

MEMORANDUM ON REPORT OF AUDITOR-GENERAL.

The Auditor-General, in paragraph 17, states that the over-expenditure on account of the New Zealand Settlements Act and the Consolidated Loan Act shows that either the Controller issued more money from the Public Account than was then to the credit of those Acts, or that the Treasury, having obtained moneys from the Controller for the purposes of the Defence Loan, diverted it to other uses.

With regard to the first of these accounts (the New Zealand Settlements Act), the expenditure in excess of the sum issued by the Controller was no doubt made out of other balances of Special Fund in the Public Account. But while, in the case referred to, that course, though customary, was improper, no such impropriety can be urged with reference to the over-expenditure of the Consolidated Loan Account. The money was required to take up the Manawatu (Wellington) Loan Debentures maturing in Sydney on the 30th June, 1871. It was issued by the Controller in the month of May previous, on its being shown to that officer that the Agents for the Conversion of the Loans, then in England, had been instructed on the 5th October previous to raise the required amount by sales of Consolidated Loan Bonds, and thus to bring this loan within the Consolidation scheme, as authorized by "The Public Debts Act, 1867."

The money was drawn out of the general balance of the Special Fund in the Public Account; and though the charge converted the otherwise credit balance of the Consolidated Loan Act into a debit balance of £19,063 17s. in the Accounts of the Colony, as made up to the 30th June, 1871, a part of the money had been restored to the Defence Loan Account, in London, prior to that date, and the balance was received by the Crown Agents on the following day, the 1st July.

It is submitted that the bonds for £132,000, referred to by the Auditor-General in paragraph 18, do still remain a part of the public debt. By the terms of the loan, the sinking fund is used to withdraw bonds from circulation, and, for safety, the Government has directed that bonds so withdrawn shall be cancelled, to prevent their being again issued; but the obligation to pay both interest and sinking fund on those bonds remains unaltered, and thus it seems correct to show the whole amount of the bonds issued as the debt of the Colony, while showing on the other side the money that has been paid for them as an asset, under the designation of "Sinking Fund Accrued." The bonds are as really held by the Sinking Fund Commissioners as similar bonds are held by them which they have purchased as investments of the Sinking Funds of the Loans of 1856 and 1863.

The Auditor-General is in error in assuming (paragraph 19) that the Debentures Account and the Public Debt Account are treated as always balancing each other. These accounts have hitherto balanced each other, because the creation of the debentures (credited to Debentures Account) has always been followed by their issue (debited to the Public Debt Account). In the case of the £139,500 debentures referred to by the Auditor-General, no information as to the existence of these debentures was given in the accounts of the Crown Agents. The Treasury records no doubt contained evidence of the fact, but, as the Auditor-General is aware, the transactions of Foreign Agents appearing in the Treasury Books are based upon the accounts, and not upon the correspondence of those Agents. Had the accounts of the Crown Agents shown that they held these debentures, entries as suggested by the Auditor-General would thereupon have been made. At this date, however, the omission, howsoever arising, is altogether unimportant, since the unissued remainder of the bonds in question were actually cancelled on the 20th June, 1871, by a Board convened for the purpose, and have long since been returned to the Treasury.

The £14,600 referred to in paragraph 20 had been received from the Sinking Fund Commissioners on an undertaking that debentures should be issued when the precise terms were agreed on, and thus that money became a part of the debt of the Colony. When the terms were arranged, debentures for the amount were issued under the Defence Loan, and it was therefore convenient to treat the whole transaction as if it had been an operation under that Loan at the dates at which the money was received.

The sinking fund was not paid for the two half-years referred to in paragraphs 22, 23, because, through the consolidation of the Loan, the Sinking Fund Commissioners had so much more than was sufficient in their hands that they released £3,836 in respect of the series due 15th July, 1914, and £1,512 in respect of the series due 15th March, 1891 (see page 14).

It is therefore evident that there could be no object in their receiving additional amounts, as they would only have had so much the more to repay.

J. WOODWARD,
Assistant Treasurer.
C. T. BATKIN,
Paymaster-General.

Treasury, 20th September, 1872.