



Prime Minister <sup>2</sup>

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From: John Sparrow

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The Rt Hon Sir Geoffrey Howe QC MP  
HM TREASURY  
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*Dear Geoffrey,*

Nationalised Industries: The Role of the  
Comptroller and Auditor General

I wrote on 13 December setting out our views about the Private Member's Bill. We have been watching subsequent developments closely and I see no reason to modify in any way what I have already written to you. The course preferred by the CPRS remains to remove the offending clauses from the Bill.

The Government understandably wants to avoid a head-on confrontation. The Bill's promoters are so far reluctant to compromise. There is therefore a distinct possibility that our preferred course will not prove practicable and we have been wondering whether there is any constructive way of resolving the differences.

It seems to us that there would be presentational advantage in trying to move to a position where Government and Parliament were seeking out common ground. Parliament and Government share a common objective in trying to improve the efficiency of the nationalised industries and both recognise that each has a role to play in supervising them.

I set out below some ideas which we have developed. These might provide a way forward and are consistent with the framework of relationships which we believe to be right. That framework is one in which Parliament seeks to hold Ministers as sharply accountable to it for the efficient conduct of their operations as Ministers seek to do in respect of the Nationalised Industry Chairmen. It follows from this that



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Parliament should be drawing back from detailed involvement, setting clear terms of reference for Ministers and making sure that Ministers carry out the requirements laid down in those terms of reference.

This leads to the following specific suggestions:

(a) In our report we identified the need for some kind of systems-based efficiency audit. We sought to provide for this through the role of non-executive directors/efficiency audit committees but that proposal was not well received. An alternative approach which would give Parliament a role would be for Parliament to lay down broad requirements for an annual systems-based efficiency audit for all nationalised industries. Ministers would be responsible for ensuring that these audits were carried out by qualified private sector auditors in individual nationalised industries. Summary reports would be prepared by the auditors and submitted by Ministers to Parliament with the Annual Report and Accounts of each individual industry. The detailed audit reports would be given to the industries and they would also be on departmental files and hence available to the C & A G.

(b) Parliament should have a mechanism for examining Ministers on the Annual Reports of the Boards and reports of the auditors and it would be normal for Ministers to be accompanied to such inquiries by the relevant Chairman. A revived SCNI could be used for this purpose and the primary aim of those examinations would be to test whether Ministers had effectively discharged the responsibilities placed upon them by Parliament.

(c) The periodic Monopolies Commission reports, as proposed in the CPRS study, would continue but to demonstrate Ministers' accountability to Parliament they would have to consult Parliament about the timing and terms of reference for each MMC investigation. The reports would be made to the Minister and published in the normal way. Parliament would, through the activities of the C & A G in scrutinising the performance of sponsor Departments, have ample opportunity for satisfying itself that recommendations made by the MMC were being implemented.



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These suggestions do not do violence to the accountability chain which we favour although they do provide scope for Parliament to be involved a little more in the process and they reinforce the role of Parliament as an instrument for ensuring that Ministers and Departments carry out their supervisory functions more effectively. I cannot say whether such ideas would be saleable to the promoters of the Bill or indeed to Ministers. Maybe they would not but they might, at a suitable moment, help to focus the debate into a more constructive clarification of the respective roles of Ministers and Parliament and so provide a way out of the present impasse.

I am sending copies of this letter to the Prime Minister, other members of E(NI), and to Sir Robert Armstrong.

*Yours sincerely,*  
*John*

John Sparrow