

It will be seen from the Abstract that New 5 per Cent. Bonds to the value of £4,091,000 were issued and £100,000 hypothecated, making together £4,191,000 prepared for issue up to the period of closing the accounts of the financial year 1868-9; that out of this gross sum new Bonds to the value of £3,004,234 were issued for the purpose of taking up £2,749,530 old Bonds; and that the expenses of negotiation, sale, and conversion, including some miscellaneous charges, amount to £18,254 11s. 10d., plus £19,438 6s. 9d.—£37,692 18s. 7d.

In reference to this last item, it is necessary to observe that, in order to meet the expenses incident to the management of the Loan, New 5 per Cent. Bonds were issued at 97. The loss by discount increases the liabilities which the Colony has incurred on account of these expenses, and this increased liability should be charged against the General Government and the Provinces in sums proportioned to the amount of old Bonds taken up for each; but the Treasury has charged only the actual amount of the expenses.

It is further to be observed, in reference to the incidental expenses, that the 7th clause of "The Consolidated Loan Act, 1867," provides that it shall be lawful to defray, out of the moneys borrowed under the Act, all charges and expenses incidental to raising the Loan. It is found, however, that the Treasury has recovered out of the Provincial moiety of the Consolidated Revenues the whole of the expenses apportioned to the Provinces; while, on the other hand, the portion belonging to the General Government has been charged against the Loan, which arrangement leaves the General Government only burdened with the Interest and Sinking Fund.

The Auditor is of opinion that unless the whole of the incidental expenses are charged against the Loan, a vote of the Legislature must be obtained, authorizing the Colonial Treasurer to defray the Provincial share out of the Provincial moiety of the Consolidated Revenues. Failing such an appropriation, all moneys recovered from the Provinces on this account should be refunded to the Provincial chests, and the Consolidated Loan charged with the amount. The overcharges are as follows:—Auckland, £5,781 3s. 11d.; Nelson, £271 8s. 7d.; Canterbury, £3,382 7s.; Otago, £5,985 13s. 9d. In lieu of the above, the Provinces should be charged only the Interest and Sinking Fund on the new Bonds representing the above sums.

The moneys raised under the authority of the Consolidated Loan Act are not applicable to the discharge of claims for Interest, and it is understood that the Colonial Treasurer, in making up the Consolidated Loan Account, has debited the Loan with the charges of accrued Interest on old Bonds as a temporary arrangement only. The sums so charged are being recovered from the Provinces, and placed to the credit of the Loan. These remarks apply also to charges under the head of "Public Debts Act, 1867," (page 99), where Interest on temporary loans, obtained on account of unissued Provincial Loans, is shown as defrayed out of moneys raised under the Consolidated Loan Act. As a matter of fact, the Interest was deducted at the time as a first charge on the gross proceeds arising from the sale of New 5 per Cents., and only the net proceeds paid into the Provincial chests.

It is observed that, in calculating the liabilities of the Province of Southland, the Colonial Treasurer has quoted the New 5 Per Cent. Bonds at a lower price than that paid, on the plea that the cash was received in instalments extending over three months, by which deferred payments the real value of the bonds was reduced from £97 to £96 4s. 3½d., and has thereby increased the liabilities of the Province by the sum of £4,649 13s. 2d.

The Auditor does not question the correctness of the Treasury valuation of the Bonds; but seeing that the Province is charged with Interest and Sinking Fund on the whole of the Bonds disposed of on its account, as if the money was all paid in on the day of raising,—namely, on the 15th April, 1868,—the Auditor maintains that the question of the value of moneys paid in by instalments is clearly got rid of. The Treasury, however, is not satisfied with charging the Province the actual amount of Bonds disposed of from the 15th April, although in doing so it would require the Province to discharge the whole of the Interest and Sinking Fund that it can itself be called upon to pay, but it adds £4,649 13s. 2d. to the sum of the Bonds actually issued, and then charges Interest and Sinking Fund on the increased amount from the day on which the Bonds were sold, namely, from the 15th April, 1868; by which it will eventually make £4,649 13s. 2d. at the expense of the Province of Southland.

It is submitted that the liability of the Province of Southland on the 30th June, 1869, should be reduced from £428,700 to £424,050 6s. 10d.

It is provided by "The Public Debts Act, 1867," that if any of the Loans authorized to be raised by any Provincial Ordinance shall not have been borrowed, the Colonial Treasurer may direct that the balance of such Loan may be sold, and the moneys realized paid over to the Provincial chest. Under this provision, a Loan of £25,000, authorized under "The Taranaki Loan Ordinance, 1862," was raised by the sale of New 5 per Cent. Bonds. Before, however, the new Bonds were disposed of, a sum of £20,000 was borrowed in London, at the rate of 4 per cent. interest, and paid over to the credit of the Province at the Bank of New Zealand. Subsequently the New 5 Per Cents. were issued, and the Interest and Sinking Fund on £25,000 were duly charged on the moiety of the Consolidated Revenues payable to the Province. From the date on which Interest and Sinking Fund were charged on the new Bonds, the charge of 4 per cent. interest on the £20,000 borrowed in anticipation of the Loan should have ceased; but on reference to the Accounts, it is found that for some time Interest on both sums charged. To this double charge for Interest the Auditor objects. When the new Bonds were sold for cash, the borrowed money could have been at once returned to the brokers; if, however, the Treasury found it convenient to retain the money for general purposes, the Province ought not to be damaged on that account. It is submitted that the overcharge should be refunded to the Province. The same remarks apply to the transactions on account of the unissued Bonds of the Provinces of Hawke's Bay and Canterbury, in which the overcharges are as follows:—Hawke's Bay, £469 17s. 11d.; Canterbury, £2,976 0s. 3d.

With the view of bringing out clearly the amount of New 5 Per Cents. issued, the amount hypothecated, and the liabilities of the Colony under the Public Debts Act and the Consolidated Loan Act, the Auditor has reconstructed the Loan Account, and in doing so has eliminated the charges on the Ordinary Revenues.

20th August, 1870.

CHARLES KNIGHT,
Auditor.

See Southland
Account herewith
for the sum of
£424,050 6s. 10d.

£313 5s. 4d.
Explanatory
statements
herewith.