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30 June 1989

J S Beasall
Under Secretary

Dear Accounting Officer

PAC HEARINGS: THE ACCOUNTING OFFICER'S RESPONSIBILITIES

The Public Accounts Committee, in their 51st Report of Session 1987-88, asked the Treasury to draw the attention of Accounting Officers to their views on the correct procedure for presenting evidence to the Committee. I am accordingly enclosing paragraphs 33-34 of the PAC report, together with the relevant documents which were reproduced with the report. I would draw particular attention to the following points.

Clearance of NAO Reports

2. The Committee conducts its examinations on the assumption that reports by the Comptroller and Auditor General have been fully cleared with departmental Accounting Officers. The NAO have established formal clearance procedures with departments which are received periodically in discussions between the NAO and Principal Finance Officers. Their purpose is to establish that:-

- (i) the report contains all the material and relevant facts;
- (ii) the facts are not in dispute;
- (iii) their presentation and the conclusions drawn from them are fair;
- (iv) where the report states any NAO views or conclusions with which the Department is unable to agree, this is made clear and the NAO's and Department's reasons (and the facts supporting them) are properly represented with appropriate balance.

3. The conduct of NAO examinations and the preparation of reports go through a number of stages. Under present arrangements the NAO normally first discuss with the Department the scope and methods proposed for the examination. If an Accounting Officer has any reservations about the scope and methods, he should wherever possible make these plain to the NAO at this stage, so that they can be fully considered. When the examination has been completed an outline report is normally prepared and shown to and discussed with the Department; a full draft report is then given to the PFO to be considered by the departmental officials primarily concerned; and subsequently a further draft goes to the Accounting Officer. The NAO also give the Accounting Officer an opportunity to comment on any press release which they intend to issue when the report is published.

4. Departments should check draft NAO reports meticulously at every stage. If any part of a draft report, including the Summary and Conclusions, contains statements of fact, implications, opinions or

recommendations with which an Accounting Officer disagrees, or which he considers unfairly presented, this must be made clear to the NAO. If the C&AG does not agree to amend or remove the disputed material, the Accounting Officer should ensure that his disagreement and his reasons are included in the report alongside the statements concerned. This should be done whether or not the disputed statements are attributed in the text to the NAO. Similarly, while the scope of an NAO examination ultimately remains a matter for the C&AG, in any case where an Accounting Officer's initial reservations have not been fully met he should ensure that his views are stated in the report.

Supplementary Written Evidence

5. If an Accounting Officer expects to draw the Committee's attention at the hearing to additional documentary evidence, he should consult the C&AG and inform the Committee Clerk as soon as possible, and arrange for 35 copies to be supplied to the Clerk at least 8 days before the hearing. If, exceptionally, it is not possible to meet this deadline, the Clerk's advice should be sought on how best the information can be made available to the Committee.

Confidential Evidence

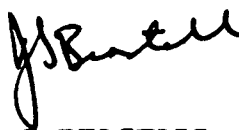
6. Although not raised by the Committee on this occasion, there is a further point on the submission of evidence which Accounting Officers may wish to bear in mind. In some cases an Accounting Officer may feel that the Committee's understanding of an issue would be assisted if they were aware of certain facts of a confidential nature, such as commercially sensitive information. It will not be appropriate for such information to appear in the published NAO report or to be given orally to the Committee in open session. Equally the Committee may be reluctant to go into closed session merely to hear such evidence orally. In such cases it is open to the Accounting Officer to agree, with the C&AG that the NAO report should be supplemented by a separate confidential note; or alternatively the Accounting Officer may himself submit a confidential memorandum to the Committee in advance of the hearing. If he wishes to do the latter, he should consult the C&AG and follow the other procedures set out in paragraph 5 above.

7. It should be stressed, however, that it is for the Committee to decide whether they will accept such evidence and that the Committee are generally reluctant to agree that evidence should be taken in private or that it cannot be published. Departments should therefore consider very carefully whether they are justified in claiming confidentiality.

Enquiries

8. This guidance has been agreed with the National Audit Office. Any enquiries about it should be addressed to me or to Mr J D R Shore (270-5361).

9. I am sending this letter to Accounting Officers appointed by the Treasury and to their Principal Finance Officers.


J S BEASTALL
Treasury Officer of
Accounts

EXTRACT FROM PAC'S 51st REPORT 1987-88

EVIDENCE BY THE ACCOUNTING OFFICER

Qs 3941, 3944,
3963, 3993

33. During the course of giving his evidence, the Accounting Officer did not follow two of the rules for presenting evidence to the Committee. First, he disputed the conclusions reached by the National Audit Office and criticised the scope of their study although he had had the opportunity to comment on these and had not previously done so. Secondly, he had introduced new material at the hearing on which neither the Committee nor the National Audit Office had had the opportunity to brief themselves. The hearing was also preceded by a newspaper article which gave a clear indication of the critical stance the Accounting Officer intended to take at the hearing, quoting the Department's officials as the source.

34. We were concerned about breaches of agreed arrangements for the efficient conduct of the Committee's business, and we asked the Comptroller and Auditor General to take the matter up with the Accounting Officer. Their exchange of correspondence is at Appendix 2. We are glad to note that the Accounting Officer has affirmed his acceptance of the procedures, regretted that he had not followed them all, and undertook to do so in future. We also note that his internal investigation discovered no source in his department for the remarks attributed in the press to the Department's officials. We recommend that this episode, and our views on it, be drawn to the attention of other Accounting Officers by the Treasury.

APPENDIX 2

Correspondence between the Comptroller and Auditor General and the Permanent Secretary, Department of Trade and Industry

(a) Letter from the Comptroller and Auditor General to the Permanent Secretary, Department of Trade and Industry

EVIDENCE TO PAC ON THE ALVEY PROGRAMME

After the PAC session on 4 May, the Committee expressed their concern that some aspects of your evidence raised issues which could impair their ability to conduct effective examinations on the basis of NAO reports. To help them consider their way forward, they asked me to write to you about your understanding of the extent to which the clearance of NAO reports covers presentational matters and conclusions as well as facts; the production without notice at the session of new written evidence; the basis for your comments on the report on the Alvey Programme; and the background to the article on Alvey which appeared in *The Independent* on 2 May.

The Clearance of NAO Reports

In evidence to the Committee, you said that you had agreed the factual part of the NAO report but that you would not accept all the NAO's comments (Q3941); and you agreed with the article in the *Electronics Times* that there was a disturbing disparity between the main body of the text and some of the conclusions drawn by the NAO (Q 3944).

I was surprised by this in view of the general understanding that the clearance process for NAO reports is designed to produce reports in which the facts, their presentation and the conclusions drawn from the facts will not be contested by AOs at PAC. The ground rules under which the NAO seek agreement on their reports are well established. They were set out fully in the evidence to PAC's 41st Report of Session 1985-86 (Annex A)¹. Following this Principal Finance Officers (including the DTI's) were sent a copy of the NAO's internal instructions under cover of David Myland's letter of 8 May 1986 to G W Wilson at MAFF. The procedures were subsequently extensively and fully discussed at a meeting held between the NAO's senior staff and PFOs (again including the DTI's) on 3 June 1986.

Moreover, all our previous dealings with your Department suggest that they are fully aware of these rules. On the Airbus Memorandum, on the NAO report on the Section 8 Assistance, and on the NAO report on Regional Industrial Incentives (RII) they took care to see that the facts were properly stated but they were also concerned to ensure that the Summary and Conclusions fairly reflected the facts.

In the particular case of the NAO report on the Alvey Programme, your Department were given ample opportunity to comment on both facts and conclusions. The NAO's findings were discussed with the Alvey Directorate at each stage and minutes of these meetings were returned to Directors for vetting. An outline report was put to the Department on 14 May 1987 and was followed by detailed discussions and further correspondence. Draft reports went to PFO on 16 September 1987 and to you (and the other Accounting Officers) on 23 December 1987.

At each of these stages, Departments were specifically asked not only to confirm the facts but to give their views on the presentation of the facts and the conclusions drawn from them. The only serious point of contention on our conclusions raised at any of these stages was in relation to exploitation. The draft report was amended substantially on this point to reflect your views as stated in your letter of 22 January. In your final letter on 24 February, you confirmed "subject to two very minor points, that the draft report is a fair presentation of all material and relevant facts." And these two minor points were fully reflected in the final report.

Against this background, I would be grateful for your views on why the clearance process did not work as intended in this case.

Production of new evidence at the PAC session

In your evidence (Qs 3944, 4056), you drew substantially from a forthcoming article in the *Electronics Times* which criticised the NAO Report. This had been written by the leader of the Science and Policy Research Unit (SPRU) at Sussex University (Mr Guy), who had been employed by DTI to evaluate the Alvey Programme.

¹pp 11-13 of HC 179 (1985-86) (not reproduced).

For obvious reasons, the Committee have always taken a strong line against the production of new evidence coming to them too late for them to take it fully into account in their examination. (You may recall the stern line they took in the examination leading to their 18th Report Session 1985–86; Annex B)¹. This aversion is reflected in the PAC's notes for Accounting Officers and other witnesses (Annex C) which requires material to which the AO wishes to refer to be supplied at least eight days before the meeting. Clearly, you could not have met that timing in this case but you indicated that you knew about the Electronics Times article at least two days before the PAC Session and had been given a copy of it (Q 4057).

I should be glad if you would let me know why you were not able to provide the NAO or PAC with copies of this article before your appearance at PAC, and what checks you were able to make beforehand on the accuracy and balance of the article. Again, it would be helpful if you would confirm that this episode does not indicate that you do not accept the established procedure.

Comment on the scope and methods of the NAO study

In your evidence (Q 3993) you made remarks about the NAO Report, stating that it did not address value for money issues, did not try to assess technology and that the NAO had not interviewed the evaluators or project managers. However, as your Department knew, the NAO's approach was to draw on evaluations made of the Programme by independent evaluators, internal audit and DTI's other efficiency units—and to see what impact these had had on the ongoing Programme. They supplemented and supported this by questioning AD staff in detail, examining their papers, and by a detailed review of the papers relating to a large sample of projects. This approach is fully set out at paragraphs 1.12 and 1.13 of the Report.

Using the approach, the NAO were able to comment—often favourably—on the value the Programme gave in securing collaboration; disseminating information about research; executing the demonstrator programmes; securing exploitation; identifying and remedying skill shortages and in co-ordinating the Alvey Programme with other UK and EC IT Programmes. And the report did, of course, summarise the results of the independent evaluation in a way in which you accepted fairly presented the findings, even though you thought it necessary to dwell on them in your own evidence to the Committee (Q 3946).

The scope and methods of the NAO study were, as always, fully discussed with the Department at the outset; and at no time were they questioned. During the clearance procedures no representation was made that the study was not a rounded study. Nor was it argued, except on the specific issue of exploitation where we accepted amendments to reflect your views, that the report did not fairly represent the achievements of the Programme.

I would be grateful for your comments on this.

Press Briefing

The Memorandum of Guidance for Officials appearing before Select Committees—issued in March, 1988 (Annex D) makes it clear (paragraph 61) that any comment to the Press on the NAO's Reports should be confined to background and supplementary information of a character not intended to be "controversial comments". It also indicates that such briefing should be "vetted" by the Treasury. The article in the Independent on 2 May (Annex E)² was clearly very critical of the NAO Report on the Alvey Programme and it claimed to quote the DTI officials directly.

No doubt you have already carried out your own investigations into this. I would be grateful if you would let me know the outcome, and let me have a copy of any record kept of the departmental statement to the newspaper if, indeed, any such statement was in fact made.

This is rather a long letter but I am sure you will agree that the subject is an important one. I should be grateful for a reply as soon as possible.

26 May 1988

¹pp 3–8 of HC 142 (1985–86) [not reproduced].

²*Dim view of joint research*, The Independent, 2 May 1988, p. 00 [not reproduced].

Annex C

COMMITTEE OF PUBLIC ACCOUNTS

Notes for Accounting Officers and other witnesses

[extract]

Opening statements and supporting material

2. The Committee prefers not to have lengthy oral opening statements, as this cuts down the time available for questioning. If, therefore, you wish to make any general opening statement, the Committee wishes you to consult the Comptroller and Auditor General (C&AG) well in advance, to give me as much notice as possible, and to send your statement in the form of a memorandum (35 copies), at least 8 days before the meeting. Please do the same if there are any pictures, graphs, etc. to which you will wish to refer. Witnesses are also asked to give reasonably brief answers.

Annex D

EXTRACT FROM MEMORANDUM OF GUIDANCE FOR OFFICIALS APPEARING BEFORE
SELECT COMMITTEES (March 1988)

61. In respect of Reports from the Public Accounts Committee, it is for Departments to prepare their own Press Notices, if any, and information to be given to the Press. There is, however, a specific undertaking given to the Committee by the Treasury in December 1968 that information provided by Departments to the Press will be confined to background and supplementary information of a character not intended to be "controversial comments", will not contain argument about the Committee's recommendations, and will be "vetted" by the Treasury. As far as possible a record should be kept of these departmental statements so that disputes about their form and content may be avoided. The arrangements in this paragraph also apply to immediate comment on Reports of the Comptroller and Auditor General.

(b) Letter from the Permanent Secretary, Department of Trade and Industry, to the Comptroller and Auditor General.

EVIDENCE TO THE PAC ON THE ALVEY PROGRAMME

Thank you for your letter of 26 May about the evidence I gave to the PAC on 4 May about the Alvey Programme. I will try to answer your questions in turn. But I should like to say two things by way of introduction. First, I accept the procedures for the clearance of reports and submission of extra material and the rules of not commenting to the press. I regret that the first two were not followed on this occasion—I explain the circumstances below—and I can understand the difficulties thereby presented for the Committee. I should like to express my regret for that. Secondly, I should like to make it clear that I do not wish to withdraw or amend in any way what I said on 4 May. The difficulty of the whole incident stemmed essentially from my having failed to reach agreement with you, as I should have done, on changes in the Summary and Conclusions part of the report at the draft stage.

Clearance of NAO Reports

I accept, of course, the understanding relating to the clearance of NAO Reports set out in paragraph 4 of the Memorandum submitted jointly by your predecessor and the Accounting Officer, Department of Education and Science, as part of the evidence given to the Committee on 23 April 1986. I can only express regret that this understanding was not fully implemented in the case of the report on the Alvey Programme (although, as you note, it has been so implemented in the case of all previous reports relating to the DTI).

There were, I believe, two reasons why the clearance process was not fully effective on this occasion. The first was my Department's view that, having secured a fair presentation of the material and relevant facts in the main body of the report (including copious references to the Alvey Directorate's views where these differed from those of the NAO), we could accept a Summary and Conclusions section which simply picked out the NAO's criticisms (which were correctly attributed to the NAO only), without insisting that the Department's differing perceptions should be set out beside them in that part of the Report.

This is most notable in regard to paragraph 12 of the Summary and Conclusions, which summarises all the NAO's criticisms, attributing them exclusively to the NAO. Some slight effort was indeed made to change this paragraph: in my letter of 22 January, for example, I said, in relation to its third sentence: "The report does not indicate ways in which the Directorate might have played a more positive role, or arrangements which might have been made more conducive to quicker exploitation etc. In the absence of such positive suggestions this sentence does not seem very fair and ought to be omitted." It was not omitted, of course, nor was any reference made to my dissenting view. I should have insisted on amendment in our further correspondence and I regret not having done so. I should like to assure you that my Department will not make this mistake again. In all future reports we shall insist, where there is a difference of view which cannot be resolved by discussion, that the Department's view is set out alongside that of the NAO wherever the latter appears.

There is a second reason why the clearance process did not work effectively in this case. It was only when I briefed myself intensively for the PAC hearing that I came to recognise fully the extent to which the Summary and Conclusions section of the Report gave a misleading impression of the Report as a whole, and of the Alvey Programme itself. I reached, in fact, the same conclusions about the Report that the independent evaluators were reaching independently. I should clearly have done this sooner, when the report was in draft; but having belatedly seen what was wrong with it I had a choice between suppressing my views or endorsing what I believe to be a misleading impression of the Programme by remaining silent. I did not think it fair to the staff of the Alvey Directorate, or to the hundreds of people in industry and the universities who are still working on Alvey projects, to remain silent.

Having said this, I should like to repeat my regret at having presented the Committee with a difficult situation, and my undertaking that my Department will do everything in its power to ensure that no future NAO report on the Department's work fails to record the Department's as well as the NAO's views, where they differ. This should clearly apply no less to the Summary and Conclusions part of the report than to its main body.

Production of new evidence at the PAC session

I fully appreciate and sympathise with the Committee's dislike of the submission of late evidence. This should clearly be avoided if at all possible and I certainly accept the established procedures over the submission of evidence. I had however understood the eight day rule to which you refer to relate only to opening statements and to supporting material of a graphical or pictorial nature which it could be difficult for the Committee to assimilate if it was not made available in advance. I hope that the Committee would not expect all possible material on which an Accounting Officer might wish to draw to be circulated in advance. In this particular case the article commissioned by the Electronics Times was drawn to the Department's attention by Mr Guy only a few days before the hearing. I was not prepared to quote from it, much less hand it over to the Committee, without Mr Guy's express permission and by the time I received this it seemed to me to be too late for a formal submission to the Committee to be of value. If similar circumstances arise in future, I shall take care to submit the material in advance.

Comments on the scope and methods of the NAO study

You ask me to comment on your observations about the scope and methods of the NAO study. The fact is, as the Report itself (paragraph 11) makes clear, that it is too soon to judge the impact of the Alvey Programme on the UK's competitiveness in the field of information technology. But this is what the Programme is about. In retrospect I think we should have recommended the NAO to defer an investigation until some judgement of value for money could be made. But one is always reluctant to suggest delay: it can look defensive, and there are aspects of any expenditure programme which can be usefully addressed before its ultimate effect becomes clear.

I hope this explains the remarks I made (Q 3993). The statements I made in answer to that question were all matters of fact. They were not intended to be critical of the NAO's efforts (indeed I think that within the limits the NAO set for itself the work was well done), so much as to point out to the Committee (as Dr Mowlam recognised) that the Report did not make an independent evaluation of the emerging technology but accepted the provisional views of our own evaluators and our other work on this aspect. Naturally I have no difficulty with the NAO supporting our own provisional professional technical evaluations. But at bottom Alvey is about exploitable technology. If one does not aim to assess that, one cannot reach a judgement about the value received in return for the cost of the programme. And as I tried to make clear to the Committee, and as the report agrees, it is too early to be able to do this in any final form.

Press Briefing

Although the article in The Independent on 2 May refers to "sources" in the DTI, I can confirm that there was no official Departmental statement to the newspaper. The Department's press office and other officials were under the usual instructions not to comment on the NAO Report in advance of the hearing. We are of course aware of the need to show any press briefing to the Treasury. I have carried out an internal investigation, but I have discovered no source in the Department for the remarks attributed to DTI officials. I have also spoken to the journalist in question, but she is understandably not prepared to reveal anything about her sources. She is a reputable journalist and I believe she must have had reason to attribute the views she reported to DTI sources: but this does not in my view mean that she necessarily obtained them from DTI officials directly, and I am disinclined to believe that she did.

I hope therefore that you will not assume that DTI officials were the source of this story. I certainly do not assume that you or your office were the source of the report of your views on this matter which appeared under the heading "Top Civil Servant is accused of hindering DTI investigation" in The Times of 31 May.

Like you I have written at some length, because I agree that the subject is an important one. I hope this reply will have clarified matters to your satisfaction. And I should like to express again my regret that the need I felt to set the record straight should have caused difficulty for the Committee.

10 June 1988