other interested Departments on studying the report and preparing papers on it for Ministerial consideration leading eventually to the drafting of a Government reply to the PAC Report in White Paper form. I will report back to you and Cabinet colleagues when I am in a position to make firm recommendations about this.

8. I am copying this minute to Christopher Soames and to Sir Robert Armstrong, but not, at this stage, to others. I should be grateful if colleagues would regard all information about the PAC report as being in the strictest confidence prior to publication.

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

(G.H.)

24 February 1981