"that there were a large number of books in use . . . . in which money-entries were made each day without the knowledge of the Audit," does not imply, and whether it was not intended to imply, that there were entries of *money transactions* of which the Audit had no knowledge? And I ask whether it is an honest or a misleading statement of the true facts as here described, and of which the Commissioners had ample evidence?

(2.) The next charge against the Audit is "the careless and perfunctory inspection made by the Audit Department of the mortgage securities held in the interest of beneficiaries."

Before combating this statement I must know what it means. Does it mean that the inspection of the Audit should extend (1) to the legal validity of the security given by the mortgage? Then, I must wholly deny that such is any part of the duty of an auditor. The law advisers of the office, not the auditors, are responsible for the validity of the title acquired. Or (2) does it mean that the auditor is responsible for the value of the property being sufficient to bear the mortgage? Again I deny that such is the duty of the Audit. The responsibility for this is imposed by the Act on the Board and the Trustee, and the Auditor is not called on to make an independent valuation of properties, nor has he the means of doing so.

I infer, however, from what follows what the Commissioners meant by "careless and perfunctory inspection." They say, "These securities have been certified to as correct by the Auditor-General when he and his inspecting officers, had they faithfully performed their duty, should have known that some of the mortgages had long since been foreclosed by the Public Trustee, and *ipso facto* had ceased to exist."

And, pray, who has informed the Commissioners that the Audit officers were not aware that mortgages had been foreclosed? It is not in evidence that they were not aware of it, and if it were it would have been untrue. And the Commissioners go on to say that although some of these properties "had been bought in by the Public Trustee *as the highest bidder* for less than one-half, and even as low as one-eighth, of the money originally advanced upon them, still they have been passed year by year by the Audit Department as *representing the full amounts advanced.*"

Exactly so. They do represent *the full amounts advanced,* and so rightly appear in the account. But the Commissioners endeavoured to extort out of Mr. Webb, the Audit examiner, even by the utterly unwarrantable threat to report him to the Government, involving, as it might have done, his dismissal from the service—to extort out of him the admission that the statement in the balance-sheet was a statement of the *value of the properties under mortgage,* and, as such, was untrue. I claim it as in the highest degree creditable to the character of the Audit officer that he could be neither cajoled nor intimidated by the Commissioners to admit that which they wanted him to admit—namely, that the statement in the balance-sheet was a statement of the *value of the mortgages,* and, as such, was false, whilst they now in their own report admit that the statement of mortgages "had been passed year by year by the Audit Office *as representing the full amounts advanced.*" That is exactly what they do represent, and what Mr. Webb said they represented, although the Commissioners endeavoured to force him, by threats of penalty, to admit that they represented *actual value.*

3. *The Statement of Investments in the Balance-sheet of the Trust Office.*

The balance-sheet as it stands is that required by the Public Trust Office Act; but it may become a matter for consideration whether *prospective* or *possible* losses on investments should be shown in it. So far as I can gather from the questions put by the Commissioners, it is their opinion that these should be written off the Expenses Account—that is, off the *annual income* of the office. I am not aware that such is the custom with any commercial houses. I was under the impression that actual losses were written off the trading capital, and that prospective losses were provided for either by insurance or by setting aside a reserve fund. But the Public Trust Office, so far as it is a trading concern, is trading without capital, but upon a guarantee by the Consolidated Fund; and therefore no loss, even real, much less prospective loss, can be written off its books without the consent of Parliament. And it would have been my duty to prohibit any such dealing with the accounts.

I understand from the line of examination pursued by the Commissioners that their opinion is that, in a case in which £4,000 had been lent on mortgage on a property which the Trustee foreclosed, buying it in at the auction on a bid of £500, the sum of £3,500 ought to have been written off the investments—in other words, that the bid at the auction was to be accepted as the value of the property; and that such is commercial usage. A case came before me a few weeks ago in which a man had lent £900 on a mill. The interest not being