



Prime Minister.

This now seems to be going well after the original wishes.

H M Treasury *Consent to proceed as Sir Douglas*
Parliament Street London SW1P 3AG *Wass suggests?*

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Sir Douglas Wass GCB
Permanent Secretary

Clive Whitmore Esq
10 Downing Street
LONDON
SW1

R Whitmore O.V.

*I do not think that
MAFF is the right choice. It is
a comparatively small department with
comparatively low expenditure. We
must do a high expenditure
department as well. D.H.S.D?*

27 May 1981

Dear Clive,

INTERNAL AUDIT AND FINANCIAL CONTROL

You may like to report to the Prime Minister how we are getting on with the idea of a case study, first suggested at the meeting she held on this subject on Thursday 5 May.

Brian Hayes has agreed, with the support of his Minister, to institute a study in the Ministry of Agriculture, Fisheries and Food. He has approached Cooper and Lybrand, who have responded with great interest, and is now waiting for them to complete preliminary enquiries and give him an outline of the proposed study as they see it and an estimate of the likely cost. It is intended that the study should range widely over internal audit and other aspects of financial management, planning and control in the Ministry. What is to be required is primarily an appraisal, rather than a blueprint of any new system, but the consultants will be asked to indicate directions of desirable improvement wherever they have criticisms of existing arrangements.

I am sure that Cooper and Lybrand are as good a choice of consultants as could be made - they figured in both the recommendations given to the Prime Minister in response to her recent discreet enquiries.

I hope that MAFF will prove to be not only an interesting case on its own, but one capable of offering lessons of wider application. Douglas Henley in his report of internal audit included it in a group of departments which he described as being among neither the best nor the worst. It offers a suitable scale and variety of Government activities and financial responsibilities.

I decided against a wider coverage than one department for this case study - not least in the interests of speed. I gather that Brian Hayes is having to press Cooper and Lybrand quite hard to get them to agree to report by the end of September. Inclusion of a second

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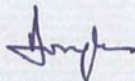
department would inevitably have lengthened and complicated the study, without necessarily producing more 'typical' evidence.

There could of course be advantage in getting wider and more varied coverage and I am considering the possibility of a parallel study in another department - probably using different outside consultants. I propose, however, to wait and see first how Brian Hayes gets on with the arrangements for his study, which may give us some useful guidance in approaching a second case.

I shall keep in close touch with progress, and either Brian or I will ensure that the Prime Minister sees the report which the consultants produce.

I am sending a copy of this letter to John Wiggins, Ian Bancroft and David Wolfson.

Yours ever,



DOUGLAS WASS

Govt Mail

CF Lhle



10 DOWNING STREET

cc: Mr Wadson.
Civil Service Feb 80
Scrutiny of Dept
running costs

From the Private Secretary

BF 10.6.81

3 June, 1981.

Dear Jonathan

Internal Audit and Financial Control

Clive Whitmore wrote to Sir Douglas Wass on 1 June about the setting up of a case study of department's systems of internal audit and financial control. Sir Douglas Wass ought to be aware of a link that has developed between this work and the "annual scrutiny of departmental running costs".

Sir Douglas will probably have seen my letter to Jim Buckley of 1 June reporting the Prime Minister's response to the Lord President's latest report on the 1980 scrutiny of departmental running costs (copy attached). In addition to the points set out in this letter, the Prime Minister has said that she would like to call in a couple of departments, and discuss with the Ministers and Permanent Secretaries concerned the results of the 1981 scrutiny. She has also said that she would like the help of management consultants in quizzing these departments on the results of the 1981 scrutiny.

Sir Douglas may like to consider whether this remit can be taken care of in the follow-up work on internal audit and financial control. The terms of reference of the case studies now being set up could be widened to include examination of the annual scrutiny of running costs within the departments concerned. The reports of the consultants would then help the Prime Minister to have constructive discussions with the Ministers and Permanent Secretaries involved on the results of the 1981 scrutiny. These discussions could perhaps be separate from those she will undoubtedly hold on the reports' conclusions on internal audit and financial control.

Perhaps Sir Douglas could comment on this suggestion when he replies to Clive Whitmore's letter of 1 June.

I am sending copies of this letter to John Wiggins and Jeremy Colman.

Yours ever
William Rickett

J.M.G. Taylor, Esq.,
HM Treasury.

Rob



10 DOWNING STREET

From the Private Secretary

1 June 1981

Subject: Civil Service

File No: Scrutiny of Dept. Running Costs.

Dear Jim

1980 Scrutiny of Departmental Running Costs

The Prime Minister was grateful for the Lord President's minute of 11 May reporting the outcome of the analysis of the 1980 scrutiny of Departmental running costs that was commissioned at Cabinet on 29 January. She was also grateful to Sir Derek Rayner for his minute of 18 May, and to the Chancellor of the Exchequer for his minute of 28 May.

The Prime Minister attaches great importance to this scrutiny exercise. She considers it essential when Departmental running costs are rising at a rate of 25% a year. She recognises that the 1980 exercise was very much a pilot run. But she feels that there are a number of ways in which the scrutiny, and the subsequent analysis reported by the Lord President, could have been improved. She would like her comments to be taken into account in the 1981 scrutiny, now under way.

First, the Prime Minister feels that the scrutiny exercise should help to ensure that Ministers do all they can to reduce the running costs of their Departments, and that it should also ensure that Ministers learn from the practices of other Departments. She is therefore concerned to say that she agrees with Sir Derek Rayner that the Lord President's paper gives no real feeling for the effectiveness of Departmental efforts at keeping down costs and achieving specific savings. If Ministers are to learn from their colleagues, it is important to identify and disseminate the "best" practices within Departments. The Prime Minister therefore agrees with Sir Derek Rayner that for this and subsequent years' scrutinies Ministers should be given clear statements of the positive measures taken by their Departments to achieve cost reductions, together with details of the savings achieved. These statements should be reported collectively to Ministers by the Lord President.

She would also be grateful for the Lord President's advice on whether it would be possible to pick out from the figures produced by the scrutiny "key ratios" or "performance indicators" which could help Departmental managers assess their performance, and compare it, with other Departments. Perhaps the Financial Management Coordination group of officials could be asked to look at this in the context of their other work on the scrutiny (see below).

/ The Prime Minister

The Prime Minister recognises that the main value of the running costs exercise is to help Ministers improve practices within their Departments. But she also sees the exercise as enabling Ministers to consider collectively the demands made on Government resources by Departmental running costs. These costs, at £8300 million a year, are a significant demand on public funds, and the annual increases in these costs are also very substantial. The Prime Minister agrees with Sir Derek Rayner that Ministers should consider the possibilities of reducing non-staff administrative costs when they are taking decisions on public expenditure generally. She notes that Mr. Hayhoe has asked Ministers to submit the results of the 1981 scrutiny to him by mid-September; and she hopes that a paper can be circulated to Ministers collectively as soon as possible after that.

The Prime Minister acknowledges that there is a risk that the scrutiny of running costs will duplicate other management information systems. She therefore agrees to the Lord President's proposal that the Financial Management Coordination Group of officials should consider how the Departmental running costs exercise should be integrated with other work on management information systems.

Finally, the Prime Minister feels very strongly that the figures for running costs reported to Cabinet in January should be published. As I have already mentioned to you, she would like these figures to be annexed to the Government's White Paper on efficiency. She has agreed with the Lord President's recent proposal that we should aim to publish this White Paper by the end of June. It can then form the basis for the forthcoming enquiry by the Treasury and Civil Service Select Committee into efficiency in Government.

I am copying this letter to the Private Secretaries to Ministers in charge of Departments and to the offices of Sir Robert Armstrong and Sir Derek Rayner.

Yours sincerely

William Ricketts

Jim Buckley, Esq.,
Lord President's Office.

MINISTRY OF AGRICULTURE
FISHERIES AND FOOD



WITH THE COMPLIMENTS
OF
SIR BRIAN HAYES KCB

WHITEHALL PLACE
LONDON SW1A 2HH



Sir Brian Hayes, K.C.B.
Permanent Secretary

G. M. M. M.
Ministry of Agriculture, Fisheries and Food
Whitehall Place
London, SW1A 2HH

1 June 1981

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Dear Douglas,

INTERNAL AUDIT AND FINANCIAL CONTROL

Perhaps I could comment briefly, and simply for the record, on one point you made in your letter of 27 May to Clive Whitmore.

You quote Douglas Henley, in his report of internal audit, as including MAFF "in a group of departments which he described as being among neither the best nor the worst". This is not in fact what Douglas said. He said in paragraph 9 of his memorandum: "I emphasise that the four units in Appendix B are mentioned purely for illustration, and not because they are notably better or worse than others". In his letter of 20 January to Anthony Rawlinson he said that the four units had been put forward "as illustrative of internal audit in central government, not because they are particularly good - or bad". Finally, in his evidence to the PAC on 6 April he said: "I hope that the Committee will not press me on naming departments. I have very particularly not done so in my memorandum, either from the point of view of those which exhibit what we would regard as good practice or those which are not so good".

I hope you will agree with me that by these statements Douglas has not placed MAFF internal audit in any particular category of quality, and in fact has been careful not to do so. I have of course no means of knowing where we rank, because I do not know enough of other Departments' practice. Nor do I know where Douglas would privately rank us. I suspect that he chose us because we were to some extent representative of the range of problems that internal audit faces - and that in turn, of course, makes us a good choice for an independent study. But that is a different matter from saying that we represent average quality: until Cooper and Lybrand have reported on us I hope we can stay out of any category, whether good, bad or indifferent!

I am sending copies of this letter to Ian Bancroft, Clive Whitmore, John Wiggins
and David Wolfson.

*Yours ever,
Brian*

BRIAN HAYES

Sir Douglas Wass GCB
HM Treasury
Parliament Street
LONDON
SW1





10 DOWNING STREET

File AH
cc Tsy
CSD
David Wolfson

From the Principal Private Secretary

1 June 1981

BF 10.6.81

Dear Douglas,

INTERNAL AUDIT AND FINANCIAL CONTROL

Thank you for your letter of 27 May 1981 reporting progress on the establishment of a case study of a department's systems of internal audit and financial control.

I have shown this to the Prime Minister. She is concerned that MAFF may not provide a representative case study. She has commented that it is a comparatively small department with comparatively low expenditure. She would like to see another case study done simultaneously in a department with a large budget. She accepts that Cooper and Lybrand would not be able to carry out this study in addition to the one in MAFF and that another firm of consultants would have to be used. I should be grateful for your views on the Prime Minister's proposal.

I am sending copies of this letter to John Wiggins and Ian Bancroft.

Yours ever,

David Wolfson.

Sir Douglas Wass GCB

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