



Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

2nd April 1981

Clive Whitmore Esq.,  
10 Downing Street  
LONDON  
SW1

*Handwritten initials*

Dear Clive,

.....  
You wrote on 20 March expressing the Prime Minister's interest and concern on the question of internal audit. You may like to show the Prime Minister the attached copy of the letter which Sir Ian Bancroft and Sir Douglas Wass have sent to Permanent Secretary Heads of Major Departments.

The letter makes clear the importance of the subject and the determination of the Treasury and the CSD to pursue urgently improvements in departments and at the centre. Specific instructions to this end are given. This is, however, only a beginning. Particularly in the matter of qualified staff, but also in the definition of some particular requirements and methods, a programme of training, recruitment and developing advice and instructions is needed. Needs of different departments will vary, as do existing standards of performance. When, imminently, the Accountancy, Finance, Audit Division is transferred to the Treasury, the Treasury will be arranging regular reviews of progress with departments generally, and will be reporting to the Chancellor from time to time. At a recent meeting of Permanent Secretaries after they had received the attached letter, it was briefly discussed, and while many expressed concern over the problems of mobilising effective staff quickly, there was widespread recognition of the importance of the problem and the need for urgent action on the lines proposed.

I am copying this letter to Jim Buckley and to Sir Derek Rayner.

Yours ever

*John Wiggins*

A.J. WIGGINS  
Private Secretary



TREASURY  
Parliament Street  
LONDON  
SW1

CIVIL SERVICE DEPARTMENT  
Whitehall  
LONDON  
SW1

20 March 1981

*Dear Brian,*

INTERNAL AUDIT

We are writing jointly to you, after consultation with the Head of the Government Accountancy Service, about the general problem of the quality of internal audit service-wide, in the light of three recent indications of the need for fresh attention and action in this field.

2. Of particular importance is the Memorandum submitted by the C & AG to the Public Accounts Committee, analysing a recent survey by the Exchequer and Audit Department of internal audit in departments. It is subject to Parliamentary privilege until the PAC publishes it, but we enclose a copy, with Douglas Henley's agreement, on a confidential basis. The Memorandum is highly critical. Its message is that the general standard of internal audit units is too low and is particularly inadequate in relation to the audit of computer-based systems. These faults are attributed to insufficient involvement at senior levels in departments, a lack of professional skills and management within the audit units, personnel policies which result in staff being engaged in internal audit for too short a period, and inadequate direction from the centre.

3. The two other pieces of evidence are the results of surveys commissioned by the CSD last year on aspects of computer audit. Copies of these are also enclosed. They also report serious deficiencies.

4. These criticisms do not apply with equal force to all departments. We have already seen some comments from those who feel that they are not wholly fair. There will be opportunity later, when the report is published, to deal with its contents in more detail. But we believe that the need is demonstrated to bring the performance of internal audit up to an acceptable standard.

5. This is not just a matter of defence against criticism. Effective internal audit is an essential service for departmental management. The investigations of the Exchequer and Audit Department are no substitute for an efficient internal audit. They fulfil a different purpose; the C & AG reports to Parliament, whereas internal audit serves departmental management.

6. The range and purpose of internal audit are set out in paragraphs C 21-24 of Government Accounting. This makes clear the

Sir Brian Hayes KCB  
Ministry of Agriculture, Fisheries and Food  
Whitehall Place



importance of an effective system to the department, particularly to the Permanent Secretary and his senior management. It is the business of internal audit to report not only on propriety, security, completeness and accuracy of departmental activities and transactions, but also on the reliability and efficacy of financial control systems. In short, internal audit is a potent weapon to help us control our businesses, look after our assets, and secure value for money. The Head of Internal Audit should have direct access to the Principal Finance Officer, and where necessary to the Head of the Department; and get real and visible backing from them.

7. The Treasury, with the help of the CSD, has an important part to play in bringing about improvements in internal audit. The imminent transfer from the CSD to the Treasury of the Accountancy Finance Audit Division will bring together, under Treasury leadership the responsibility for setting standards and procedures in Government financial control, including internal audit, and the professional capability of developing and monitoring the standards and procedures, and helping departments to make cost effective use of their own internal audit resources. Work has already begun on producing fuller audit standards and guidelines, an audit manual, and a wide range of specimen documentation. A new computer audit manual will be produced.

8. Help from the centre must extend beyond issuing written guidance. The Treasury and the CSD are reviewing the range of assistance they can provide, including help on recruitment and training.

9. Much must depend on action by individual departments themselves. Specifically we ask you, and the Permanent Secretaries of all major departments:-

- (i) To take a personal interest in reviewing and improving your internal audit arrangements and in ensuring that their importance is understood by, and recognised in relations with, Principal Finance Officers and Line Managers. You may wish to consider establishing an Audit Committee, chaired at senior level. Some departments have found this useful.
- (ii) To ensure that your Head of Internal Audit is suitably experienced, of appropriate grade, and preferably professionally qualified. We ask you to review the statement of objectives of internal audit in your department, and the job description of the Head of Internal Audit, and to submit them to the Treasury for approval by 30 September 1981. Where the description or grading of the job is to be altered you should also let us have your proposal for ensuring that the post is appropriately filled at the earliest possible date. All new appointments to the post should be cleared with the Treasury, and this will become the standard practice in future.



(ii) To agree with the Treasury on a provisional basis, at latest by 30 June 1982, the composition of your internal audit section. The development of these sections will have to be progressive, and it is unlikely to be completed until an appropriately qualified Head of Audit has been in post for some months and has brought his judgement to bear.

(iv) Where the department has substantial computer operations, to agree with the Treasury by the end of this year a course of action to bring audit to an acceptable standard within three years.

You may want to consult the Treasury and the CSD on these actions, well ahead of the dates given, and we would welcome your doing so. On items (ii) and (iii) the point of contact will be Geoffrey Littler in the Treasury. On more technical audit questions and on computer audit, your people should get in touch with Edwin Walker, in AFA Division, Treasury. Where new posts above delegated levels or other matters affecting the CSD are involved, that department should be consulted in the normal way.

10. We recognise that the necessary improvement in the standards of internal audit in all departments will be a very large exercise. However the C & AG concludes that the need is not necessarily for larger numbers overall, but for a greater proportion of more professional, highly graded staff. We cannot do everything at once, but it is important to set and keep up momentum.

11. There will be much to be done in developing and placing adequately qualified people to work in internal audit. We think you should ask yourself whether your personnel management arrangements will ensure that adequately qualified people are available to be posted to internal audit, receive any further training that is necessary, and are retained in the internal audit section for sufficient periods (normally not less than four years) to meet the needs of the work. The current proposals for a functional specialism are relevant, as they provide some central involvement in the management of staff trained and experienced in accounting-type work, and our hope is that it will provide a substantial impetus to the input of professional accountancy skills. We believe that the importance of internal audit justifies allocating to it a due share of really able staff, both accountants and others. Periods of duty in internal audit should swell the cadre of people from whom senior financial staff can in the future be drawn.

12. The key posts are those of the Head of Internal Audit and the senior staff who help him to plan and supervise the work. It must be our aim to produce and train officers who can occupy these posts with full competence within the Civil Service. This however will take time. In a number of cases it may be necessary initially to use outside consultants, particularly on computer audit, though we have to recognise that there is a nationwide shortage of people with the combination of computer and audit skills. When we know the size of the demand (see paragraph 9(ii))



o. We shall consider with you what needs to be done in order to inform the unions, find appropriate candidates and settle terms and conditions.

13. Training will be a particularly important part of our efforts, and we will welcome assessments from departments of their training needs, as soon as these can be made, so that we can provide the most effective assistance. The Treasury and the CSD, in consultation with departments, will specify minimum training standards. From this specification, and the forecast of needs which departments provide, we shall be able to build up a picture of the resources needed for development and training; and as departments develop their plans further, they should keep in close touch with the College and the centre so that training resources can be developed to meet departments' needs. The Civil Service College is already planning improvements in training, including seminars for senior audit managers and on the audit of more advanced computer systems and departments will be kept informed of all further developments in the training plans of the CSD and Treasury.

14. This letter is being copied to the Permanent Secretaries of major departments on the attached list. We felt that it was right to start with these departments, but a similar letter will be issued shortly to other, smaller, departments, in a slightly different form to recognise their particular problem.

*Yours ever*

*Douglas Wass*

DOUGLAS WASS

*Ian Bancroft*

IAN BANCROFT



Sir Brian Hayes KCB  
Ministry of Agriculture Fisheries & Food  
Whitehall Place  
LONDON SW1A 2HH

Sir Douglas Lovelock, KCB,  
HM Customs & Excise  
Kings Beam House  
39-41 Mark Lane  
LONDON EC2R 7HE

Sir Frank Cooper KCB CMG  
Ministry of Defence  
Main Building  
Whitehall  
LONDON SW1A 2HB

Sir James Hamilton KCB MBE  
Department of Education & Science  
Elizabeth House  
York Road  
LONDON SE1 7PH

Sir Kenneth Barnes KCB  
Department of Employment  
Caxton House  
Tothill Street  
LONDON SW1

Sir Donald Maitland GCMG OBE  
Department of Energy  
Thames House South  
Millbank  
LONDON SW1P 4QJ

Sir John Garlick KCB  
Department of the Environment  
2 Marsham Street  
LONDON SW1P 3EB

Sir Robert Cox KCB  
Department of the Environment  
2 Marsham Street  
LONDON SW1P 3EB



Sir Michael Palliser GCMG  
Foreign & Commonwealth Office  
Downing Street  
LONDON SW1A 2AL

Sir Peter Preston KCB  
Foreign & Commonwealth Office  
(Overseas Development Administration)  
Eland House  
Stag Place  
LONDON SW1E 5DH

Sir Patrick Nairne KCB MC  
Department of Health & Social Security  
Alexander Fleming House  
Elephant & Castle  
LONDON SE1 6BY

Sir Brian Cubbon KCB  
Home Office  
50 Queen Anne's Gate  
LONDON SW1H 9AT

Sir Peter Carey KCB  
Department of Industry  
123 Victoria Street  
LONDON SW1E 6RB

Sir Lawrence Airey KCB  
Inland Revenue  
Somerset House  
LONDON WC2R 1LB

Sir William Fraser KCB  
Scottish Office  
Dover House  
Whitehall  
LONDON  
SW1A 2AU

Sir Kenneth Glucas, KCB,  
Department of Trade  
1 Victoria Street  
LONDON SW1H 0ET

Sir Peter Baldwin KCB  
Department of Transport  
2 Marsham Street  
LONDON SW1P 3EB

T.P. Hughes, Esq., CB,  
Welsh Office,