

PRIME MINISTER

Here is a paper describing the existing functions of the Exchequer and Audit Department. It also shows the slight changes of direction that are now being suggested. The important point to note is the complete independence of the Comptroller and Auditor General.

There are some small ways in which E & A D work, particularly with these changes, can assist Departmental Ministers in the management task you have given them, both on the Rayner exercises and on the Civil Service manpower exercise. In particular, the pressure for more effective internal audit within Departments is following one of Rayner's key principles, that people within a Department can best follow through questions about the performance of functions.

I suspect that there is little that Government can do to get more direct assistance in its management role from E & A D. I showed you Mr. Heseltine's letter expressing alarm at the Comptroller and Auditor General's attempt to comment in advance on the implications of policy decisions now under study on council house sales. The Lord Chancellor has now written in to support strongly Mr. Heseltine's reservations. But the internal audit work suggested in paragraph 6d of the paper is one of the tools on which Ministers can draw in carrying out their management task. When the Lord President comes back to Cabinet for endorsement of his six per cent cuts, and for directions on how manpower is to be controlled in the future, it could be helpful to draw attention to the instruments on which Ministers can call - e.g. Rayner-type studies, Heseltine-type personal control of complementing and recruiting, and internal audit of the kind now encouraged by the C & A G. If you want to pursue the E & A D role further, you should probably now talk to Sir Douglas Henley, first taking advice from the Financial Secretary to the Treasury.

*A R M Laven  
PP Mr Pattison.*

*They are waiting a little  
There is so much else  
to pursue at present*

2 November 1979



CONFIDENTIAL

TMW

*Govt Machinery*

*cc Priestley, Cab. Off.*

MR. LAUGHRIN,  
CIVIL SERVICE DEPARTMENT.

The Prime Minister has seen the paper on the Exchequer and Audit Department which you sent me under cover of your letter of 31 October.

She was grateful for this further information. She recognises that she should take this up with the Financial Secretary to the Treasury and the Comptroller and Auditor General if she wishes to look further into ways in which E&AD work can assist the Government's drive to improve efficiency and eliminate waste. For the present, however, she does not propose to take this any further.

M.A. PATTISON

5 November 1979

CONFIDENTIAL

*MBD*



CONFIDENTIAL



CIVIL SERVICE DEPARTMENT  
WHITEHALL LONDON SW1A 2AZ

Telephone 01 273 5400

*Sir Ian Bancroft G.C.B.  
Head of the Home Civil Service*

M A Pattison Esq  
10 Downing Street  
LONDON SW1

31 October 1979

*Dear Nick*

DEVELOPING WORK OF THE E&AD

... As requested in your minute of 8 October, I attach a supplementary note about the developing work of the E&AD. The terms of the note have been agreed with the Treasury.

It was agreed earlier that we should not show this note to E&AD; but that if you wanted to pursue questions about its developing role in more detail you might wish to bring the C&AG into consultation on this.

I am copying this letter to Jonathon Taylor.

*Yours sincerely  
Tof Churchd.*

*DL*  
DAVID LAUGHRIN

CONFIDENTIAL



## THE DEVELOPING WORK OF THE EXCHEQUER AND AUDIT DEPARTMENT (E&AD)

The E&AD assist the Comptroller and Auditor General (C&AG) in the performance of his statutory role as external auditor of the Government. In effect, they are the C&AG's Department.

2. The C&AG is an independent office holder under the Crown, and is answerable neither to the Government nor to Parliament though in practice most of his work is for Parliament's benefit. He works closely with the Public Accounts Committee. The Committee uses his reports on Departments' accounts as the basis for their examination of the way Departments have managed and spent the public funds for which they are responsible.

3. The C&AG is required by statute to examine and certify the accounts of Government departments (and certain other public bodies) after checking that money is only spent on the purposes approved by Parliament in conformity with the appropriate statutory or other authority. This check on the propriety and regularity of Departmental expenditure remains his basic audit task.

4. In addition he has for many years with the encouragement of the PAC extended his examinations to cover questions of economy and efficiency. These are known as "value for money" inquiries and are directed at uncovering wasteful or extravagant expenditure. In some recent cases his inquiries have moved towards an "effectiveness" audit. This involves an assessment of the "cost effectiveness" of particular expenditure programmes in meeting their policy objectives.

5. In view of the wide range of government expenditure, the C&AG has to be selective in deciding on areas to study in any depth. His work is "audit based", by which is meant that it is directed to an appraisal of the results of expenditure on specific projects or programmes. He has a statutory right of access to the records of Departments etc for the purposes of his audit examinations.

6. The work of E&AD was examined by a Management Review during 1978. The review team contained staff from E&AD itself and from the CSD and Treasury and two outside consultants. It reported to a Steering Committee chaired by the C&AG himself. Various recommendations were made to improve the quality of the Department's work. Their aim was:

- a. To encourage a more "professional" approach to the work of the department through better planning, monitoring and subsequent review of the audit of



departmental accounts. In particular the Department was recommended to adopt more widely the practice (followed by outside audit firms) of reviewing the adequacy of the accounting and control systems rather than spending a great deal of time checking the correctness of individual transactions.

b. To encourage a more positive approach to the auditing of departmental accounts through reporting areas of potential weakness to departments rather than waiting for errors to occur; and by examining and reporting on the adequacy of departmental financial and management information systems as well as on the formal accounting records.

c. To develop the professionalism of the Department's staff by extending and improving its training effort for new and existing staff. (All new staff must now study for and obtain a recognised accountancy qualification.)

d. To bring pressure to bear on departments to improve the quality of their own internal audit branches and then to make greater use themselves of the work done by internal audit in planning their own work.

7. The C&AG as the external auditor of the government helps Parliament with its scrutiny of the Executive. As such, he and his department must be entirely independent of government and cannot be its instrument. Securing the efficiency of its operations must be the task of government itself. However, the E&AD can act as a spur to greater efficiency of the government and the development of its work in the ways suggested by the Management Review (and in particular at '6b' above) should enable it to do that job more effectively.

8. The E&AD Acts which provide the statutory framework for the Department's work are now being reviewed by a group of officials under Treasury chairmanship reporting to the Financial Secretary. The review was launched earlier this year by the previous Administration, partly in response to a series of recommendations over the previous two years by various Select Committees (Expenditure, Procedure, PAC) all aimed at strengthening the public audit system and making it more relevant to modern Parliamentary needs. The present Government announced in June that they intended to press on with the review, and present plans envisage publication early next year of a Green Paper as a basis in the first place for public and Parliamentary discussion and thereafter for legislation. The nature and objectives of the C & AG's audit work (ie the balance between the various activities referred to in paragraphs 3 and 4 above)



will be one of the issues to be covered in the Green Paper. Others will include the range of public bodies to be audited by the Department and the constitutional status of the C&AG and his staff.

Civil Service Department  
Whitehall  
London SW1

October 1979