

42

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15 May 1981

CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

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ACCOUNTS COMMISSION FOR LOCAL AUTHORITY AUDIT: PAC ASPECTS

Memorandum by the Chief Secretary to the Treasury

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1. The Secretary of State for Environment's paper (E(81)54) acknowledges the likely interest of the Committee of Public Accounts (PAC) in his proposal to establish an Accounts Commission, as it involves a rejection of one of their own major proposals.

2. If an announcement of the decision to set up the Commission is to be made on 2 June, this would also involve rejecting one of the PAC's proposals before we are ready to reply to the others. We would in such circumstances in my view be wise to do what we can to minimise possible PAC hostility.

3. If therefore colleagues agree both that we should establish an Accounts Commission and that our intention to do so should be announced on 2 June, I recommend, that:-

(1) The Secretary of State's statement should acknowledge the PAC context, summarise the reasons for preferring an Accounts Commission to the PAC's recommendation, and explain why the decision has been taken in advance of a full reply to the Committee.

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248

(2) We should publish and present to Parliament simultaneously with the statement a White Paper giving a full reply to the PAC on the local authority audit issue. The terms of such a reply have been discussed interdepartmentally at official level, and could be circulated to colleagues within the next few days.

4. Part of the problem is that the PAC recommendations were designed as a coherent whole. The Annex explains this point in more detail.

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HM TREASURY  
15 May 1981

PAC REPORT ON THE ROLE OF THE C & AG

1. In March the PAC published their First Special Report for 1980-81 entitled "The Role of the C & AG". This Report, together with the Government Green Paper (Cmnd 7845) on the same subject published a year earlier, amounts to the first comprehensive and systematic review of the public audit system for over 100 years.
2. The central message of the PAC Report is that the C & AG should be empowered to chase public money wherever it goes; and that to ensure his total independence from the Executive he should be made an Officer of the House and subject to the direction of the PAC.
3. The Green Paper acknowledged the important role of the C & AG in ensuring Parliamentary accountability of public money, but suggested that another principle of equal relevance in determining the scope of his responsibilities was that he should not be required to audit or inspect bodies or expenditures for which Ministers had little or no responsibility towards the House. This second principle can to a large extent be inferred from the existing pattern of the C & AG's responsibilities.
4. At present the C & AG audits or inspects all central Government Departments and a large number of non-departmental bodies. The PAC propose that his responsibilities should be extended to cover nationalised industries; local authorities; and all other public and private sector bodies in receipt of Government grants or loans.
5. The fundamental difference between the views expressed by the PAC and those in the Green Paper is over the question of Ministerial responsibility. For the PAC, the wish to be able to pursue public money to its ultimate recipient is paramount. But by introducing the concept of Ministerial responsibility referred to earlier, the Green Paper sought to define realistic and workable limits to Parliament's desire that Ministers should be accountable to it for

all public expenditure. The PAC do not make it clear how they expect the Government to be able to influence the affairs of bodies the C & AG may criticise, but over which Ministers have no direct control. Nor do they face up to the difficulties of giving a Parliamentary Select Committee access to more information than is available to Ministers and their Departments.

6. Although officials have not yet completed their study of the PAC proposals it is clear that there would be varying degrees of difficulty about all the extensions of the C & AG's activities favoured by the PAC. There might be less difficulty in accepting the PAC formula for fringe bodies (but nationalised industries are a particularly difficult and important case). On the other hand there would be serious constitutional and practical problems in any involvement of the C & AG in the affairs of local authorities. In the case of commercial companies eligible for benefit under the Government's various employment and regional incentive schemes there is the obvious objection that the PAC formula might weaken the impact of the schemes by deterring applicants.

7. The PAC's ideas about the status of the C & AG and the E & AD are central to all their recommendations. The proposal for Parliamentary control of the C & AG himself raises particularly difficult questions about the effect of the change on his relationship with bodies under audit and on the quality of his work. There is also the question whether the Departmental Select Committees would be content for the PAC to retain their present monopoly of the C & AG's services if his responsibilities were widened and he was made subject to direction by the House.

8. There are therefore several unifying and interconnected strands running through the Report. They need to be weighed up carefully in relation to the individual proposals and to the Report as a whole. Decisions on individual issues cannot be taken without regard for the rest of the Report.