

1903.  
NEW ZEALAND.

## PUBLIC ACCOUNTS COMMITTEE :

REPORT ON PARLIAMENTARY PAPER B.-20A, 1902—PAYMENT OUT OF UNAUTHORISED EXPENDITURE FOR TELEGRAPH EXTENSION (CORRESPONDENCE BETWEEN AUDIT OFFICE AND TREASURY RELATIVE TO).

*Report brought up on the 30th September, 1903, together with Minutes of Evidence, and ordered to be printed.*

### ORDERS OF REFERENCE.

*Extracts from the Journals of the House of Representatives.*

THURSDAY, THE 13TH DAY OF AUGUST, 1903.

*Ordered*, "That Standing Order No. 211 be suspended, and that a Committee be appointed, consisting of twelve members, to examine into and report upon such questions relating to the Public Accounts as they may think desirable, or that may be referred to them by the House or by the Government, and also into all matters relating to the finances of the colony which the Government may refer to them; five to form a quorum; the Committee to consist of Mr. J. Allen, Mr. Colvin, Mr. Fisher, Mr. Flatman, Mr. W. Fraser, Mr. Graham, Mr. T. Mackenzie, Mr. McNab, Sir W. R. Russell, Mr. Wood, Hon. Sir J. G. Ward, and the mover."—(Right Hon. R. J. SEDDON.)

WEDNESDAY, THE 16TH DAY OF SEPTEMBER, 1903.

*Ordered*, "That Papers numbered 154B (B.-20A, 1902) and 181B (B.-20B) referred last session of Parliament to the Public Accounts Committee, but not reported on, be again referred to that Committee."—(Mr. McNAB.)

## REPORT.

THE Public Accounts Committee, to whom was referred the above-mentioned Paper, has the honour to report that it has considered the same, and taken evidence thereon, and is of opinion that, as this difficulty is likely to be a recurrent one, legislation should be introduced to obviate it.

Wednesday, 30th September, 1903.

R. McNAB, Chairman.

## MINUTES OF EVIDENCE.

FRIDAY, 25TH SEPTEMBER, 1903.

Statement by the Right Hon. R. J. SEDDON. (No. 1.)

*Right Hon. R. J. Seddon* : To enable the Treasury to carry on from the 31st March till Parliament meets, the appropriations of the year are extended by law for three months. In many Departments—notably Railways, Postal, Police, Defence, and Lands—the amount so authorised is insufficient for the three months, as four monthly imprest issues have to be made within the three months, while only three months' expenditure is provided for—that is, as the law stands at present. This entails on the Treasury the necessity for conserving the "unauthorised" for the first quarter of the year until imprest supply is obtained; otherwise the railway or other employees would have to go without their pay. Members of the Committee will understand that, although we have the extension for the three months, practically there are the four months' imprest issues that we have to meet, and to enable us to do so we have to conserve the "unauthorised" as far as we can. This has occurred from time to time, and I think there ought to be an amendment of the law. In this case had the vouchers been entered up against the telegraph-extension vote they would have to be charged against the Unauthorised Account, and Railways or some other Department must have suffered. The claims had already been paid; it was simply a question of charging them to the vote. The payments were made, some out of the funds in the hands of the Post Office, others by the Agent-General. It does not follow that the Department when making the payments is aware that it is paying in excess of the vote. In fact, at the time the payments are made the vote may be in funds; but by the time the vouchers reach the Treasury and Audit for entry an imprest issue may have been made, which will alter the state of the vote and prevent the

entry being made except as against "unauthorised." The term "unauthorised expenditure" may mislead the Committee; in this case it simply means "payment in excess of vote," which the law treats as "unauthorised expenditure." The appropriation admitted by Audit for the June quarter (three months) — *i.e.*, one-fourth of the year's appropriation and advances outstanding — was £20,864, against which we brought forward a charge of £10,743, imprest advance in the hands of the Agent-General, and before the end of April we had sent Home further orders to the Agent-General on account of stores amounting to £10,926, thus overdrawing the vote by £800. This was the position we found ourselves in when the vouchers reached the Treasury for entry, and we held them back for a more favourable opportunity. As to making use of moneys which did not come out of the Public Works Fund for public-works purposes, it happens that the Post Office, as well as other imprestees, pay moneys for services other than for which they receive advances, and adjustment is necessary when the vouchers come in for entry—in fact, as we get them from time to time we adjust them and charge them in their proper place. I suppose, myself, that as this is inevitable we ought to get the law altered so as to obviate the difficulties. The Controller and Auditor-General is here, and I think he will be able to tell you that as I have put the matter to the Committee is really the correct situation.

J. K. WARBURTON, Controller and Auditor-General, examined. (No. 2.)

1. *The Chairman.*] Do you wish to make a statement, Mr. Warburton?—The whole case, Mr. Chairman, is stated, I think, in Memorandum No. 5 of this Paper. There were three credit requisitions sent by the Treasury to the Audit Office to be passed, and those three credit requisitions contained vouchers for expenditure long before the 30th June, which the Treasury admitted should have gone into the Public Accounts, but which did not go in because the limit of the unauthorised expenditure would not allow it. In the second paragraph of Memorandum No. 5 I state, "From the explanation of the Treasury, however, it appears that the expenditure entered in the Public Accounts for the June quarter excludes certain expenditure because it was unauthorised expenditure which the state of the Unauthorised Expenditure Account precluded from entry. Now, the provision for unauthorised expenditure is not a vote. It is not a sum of money appropriated to the public service by the Appropriation Act or any other Act sanctioning the expenditure of public money. The payments of unauthorised expenditure are subject to statutory conditions not imposed on the payments of expenditure under a vote—that is, to the conditions prescribed by sections 47 and 48 of the Public Revenues Act. The hand of Ministers is necessary to the payments. Where those conditions are not observed, the payments are not lawfully made. Where they are observed, the money necessary to the payments is, before the payments are made, charged to the Unauthorised Expenditure Account, in accordance with the statements under the hand of Ministers, and the Treasury and the Audit Office can prevent the payment of vouchers for unauthorised expenditure from exceeding the statutory limit of £150,000. As, accordingly, the Public Revenues Act does not provide for or contemplate the contingency which has arisen, the Controller and Auditor-General would respectfully submit that Parliament should be informed of the matter." And the Minister assented. I think that is the whole case—that expenditure not authorised by law was not brought into the accounts of the colony during that period, the reason being, as stated by the Treasury, the limit of the Unauthorised Expenditure Account.

2. *Right Hon. R. J. Seddon.*] The statement that I made, Mr. Warburton, that practically there is three months' appropriation and four months' supply is about correct, is it not?—The Treasury may desire, perhaps, to draw on the three months' appropriation before the end of the three months, with a view to expenditure during the following three months, but the expenditure during the following three months should be under imprest supply. There should be an Imprest Supply Bill passed to authorise and provide for the expenditure after the 30th June. If the Treasury required money during the three months for expenditure after the three months, it would be for such expenditure after the three months as would not be lawful without an Imprest Supply Bill.

3. What suggestion would you make to meet such a difficulty as that which has arisen? Do you think that to increase the "unauthorised" would be a reasonable way of meeting the difficulty?—Take the case before us. There is the alternative either of stopping the expenditure chargeable to the Unauthorised Expenditure Account or of having a larger amount authorised for unauthorised expenditure. The unauthorised expenditure is limited to £150,000, so it appears to me that the duty of the Administration was either to stop the Public Works Fund expenditure of the Post Office in putting up telegraph-lines, telephones, &c, or to do wrong, as was done here.

4. *Mr. W. Fraser.*] Would an increase of the Unauthorised Expenditure Account preclude the possibility of this kind of thing occurring again?—The same condition of things might certainly arise with an extended limit. If the unauthorised expenditure went up to the new and larger limit, the question might again arise in a similar case whether you should, in accordance with the law, stop your unauthorised expenditure, or carry it on beyond the limit and seek the indemnity of Parliament.

5. If the limit were made £200,000, the tendency would be to work up to it, and you would find yourself in the same trouble. I want to see if there is any possibility of some remedy being found which would be more effectual than that. Can you think of any other remedy that would be more effectual?—The only remedy is to estimate correctly what your expenditure may be, and to stop your payments when you come to the limit of your authority—that is, your authority under the appropriations and your unauthorised-expenditure authority.

6. Am I to understand from you that, apart from the question of convenience, the increase of the Unauthorised Account would not prevent a recurrence of this difficulty?—I say that the same circumstances might arise; but you can always ascertain by strict compliance with the law when you have reached your limit. Sections 47 and 48 of the Public Revenues Act require that the Minister should authorise the expenditure before it is made.

7. *The Chairman.*] You describe the remedy, Mr. Warburton, as either stopping the expenditure or increasing the amount of "unauthorised." I want to make this point clear: Do the amounts that are referred to in this Paper as having been expended in excess appear in a vote of the House?—These amounts are charged in the Public Accounts as expenditure of the following quarter of the year—that is, as expenditure after the June quarter.

8. I asked you that question lest it might appear to those reading the Paper that these expenditures were made and that they never came before the House. I wanted it stated in your evidence that these always came before the House?—They do not come before the House specially. They go into the Public Accounts which are presented to Parliament. The regular yearly Public Accounts comprise this expenditure as expenditure of the year for which such accounts were rendered.

9. But these amounts are voted by the House?—Yes; they are charged to what the House afterwards votes.

ROBERT J. COLLINS, Assistant Secretary to the Treasury, and Accountant, examined. (No. 3.)

10. *Right Hon. R. J. Seddon.*] You have heard what the Controller and Auditor-General said, and what I stated to the Committee. I ask you, as Assistant Secretary to the Treasury, whether the statement I made is a fair exposition of the situation?—The statement made by you is correct. There is one little matter with regard to which the Auditor-General was probably misled—I refer to the four months' issue. He had the idea that it was on account of expenditure of the succeeding three months after the 30th June. That is not so. In the first quarter of the year we have in respect of several Departments four imprests to issue. The first issue is made on the 1st April. That is for the purpose of paying wages of the railway and other employees for the month ended the 31st March. The other three issues are made within the quarter, for current expenditure. Consequently, instead of requiring only three months' expenditure for the Railways and the other Departments which the Right Hon. Mr. Seddon mentioned, we have to actually issue sufficient money to cover four months' expenditure. As the amount appropriated by law for the extension of three months is not sufficient, we have to draw on "unauthorised," and the result is that nearly the whole of that £150,000 is taken up in that manner. As regards the Department paying the money, in this case it was the Post Office that paid it. They paid it out of the funds they had in hand, and it was not until the vouchers came to the Treasury and were put in requisition for entry that we knew that the vote had been overdrawn. In fact, as Mr. Seddon pointed out, at the time of the payment of the moneys the vote may not be overdrawn—it may be in funds; but by the time the vouchers reach the Treasury, which may be a month or more after payment by the Department, an issue from the Treasury may have in the meantime been made in respect of that particular vote, and the vote overdrawn. That was the position we found ourselves in in May of 1902—the vote was overdrawn; and it was necessary to hold those accounts over for entry until a more favourable opportunity—that was, until after the 30th June, when we could charge them against imprest supply. Of course, provision was made for them in the usual way in the estimates and Appropriation Act.

11. *Right Hon. R. J. Seddon.*] What remedy would you suggest, Mr. Collins?—Either an increased amount of "unauthorised" or an alteration in our present system of having to charge the amounts against the vote when we make an imprest issue. That is to say, we charge the amount issued on imprest against the vote, and the vote is absorbed to that extent while really the money is not used. For instance, at the end of April there was no less a sum than £20,000 shown in the hands of the Agent-General belonging to the telegraph-extension vote. The money may have been unspent at the time; but the vote was overdrawn—you could not issue anything further from it.

12. While at the same time the £20,000 was lying in the hands of the Agent-General?—Yes.

13. We have to issue all moneys from here. Perhaps, as in this case, they may be in the Agent-General's hands, and not used for months, but the vote is depleted to that extent. Take the expenditure for the Railways, the Post Office, and others: £150,000 looks a large sum of money, but if you have to pay a month's salaries for the Railway and other Departments it is soon gone. You have told the Committee, Mr. Collins, that in respect to some of these Departments you have to provide for four months' expenditure on three months' appropriations. What does it take for a month?—About £150,000. You can estimate the Railways at £70,000, and the Post Office between £50,000 and £60,000. The other Departments make up the difference.

14. Would it not meet the case if we got four months' extension instead of three?—That would be better. It would enable us to carry on till the 30th June for certain.

15. By the increase of one month it would not be taking the control from Parliament, but it would enable you to carry on?—It would enable us to carry on to the end of June, and would not take away the control.

16. Either that or an increase of the "unauthorised" is wanted?—Yes.

17. *Mr. W. Fraser.*] Avoidable or unavoidable, as the case may be, there is no doubt that the present position of affairs should not continue. This payment, as the matter is set forth in the Paper before us, was undoubtedly illegal?—It does not follow that it was illegal at the time it was made.

18. At what time was it illegal? It was illegal at some time or other?—I do not know whether it was. I did not say that it was illegal.

19. At no time?—At no time. The Post Office were quite within their rights in paying the money, but it was when the vouchers came to the Treasury for entry that we found we could not very well enter them without charging to "unauthorised," and some other Department would have suffered.

20. You thought it both legal and regular to hold them over?—Under the circumstances.

21. Do circumstances govern these things—are you bound by the Public Revenues Act or not? Do you hold yourself at liberty, if circumstances require it, to set the Public Revenues Act at naught?—No; not to set the Public Revenues Act at naught. As to the Post Office making the payments, there is another Act which will cover the issue of the money by them—that is, “The Public Revenues Act Amendment Act, 1900,” which allows the Post Office to pay moneys out of any balances they may have in hand so long as they are not Savings-banks deposits.

22. Is that the point which is referred to, because I understand it is the holding-over of the accounts that is in question?—The question is that these accounts were chargeable to “unauthorised expenditure,” and were kept out of the June quarter’s accounts when they should have been included. We were unable to include them, because the “unauthorised” was exhausted.

23. You still hold that what was done was perfectly regular and legal?—I did not say that it was legal. It was contrary to law to exclude them from the accounts of the quarter.

24. Then, that being so, it is advisable that we should devise some means by which the public expenditure can be made in a legal and proper manner?—That is so; but I want to say this: it was not illegal to make the payments—the payments were not illegally made.

25. It was the holding-over?—The holding-over was not in accordance with the Public Revenues Act, but we had no other course open to us. In fact, the Audit Department would not have allowed us to enter the vouchers. There was no “unauthorised” left to enter them against.

J. K. WARBURTON, Controller and Auditor-General, re-examined. (No. 4.)

26. *The Chairman.*] Would you like to ask Mr. Collins any questions?—No; but I would like to state that, whether there are four imprests or three, or more, the unauthorised-expenditure limit is £150,000 for that three months, and if four applications for imprests are made during the period it does not follow that there should be a one-fourth larger unauthorised expenditure. Then, if the Public Revenues Act is strictly complied with, there can be no unauthorised expenditure in excess of or without the appropriation of Parliament, unless the Minister previously authorises it. Sections 47 and 48 of the Public Revenues Act provide against that. So that if the money necessary to unauthorised expenditure is first approved, no more than the amount so approved can be spent, and the expenditure of any sum in excess of the “unauthorised” limit is therefore illegal. It must be illegal. The fact that Ministers are responsible, and have to answer to Parliament under section 78 of the Public Revenues Act, would make it unreasonable that Ministers should not know of an unauthorised expenditure before it is made.

27. *Right Hon. R. J. Seddon.*] You do not say that these were made without the knowledge and approval of Ministers?—If Ministers acted as provided by sections 47 and 48, the money before it was issued would be charged to Unauthorised Expenditure Account; and as an imprestee cannot spend out of unauthorised expenditure more than the sum advanced to him for such purpose, it is impossible for him to exceed the limit.

28. *Mr. W. Fraser.*] Do I understand that to have four months’ appropriations would not improve the position of matters?—If the appropriations were extended for four months, the provision for unauthorised expenditure would be £150,000 for four months instead of for three. This would be in addition to the appropriations of the previous year for four months. It strikes me that at the end of four months the difficulty would be greater than it is at present, because the appropriations of the previous year for authorised expenditure would carry you on in the ordinary course to the end of the four months, while you would have a provision relatively a quarter less for unauthorised expenditure. Unless you increased your unauthorised expenditure to £200,000, the position at the end of four months as regards unauthorised expenditure would be worse than the position at the end of three. And then, of course, Parliament might be called together at the end of July instead of June.

29. It has been alleged that with three months’ appropriation four months’ expenditure is often required. That is how I understand it. Is the remedy suggested one which would be of service—the remedy of four months’ appropriation?—Well, it just depends upon what the other conditions may be. If, as I understand it, you extend the appropriations for four months on the same conditions as they are extended now, you will have a smaller proportionate amount to expend as “unauthorised.” You will have £150,000 to expend as “unauthorised” in four months instead of in three.

30. I do not quite see that?—Your unauthorised expenditure for the whole year is £150,000. Well, during the year from the 1st April until imprest supply you have that £150,000. That is up to the 1st July. If you have that £150,000 up to the 1st August you have £150,000 for four months instead of three.

31. But with the remedy suggested you have further appropriations available to work on?—Yes; but that is for what cannot be unauthorised—that is, extended appropriations.

32. But it would be of convenience to the Treasury?—I presume the appropriations are only sufficient for the authorised general expenditure. This would not be “unauthorised.”

33. *Right Hon. R. J. Seddon.*] You have heard what Mr. Collins stated—that he had practically to pay four months’ imprests out of three months’ appropriations?—He said he had to draw them.

34. Take the fourth imprest as being the Railways, the Postal Department—some of the large Departments. The Railways is £60,000 in itself, is it not?—Yes.

35. Well, if we had four months’ appropriation, the “unauthorised” would not be required for that purpose, because the appropriation would meet it. There would be £60,000 to the good, as far as Railways were concerned?—But you would want an imprest the next—the fourth—month.

36. In the meantime, of course, you would have the opportunity of getting the imprest supply, because you would have Parliament sitting. That is the difference?—But you might not call Parliament until the end of July.

37. It does not follow that you are not going to call Parliament together until then. The question is that the "unauthorised" is used for a purpose opposed altogether to the spirit of "unauthorised." It was never intended to meet current salaries for any month out of unauthorised expenditure, was it?—No; but the appropriations which you extend meet those. If you go beyond the appropriations you go to "unauthorised."

38. But you are aware, are you not, that to meet the current monthly expenditure of some of the large Departments it has to be charged to "unauthorised"?—I understand that this very case arises out of that contingency. This arises out of circumstances of that kind.

39. "Unauthorised" was contemplated, was it not, to meet expenditure that is not provided for?—The "unauthorised" is described as "in excess of or without the appropriation of Parliament." "In excess of" means "in excess of the votes"; "without the appropriation," "without any votes."

40. It was never contemplated that "unauthorised" should be drawn upon as it has had to be owing to the four months' imprest. It was never contemplated that you should have to pay the ordinary salaries of these large Departments for a month of the year out of "unauthorised"?—If you exceed the appropriation, I think that must be so. I cannot understand the law, as it exists at present, as meaning anything else. I may say that ways of overcoming the difficulty are hardly for the Audit Office to suggest or to consider. If you take this particular case it would have been met by a limit of £200,000 instead of £150,000. The great question is whether the Government is to stop its expenditure—to take this case, that of the Post Office—for telephones and telegraph-lines, and so forth—whether it is to stop the expenditure or not. So far as the Audit Office is concerned, we are merely part of the statute.

*Right Hon. R. J. Seddon*: At all events, it is a contingency that may arise again, and it is for us to see whether you can aid us in providing against it. Of course, your remedy is a certain one. You say, "Stop the expenditure." That is all right; but, as a matter of administration, sometimes—say, if you have a contract proceeding—it is rather difficult.

*Mr. Collins*: In this case the expenditure was already made.

*Mr. W. Fraser* (to *Mr. Collins*): You have stated once or twice that when the expenditure was made there was enough in the Unauthorised Account to meet it, but when the vouchers came in there was not. Does that often arise, or is it a condition of affairs which can, by a little foresight and care, be avoided?

*Mr. Collins*: At the time the payments were made there was sufficient money in the Unauthorised Account to meet them. The payments were made in April—in fact, some of them prior to April—and there was plenty of margin; but when the vouchers came into the Treasury for entry we saw that if we entered them we should be in difficulties with the "unauthorised," and that the Railways or some other Department would have to suffer. Our "unauthorised" was so much taken up at the time by excess on votes that we were unable to enter them.

*Mr. W. Fraser*: Would it not have been possible, at any time while all these charges were being incurred, and before the vouchers came in, to know what the state of the account was, and to know whether you were not issuing charges which might overrun the constable?

*Mr. Collins*: We know that; but in this particular case the moneys were paid by the Post Office, and not by the Treasury. The Post Office made the payments.

*Mr. W. Fraser*: Without your knowledge?

*Mr. Collins*: They got imprest moneys from us, and were making payments. We did not know of the way they were spending the moneys. In this case some were spent by the Agent-General. At the time he had funds in hand, but as time went on other claims came in from the Agent-General and increased the amount charged to "unauthorised."

*Mr. W. Fraser*: Which you did not know of?

*Mr. Collins*: Not until the vouchers arrived.

*Mr. W. Fraser*: And which you could not have known of?

*Mr. Collins*: No; we could not very well have known. Had we not sent the money Home to the Agent-General for stores in the month of April we could have entered most of those vouchers up. There was £25,000 chargeable, I think, to the vote.

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