

The Committee recognizes that the annual report of the Controller and Auditor-General provides an exceedingly valuable and useful check on any tendency there might be to slackness in accountancy methods and against waste or loss in Government Departments. The Committee considers that his comments on the lack of proper accountancy methods, pertaining to stores and equipment in units of the active services, were justified, although it was made clear that in the emergency conditions obtaining last year, involving a sudden and enormous expansion of our Forces in New Zealand and in the Pacific, it was not possible to obtain or to organize the qualified personnel necessary for efficient checking of stores, and, in cases where the Air Force was operating in forward areas, the general conditions made effective checking impossible. The lack of such checking was freely admitted by the representatives of the Armed Forces present and its dangers were recognized. Measures had already been taken to give effect to the Auditor-General's requirements, and last year's experiences should not be repeated.

Each branch of the Armed Forces, however, emphasized the difficulties they experienced in securing the necessary competent personnel in the Quartermaster's department to enable a proper accounting of stores and equipment to be carried out. The Committee recommends that the necessary steps should be taken by the military authorities to remedy this state of affairs.

Evidence placed before the Committee showed that the comments of the Auditor-General may in some instances be capable of serious misinterpretation. This was readily admitted by the Auditor-General, who, however, emphasized that it was his duty to direct attention to what appeared to be irregularities in accounting methods and to maintain a proper check on the methods of providing various types of stores and equipment and in the carrying-out of defence-construction contracts. The Committee is in complete agreement with this view.

The evidence tendered by witnesses brought out information relative to the practice followed by Audit in connection with store shortages, surpluses, and other matters which must be considered along with the comments of the Auditor-General. For instance:—

- (1) It was found that stores written off as "irrecoverable" and presented in the accounts as shortages are sometimes recovered later, but are not set out against the shortages. The Committee recommends that any surpluses found in stores should be shown in the same way as are shortages.
- (2) It was found that the saving of £30,000 in the purchase of Army huts referred to on page XVIII was due to the increase in the numbers ordered, and that the original contract provided for review after 2,000 had been supplied, as against the final contracts for 8,500, and that the readjustment of price was made in co-operation with the Commissioner of Defence Construction, Treasury, and Audit.
- (3) The reference on page XVII to timber-supplies is liable to misinterpretation in that the percentage of profit and overhead in all these contracts was based on the supply of materials by the contractor and the receipt by him of the percentage on the full amount. If this percentage on the materials was not paid, it would be necessary to increase the percentage rate on labour to ensure even the recovery of costs by the contractor.  
The only possible saving to the contractor by the supply of timber direct by the State was the time saved in purchasing the timber and the interest on the sum that he would have been out of pocket between the payment of his account to the timber-supplier, and recovery from the State.
- (4) It was proved to our satisfaction that, owing to emergency conditions, it was essential for the State to be the contracting party for the purchase of the timber and supply to the contractor.

The evidence supported the contention that the expedition of these supplies not only saved costs in connection with the contracts, but also enabled the works to be completed much more quickly during a dangerous emergency period than they could have been had the contractors been required to obtain their timber from individual suppliers.

The reference in the third paragraph on page XIX to deficiencies in the quality of sole leather supplied to two military camps was found to be justified.

In mitigation it was pointed out that there was a serious shortage of leather-supplies at the time and the difficulty of supplying 8,000 pairs of soles to the Army each week under those conditions had led to some hundreds of pairs of defective soles being sent to the stores in the two camps in question. In one instance a refund was made by the merchant concerned, and in the other case the defective soles were returned. The footwear (boots and shoes) supplied to the Forces, it was agreed, was uniformly of a high standard, and the defects referred to were confined to the leather supplied for resoling purposes. There was no evidence that defective soles had gone overseas, and no complaints had been received from overseas.