

1910.  
NEW ZEALAND

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PUBLIC ACCOUNTS COMMITTEE:  
PUBLIC REVENUES BILL

(REPORT ON THE) TOGETHER WITH MINUTES OF PROCEEDINGS AND EVIDENCE.

(MR. RUSSELL, CHAIRMAN.)

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*Report brought up Wednesday, 21st September, 1910, and ordered to be printed.*

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ORDERS OF REFERENCE.

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

THURSDAY, THE 7TH DAY OF JULY, 1910.

*Ordered*, "That a Committee be appointed, consisting of ten members, to examine into and report upon such questions relating to the Public Accounts as it may think desirable, or that may be referred to it by the House or the Government, and also into all matters relating to the finances of the Dominion which the Government may refer to it; three to be a quorum: the Committee to consist of Mr. Allen, Mr. Buxton, Mr. Fraser, Mr. Graham, Mr. Laurensen, Hon. Mr. T. Mackenzie, Mr. Massey, Mr. Reed, Mr. Russell, and the mover."—(Right Hon. Sir J. G. WARD.)

FRIDAY, THE 26TH DAY OF AUGUST, 1910.

*Ordered*, "That the Public Revenues Bill be referred to the Public Accounts Committee."—(Right Hon. Sir J. G. WARD.)

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REPORT.

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THE Public Accounts Committee, to whom was referred the above-mentioned Bill, have the honour to report that they have carefully considered the Bill, and recommend that it be allowed to proceed with the amendments as shown on the copy attached hereto.

21st September, 1910.

G. W. RUSSELL,  
Chairman.

## MINUTES OF PROCEEDINGS.

THURSDAY, 1ST SEPTEMBER, 1910.

The Committee met at 11 a.m., pursuant to notice.

*Present:* Mr Russell (Chairman), Mr Allen, Mr Buxton, Mr Fraser, Mr Graham, Hon. Mr T Mackenzie, Mr Massey, Mr Reed, Right Hon Sir J G Ward.

The minutes of the previous meeting were read and confirmed.

*Public Revenues Bill*

On the motion of the Right Hon. Sir J G Ward, it was resolved, That the Chairman consult with the Chairman of the Lands Committee, and that the Auditor-General be requested to attend a meeting of the Committee to be held on Wednesday next, 7th September, at 11 a.m.

WEDNESDAY, 7TH SEPTEMBER 1910.

The Committee met at 11 a.m., pursuant to notice.

*Present* Mr Russell (Chairman), Mr Allen, Mr Buxton, Mr Fraser, Mr Graham, Hon Mr T Mackenzie, Mr. Massey, Mr Reed, Right Hon. Sir J G Ward.

The minutes of the previous meeting were read and confirmed.

*Public Revenues Bill*

Colonel R J Collins, Auditor-General, attended, and was examined by members of the Committee, his evidence being taken down in shorthand by a reporter

The Committee then proceeded with the consideration of the Bill.

Clause 1, Short Title. Agreed to.

Clauses 2, 3, 4, 5, 6, and 7 Agreed to.

Clause 8. Postponed on the motion of the Right Hon. Sir J G. Ward.

Clause 9. Lines 19 and 20: Amendment proposed, That the words ' with the approval of the Governor in Council ' be deleted. (*Right Hon. Sir J. G Ward*)

Agreed to.

Clauses 10 and 15. Postponed.

Clauses 11, 12, 13, 14, 16, and 17 Agreed to.

Clause 18. On the motion of the Right Hon Sir J. G. Ward, this was postponed.

Clauses 19, 20, and 21 Agreed to.

THURSDAY, 8TH SEPTEMBER, 1910.

The Committee met at 11 a.m., pursuant to notice.

*Present* Mr Russell (Chairman), Mr Allen, Mr Fraser, Mr Graham, Hon Mr T Mackenzie, Right Hon. Sir J G. Ward.

*Public Revenues Bill.*

Colonel R. J Collins, Auditor-General, attended, made a statement, and was examined by members of the Committee, his evidence being taken down in shorthand by a reporter

The Committee resumed consideration of the Bill at clause 22

Proposed by the Right Hon Sir J G Ward, That the following new subclause—1A—be inserted in clause 8:—

“ While so acting such person shall be paid a salary at the rate of eight hundred pounds a year out of the Consolidated Fund, which to the necessary extent is hereby appropriated accordingly:

“ Provided that if he is already in receipt of a salary from the Government, this subsection shall apply only to the difference between that salary and the sum of eight hundred pounds for the period during which he is so acting ”

Agreed to.

Amendment proposed, That the following be inserted, and stand in place of clause 18:

“ In case any difference of opinion arises between the Audit and the Treasury as to the vote, appropriation, fund, account, or other authority to which any expenditure ought to be charged, or as to the proper head of revenue, fund, or account to which any receipt should be credited, the question shall be determined by the Minister, and his determination shall be laid before Parliament

“ Provided that if in the opinion of the Audit Office the question involves matter of law, then it shall be referred for the opinion of the Attorney-General thereon, and in such case it shall be the duty of the Controller and Auditor-General to act in accordance therewith, but the objections of the Audit Office shall, together with the opinion of the Attorney-General, be forthwith laid before Parliament if then in session, or, if not, then within ten days after the commencement of the next ensuing session.” (*Right Hon. Sir J G Ward.*)

Amendment proposed, That the words “ Attorney-General ” after the words “ for the opinion of the ” be struck out, with the view of inserting the words “ Solicitor-General ” in lieu thereof (*Mr Allen.*)

And the question being put, “ That the words ‘ Attorney-General ’ stand part of the clause,” the Committee divided, the names being taken down as follows :—

*Ayes*, 5.—Mr Fraser, Mr. Graham, Hon Mr T. Mackenzie, Mr Russell, Right Hon. Sir J G. Ward.

*Noes*, 1.—Mr Allen.

And it was resolved in the affirmative. Words “ Attorney-General ” retained.

Clause agreed to.

In clause 10, line 30, the word “ only ” inserted between “ Department ” and “ such.”

Clause 15. Passed as printed.

Clauses 22, 23, 24, 25, 26, 27, 28, 29, 30, 31, 32, 33, 34, 35, 36, 37, 38, 39, 40, 41, 42, 43, 44, 45. Agreed to.

On clause 46 a division was called on the question, “ That the clause be a clause of the Bill.”

*Ayes*, 4.—Mr Graham, Hon. Mr. T Mackenzie, Mr. Russell, Right Hon. Sir J G. Ward.

*Noes*, 2.—Mr Allen, Mr Fraser

And so it was resolved in the affirmative.

On clause 47 a division was taken on the question, “ That the clause be a clause of the Bill.”

*Ayes*, 4.—Mr Graham, Hon. Mr T Mackenzie, Mr Russell, Right Hon Sir J. G. Ward.

*Noes*, 2.—Mr Allen, Mr Fraser

And so it was resolved in the affirmative.

Clauses 48, 49, and 50. Agreed to.

Clause 51 Amendment proposed: That between the word “ certified ” and the word “ and,” in line 48, the following words be inserted: “ and charged against the proper vote or account.”

Agreed to, and clause as amended agreed to.

Clause 52 Subsection (3), line 15: Amendment proposed, That the word “ vote ” be inserted between the words “ fund ” and “ or ”

Agreed to.

Clauses 53, 54, 55, 56, 57, and 58. Agreed to.

Clause 59. Amendment proposed, That in line 15 the word “ Statement ” be struck out, and the word “ requisition ” be inserted in lieu thereof

Agreed to.

Further amendment, That the word “ statement ” in lines 16 and 17 be struck out, and the word “ requisition ” be inserted in lieu thereof

Agreed to.

Clause 60. Amendment proposed, That in line 19 the words “ an account ” be struck out, and the words “ a schedule ” be inserted in lieu thereof

Agreed to.

Another amendment proposed, That the word “ all ” be inserted in line 20, before the word “ paid.”

Agreed to.

Another amendment proposed, That in line 22 the word “ account ” be struck out, and schedule ” be inserted in lieu thereof

Agreed to.

Clause 61 Amendment proposed, That in line 25, and clause as amended, the word “ account ” be struck out, and the word “ schedule ” be inserted in lieu thereof

Agreed to.

Another amendment proposed, That in line 26 the word “ account ” be struck out, and the word “ vouchers ” be inserted in lieu thereof

Agreed to.

Another amendment proposed, That in line 27 the word “ account ” be struck out, and the word “ schedule ” be inserted in lieu thereof

Agreed to.

Another amendment proposed, That in line 52 the words “ account and ” be struck out.

Agreed to.

Another amendment proposed, That in line 54 the word “ account ” be struck out, and the word “ schedule ” be inserted in lieu thereof

Amendment agreed to.

Clause as amended agreed to.

Clauses 62, 63, 64, 65, 66, 67, and 68. Agreed to.

Clause 69 Amendment proposed, That the word “ provided,” in line 15, be struck out, and the word “ produced ” be inserted in lieu thereof

Agreed to.

Clauses 70, 71, 72, 73, 74, 75, 76, 77, 78, 79, 80, 81, 82, 83 Agreed to.

Clause 84. Amendment proposed, That the words “ Solicitor-General ” be struck out of subsection (3), and the words “ Attorney-General ” be inserted in lieu thereof

Agreed to.

Clauses 85, 86, 87, 88, 89, 90, 91 Agreed to.

In clause 92 the Right Hon. Sir J. G. Ward moved, That the wording of subsection (29), section 54, be here again inserted.

Agreed to.

Clauses 93, 94, 95, 96, 97, 98, 99, 100, 101, 102, 103, 104, 105, 106, 107, 108, 109, 110, 111, 112, 113, 114, 115, 116, 117, 118, 119, and 120. Agreed to.

Clause 121 Postponed.

Clauses 122, 123, 124, 125, 126, 127, 128, and 129 Agreed to.

Clauses 130 to 132. Postponed.

*New Clause*

“135. Notwithstanding anything contained in this Act, the Auditor-General may require any claim or voucher to be submitted to the Audit Office for examination before payment is made; and, should the Audit Office object to pass such claim or voucher, payment shall not be made except as provided for in section 18 of this Act.” (*Right Hon. Sir J G Ward.*)

Agreed to.

The meeting adjourned until Tuesday, 13th September, at 11 a.m.

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TUESDAY, 13TH SEPTEMBER, 1910

The Committee met at 11 a.m., pursuant to notice.

*Present* Mr Russell (Chairman), Mr Allen, Mr Fraser, Hon. Mr T Mackenzie, Right Hon Sir J G. Ward.

It was proposed, That the confirmation of the minutes be postponed, to enable the Chairman to correct them.

Agreed to.

*Public Revenues Bill.*

Clauses 130, 131, 132, 133, and 134. Agreed to.

Schedules 1, 2, 3, and 4. Agreed to.

Schedule 5. Resolved, That the word “Account” in the heading be struck out, and the word “Schedule” be inserted in lieu thereof.

Agreed to.

Resolved, That the schedule as amended be agreed to.

Schedules 6, 7, 8, 9, 10, and 11 Agreed to.

Resolved, That clause 121 be recommitted.

Amendment proposed, That all the words after the word “fifty pounds,” in line 48, be struck out, and the following proviso be inserted:—

“Provided that if one per centum of the general rate does not in any financial year amount to fifteen pounds, the local authority may in that year expend the sum of fifteen pounds for such purposes as aforesaid. (2.) Any Harbour Board may in every financial year expend on such purposes a sum not amounting in the whole to more than one per centum of its revenue for that year (exclusive of loan-moneys) nor in any case to more than two hundred and fifty pounds. (3.) Any Hospital or Charitable Aid Board may in every financial year expend on such purposes any sum or sums not amounting in the whole to more than one per centum of the amount levied on contributory local authorities for that year in respect of expenditure other than capital expenditure, nor in any case to more than two hundred and fifty pounds.”

Agreed to.

Resolved, That this Bill as amended be printed.

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THURSDAY, 15TH SEPTEMBER, 1910

The Committee met at 11 a.m., pursuant to notice.

*Present:* Mr. Russell (Chairman), Mr Allen, Mr Buxton, Mr Fraser, Hon. Mr T Mackenzie, Mr Massey, Mr Reed, Right Hon. Sir J G. Ward.

The minutes of meetings of 7th, 8th, and 13th September were read and confirmed.

On motion of the Right Hon. Sir J G. Ward, it was resolved, That new clause 135, as follows—“Notwithstanding anything contained in this Act, the Auditor-General may require any claim or voucher to be submitted to the Audit Office for examination before payment of same is made; and, should the Audit Office object to pass such claim or voucher, payment shall not be made except as provided for in section 18 of this Act”—stand part of Bill.

On the motion of the Right Hon. Sir J G. Ward, it was resolved, That new clause 135 be struck out.

Resolved, That clause 52 be amended by the addition of subclauses 5 and 6, as follows:—

“(5.) Notwithstanding anything to the contrary in this section, if the Controller and Auditor-General is of opinion that any such voucher as aforesaid is in any respect not in accordance with law, he may refuse to countersign the requisition; but in such case he shall, if so required by the Treasury, submit the question of the legality of the voucher to the Attorney-General in accordance with section eighteen of this Act, and the provisions of that section shall apply accordingly

“(6.) Regulations may be made under this Act providing that in respect of any class of payments vouchers shall not be included in any requisition until and unless they have first been submitted to and passed by the Audit Office.”

It was resolved, That the Bill as amended be printed.

On the motion of the Right Hon. Sir J. G. Ward, it was resolved to request Messrs. Warburton and Morris to attend next morning.

On the motion of the Right Hon. Sir J. G. Ward, it was resolved, That the evidence and papers in connection with the Bill be printed.

On the motion of the Right Hon. Sir J. G. Ward, it was resolved, That a memorandum of the Bill be prefixed.

The Right Hon. Sir J. G. Ward suggested that copies of the Bill be sent to the Controller-General and the Draftsman.

The meeting then adjourned until the 20th September

TUESDAY, 20TH SEPTEMBER, 1910

The Committee met at 11 a.m., pursuant to notice.

*Present:* Mr Russell (Chairman), Mr Allen, Mr Buxton, Mr Fraser, Hon. Mr T. Mackenzie, Mr Reed, Right Hon. Sir J. G. Ward.

*Public Revenues Bill.*

Messrs. Warburton and Morris, and Colonel R. J. Collins, attended.

Messrs. Warburton and Morris made statements, and were examined by members of the Committee, their evidence being taken down in shorthand by a reporter.

On the motion of the Right Hon. Sir J. G. Ward, it was resolved, That the Bill be reported to the House.

The meeting adjourned.

PUBLIC REVENUES BILL.

MEMORANDUM IN EXPLANATION OF PROVISIONS, ISSUED TO MEMBERS OF COMMITTEE BY THE MINISTER OF FINANCE.

THE principal object of this Bill is to substitute a system of post-audit of the Public Account in place of the existing system of pre-audit.

Under the proposed system vouchers for the expenditure of public moneys will be audited by the Audit Office after payment, instead of before payment as is done at present. Such is the system with nearly all other Governments, as well as in all commercial houses and companies. It will tend to facilitate prompt payment, as, many times, payment of claims is delayed by questions being raised with which the payee has no concern.

Control will be maintained, as heretofore, on the issue of the moneys under the proper parliamentary appropriations, as all issues of money will, before being made, have to be authorized by the Audit Office.

Provision is also made for an annual statement of the revenue and expenditure in detail, and a report from the Auditor-General thereon.

As a new Bill had to be introduced to change the audit system, it was considered desirable to introduce it as a Bill to consolidate and amend the law relating to public moneys, so that the greater portion of the Bill is a repeat of the Act of 1908, alterations being only made where experience in its operations has rendered it necessary.

Dealing with the principal alterations, I will take them in their order.

Section 4. The Bill provides for only one statutory officer, the Controller and Auditor-General, the position of the Assistant Controller and Auditor, as a statutory office at £800 per annum, being done away with.

This is following the practice of Australia, Canada, and other places, where only one statutory officer is appointed.

Section 9. Provision is made for the appointment of an officer of the Audit Department to act as Deputy Controller and Auditor, to perform such duties as may be assigned to him by the Controller and Auditor-General.

Section 10. It has always been the practice for the Auditor-General, though not laid down, to select his own officers—and very properly so from an Audit point of view. This principle is now being provided for in the Bill.

“Audit Department” should be defined as meaning the officers, clerks, and other persons appointed to the service of, and employed by, the Controller and Auditor-General.

Section 14 makes provision for the Controller and Auditor-General communicating with the Minister of Finance upon matters arising under the Act.

Section 17 gives Audit Office power to have access to books and Departments, so that a “progressive audit” may, if desired, be maintained.

Section 18 does away with the necessity of obtaining a Governor’s Warrant in the matter of dispute between the Treasury and Audit, which in practice is most inconvenient; and, as the Governor has to authorize the Governor’s Warrant, and has no power to refuse, it is preferable to throw the responsibility direct upon the Law Advisers of the Crown. If the Audit Office takes exception to an issue or charge, and the matter cannot be settled between the two Departments, the Audit Office refers it to the Attorney-General for his opinion, reporting the matter to Parliament.

Section 21 No officer to open a public or official account without authority of Treasury

Section 39 Treasury bills limited to currency of one year; therefore the time to which such may be issued is deleted. (Appropriation Act, 1909, section 23.)

Section 51 provides for the post-audit system, inasmuch as the vouchers are sent to the Treasury for payment instead of being sent to the Audit.

Section 52 The Treasury then deals with the vouchers as was done heretofore, entering them against the respective votes and items, and the same procedure for issue of bank order as was previously in force is maintained.

Section 59 (new). Copy of cash-book to be sent to the Audit Office. (Daily statement of payments should read “daily requisitions.”)

Section 60 provides for the sending by Treasury of all receipted vouchers to the Audit for examination by Audit.

Section 61 deals with the examination and audit of vouchers (should read “on receipt of said schedule and vouchers the Audit Office shall examine the vouchers,” &c.).

Sections 63–70 are all consequent on the new system of post-audit.

Section 69. Fifteenth line, last word of line, “provided” should read “produced.”

Section 82 “Payments made by the Postmaster-General” means all cheques issued by him in payment of claims on the Public Account.

Section 84 provides for a full and particular account in detail of the revenue and expenditure being sent to the Audit Office, which is to be laid before Parliament after being audited.

This section also provides for an annual report from the Auditor-General, which is in vogue in other colonies.

The present B.-1 is not audited, nor is there any law for its preparation.

The expenditure here is the total amount of moneys issued by cheques drawn on the Public Account for payment of services, and the payments made by imprestees out of imprest-moneys, as well as adjustments made by transfers.

Section 91 Annual statement of investments to be laid before Parliament *audited*.

Section 92. Section transferred from Appropriation Act.

(Provision for notifying Audit, similar to that of subsection (2) of section 54, should be added.)

Section 121 This section will enable local authorities such as counties, Road Boards, and Town Boards to expend on services not authorized by any law any sum or sums up to 1 per cent. of their general rate, with a maximum of £50.

By this means the expenditure provided for is not to be subject to the present condition—namely, “that the Audit Office must be satisfied that it is made *bona fide* for the service and in the interests of the inhabitants”; and, moreover, the expenditure is not to be out of the “ordinary income,” which is indefinite.

Harbour Boards and Charitable Aid and Hospital Trustees are also to have authority to spend unauthorized expenditure up to £50 per annum.

The necessity of faking exceptions to expenditure incurred by local authorities in good faith and in their opinion in the interests of the ratepayers or inhabitants, for which there is no specific authority of law, should be obviated.

These tags are very irritating, but the Auditor-General has no recourse but to call attention to any expenditure for which there is no provision or authority of law, even though the expenditure is absolutely necessary and proper.

This section, if passed, will tend considerably to reduce the number of tags, the constant repetition of which tends to minimize the value or importance of the Audit certificate.

Section 131 Authority to make temporary payments on account of local authorities.

Section 132 Purchase of silver and bronze coin provided for

These sections are reprints from the annual Appropriation Acts, and, as the Appropriation Act lapses on the 31st March of each year, there is no provision in the interim for making payments or issue of moneys during the interval under the sections referred to.

Section 134 provides that sections dealing with the appointment of a Deputy shall come into force on the passing of this Bill, as the Bill does not come into operation till 1st April next.

J G WARD.

## MINUTES OF EVIDENCE.

WEDNESDAY, 7TH SEPTEMBER, 1910.

Colonel R. J. COLLINS, I.S.O., Controller and Auditor-General, examined. (No. 1.)

1 *Right Hon. Sir J. G. Ward.*] I should like to ask Colonel Collins if, with his experience, he considers it desirable, or otherwise, to have an alteration from the pre-audit system to that of the post-audit?—Yes, I do. I consider that the post-audit system is more desirable. It is the evolution of the pre-audit system, it will tend to facilitate prompt payment of claims, as vouchers can be dealt with at once upon receipt by the Treasury, instead of having to undergo examination before payment by the Audit Office. When a voucher comes before the Audit for examination it will be complete in every respect.

2. Would there be any greater liability to payments being improperly made, or a mistake, under the proposed system, as against the existing one?—No, I do not think so. In the case of pre-audit, where a voucher is wrongly charged or is incomplete, and has to be returned to the Department for completion, delay necessarily takes place, and therefore it is for that reason desirable that pre-audit should be dispensed with, and the audit take place after the payment. There are some payments, however, which should, in my opinion, be pre-audited—for instance, purchase of lands, payments in connection with loans, and there might be other claims which the Auditor-General might consider it desirable to examine before being paid. I think provision should be made for them.

3. What is the system in other countries?—Post-audit in nearly every place, except the Cape.

4. Post-audit in England, Canada, Australia?—Yes, but the Cape, I think, has adopted the pre-audit, but it is only very recently if they have done so.

5. Under the post-audit system, as against the pre-audit system, can the Treasury supply full details for the information of Parliament more effectually than under the pre-audit one?—Under the post-audit system the details would be as easily supplied.

6. Supposing some firm under contract operating with the Government for the supply of goods and materials to various Departments, under this post-audit system, when the cheque would be paid, the whole of the details of that account would be required to be attached to the voucher?—They would be in the voucher at the time of payment. In adopting the provisions as put forward in this Bill you do not alter the present procedure, with the exception of that dealing with the voucher. The voucher will go to the Treasury in the first instance for payment, but under the present system the voucher is sent direct to the Audit Department, and if passed, goes on to the Treasury for payment.

7. Under the new system the voucher goes to the Treasury, the amount is charged against the vote in the requisition, and then the bank order is issued by the Audit Department, so that the Audit Department have got the control over the appropriations?—Yes, that is so. In other places—the Commonwealth, for instance—a requisition is made for supplies for one, two, or three months, and the Audit Office issues a bank order for the payment of the moneys. The amount is charged against the vote and account. No money would be issued under the proposed system unless there was a sufficient balance in the account and at credit of the vote to meet it.

8. Do you consider the system of checking is weakened in any way by the process that is suggested of post-audit, by the Treasury in the first instance paying the amount in the vouchers?—I think that more care will be exercised by Departments authorizing payments than at present.

9. And the Audit Department would call upon them to put the matter right after the Department made a mistake?—Yes.

10. *Mr. Massey*] Under the present system the vouchers are examined prior to the payments being made?—Yes.

11. Do you not think there is very considerable risk in the system proposed?—No, I do not I do not see why there should be.

12. You do not think there is a chance of payments going to the wrong persons, or payments being made which are not contemplated by Parliament, under the system as proposed?—I do not think that any payment can go through unless it is in accordance with law.

13. Under the proposed arrangement there is nothing to prevent a wrong payment being made—as, for instance, by carelessness on the part of the Department?—It has to be charged against the vote and item.

14. Under the proposed system there would not be the same control as you have now?—There would not be the same control.

15. You think that provision should be made for pre-auditing certain accounts—that if there is any doubt about an account it should be audited before payment?—Yes.

16. With regard to the details of revenue and expenditure, do you not think it is possible to supply Parliament with details under the present system?—It would be possible. The details would be forthcoming, but there would be many vouchers included shown as paid which might not have been paid.

17. The details could be supplied all the same?—Yes.

18. There would be no more delay made in supplying such details under the proposed Bill?—No more delay in the case of supplying details such as you have mentioned.

19 *Mr Allen.*] What is your experience with regard to the loss which has taken place or wrong payments made? Have there been many?—Very few in the way of making payments.

20. Which is safer in your experience, pre- or post-audit?—I do not see much difference.

21 Does the Audit now, when they submit to Parliament an abstract of the accounts for the year, make any report that the accounts are actually paid?—No.

22 Is that statement we get an abstract of accounts of cheques issued?—Yes, of moneys issued.

23. Clause 52 provides that a requisition on being authorized by the Treasury shall be sent to the Audit Office, together with all the vouchers relating thereto. Is that before payment?—Yes.

24. Would you explain that to us?—The vouchers are placed in requisition without being audited, and the procedure so far as clause 52 is concerned is the same as was carried out in pre-audit.

25. Where would the saving of time be?—In the examination of the vouchers.

26. But will the requisition not include a summary of the whole?—Yes, in order that the Audit may issue the bank order

27 But where is the saving of time?—There is no examination of vouchers by the Audit Department.

28. In this case you do not examine the voucher, you simply sign the requisition. Are the detailed vouchers entered in the schedule in respect of which you are going to authorize an issue of money?—The total of each voucher is entered in the requisition under the vote or account, but not the details of the claim.

29 *Mr Reed.*] It practically comes to this, then, Colonel Collins that in a pre-audit the Treasury officers have received their directions from the Audit before payment?—Yes, that is so.

30. They have received their directions before payment. Now, in a post-audit does it mean that you are throwing more responsibility on the Treasury officers to see that their payments are legal and properly directed and properly carried out?—I do not think any additional responsibility is thrown on the Treasury officers in that respect.

31 In the post-audit they will receive no directions?—No, they will only receive the voucher for payment.

32 In that case they would have to take an extra responsibility on themselves, and they would have to act on their own initiative?—They will have to act on their own initiative. The Treasury will not audit the vouchers before payment.

33. Have you any check at all prior to the payment of the voucher?—Yes, under section 52.

34. Will the Treasury receive directions through the requisition?—They will receive the bank order authorizing the issue of cheques.

35. Will it assist them in keeping clear of any misdirected payments?—There is no question about it; they will have got their directions absolutely from the Audit Office.

36. The requisition will be the only guide that they require?—Yes, the responsibility is on the Department from which the voucher emanated.

37 In the case of a mistake, what is the remedy under the proposed system?—The remedy is to surcharge the officer who is responsible for the error

38. Satisfaction can be got and mistakes can be rectified perfectly satisfactorily under the post-audit system?—Yes.

39 Illegal payments or misdirected payments would have just as good a chance of being satisfactorily remedied?—The certifying officer and authorizing officer will be surcharged with the amount.

40. At the present time an illegal payment could not very well occur?—With pre-audit it could not very well occur. It might occur through a mistake with post-audit.

41 Is the country perfectly safeguarded in this remedy in case of such an illegal payment? Yes, by surcharge against the authorizing officer

42. *Mr Fraser* ] You stated that in your opinion provision should be made for pre-audit still in certain cases. Is there such provision in the Bill?—No, there is not.

43. Is it within your knowledge that certain payments under the pre-audit system were sought to be made which the Audit Office in the past considered to be illegal?—Yes, there have been payments of that nature.

44. And with post-audit these would go through without any question until after the money had been paid?—Yes, they would, unless a provision is put in the Bill to meet such cases. I was going to say, if an illegal-payment voucher reached the Audit the Audit could pick it out at once, and raise the question on it if there was a provision in the Bill.

45 You have told us that under the proposed system the Audit will only see the total of the vouchers, not the particulars, and there might be a mistake in a voucher which was, or might be deemed to be, an illegal payment?—What I said was that the total of the vouchers would be in the requisition, not the details. The vouchers do not come up for examination by Audit.

46. In practice would the Audit Office examine the details of these vouchers?—Not, under post-audit, until after payment had been made.

47 And therefore there might be details sanctioned by general approval of the requisition which might be illegal?—That is so.

48. *Mr Graham* ] You said just now that it was possible for a voucher to be passed and paid, and it might afterwards be discovered by the Audit Department that it should not have been paid. In that case you say it would be a surcharge upon the officer certifying the voucher?—Yes. There is provision made in this Bill for surcharging such officer.

49 It makes him personally responsible?—Yes.

50. *Right Hon. Sir J G Ward.*] I want to ask one or two questions upon this point of surcharging. What would be the procedure? Would it be something on the following lines: If the



head of a Department at the seat of Government or the delegated authorizing officer at the seat of Government found that a voucher, upon its being certified to for payment, was wrong, would the Controller not report that to the Minister?—Yes, the Controller reports to the Minister

51. Before a payment is made would it not require to be authorized in the ordinary way by the Minister?—I do not think the Minister comes in there.

52. What I mean is, payments made by the Treasury in the ordinary course, excepting the conditions of authorized contracts, copies of which would be with the Treasury—would the Minister not have to certify payment before the Treasury made it?—No. The head of the Department or the person appointed by the Minister approves and authorizes the payment. I am speaking of ordinary payments.

53. Take the case of a sum of money for public works?—The ordinary payments for services are paid without the authority of the Minister

54. Take now the payments for which Parliament is responsible, details of which are authorized in the consolidated estimates: payment in that case would be made by the Treasury without the authority of the Minister whether it be either under the pre-audit or post-audit system?—It would.

55. *The Chairman.*] Colonel Collins, I wanted to ask you one or two questions. I understand the position now is that there are three checks the Department check, the Treasury, and the Audit?—There is no check in the Treasury

56. The payment by the Treasury is now checked by the Audit: is that so?—Yes.

57. Is this Bill your proposal? Are you favourable to the proposal? Do you think it a good thing in the interests of the country?—I do.

58. It would be easier to have mistakes made under the post-audit system than under the pre-audit?—There is a greater liability of wrong payments being made under the post-audit system that would not be made under the pre-audit system.

59. *Mr Massey*] Could you supply the Committee with some information with regard to the class of payments which are now post-audited, the class of payments now pre-audited, and the class of payments which would still be pre-audited if the Bill passed into law?—The Treasury could supply that.

60. *Mr Allen.*] Perhaps Colonel Collins will give us the reason for the 'vote'?—It is the title adopted elsewhere.

61. This definition of "public moneys" was in the original Act before the passing of the State Guarantee Act?—That is so.

62. Do the loan-moneys belong to the Crown and the Government of New Zealand?—Certainly, they belong to the Crown and Government of New Zealand.

63. What salary is to be paid to the Acting-Controller?—No salary is provided for the Acting-Controller

64. *The Chairman.*] The clause that Mr Allen is dealing with relates to the Acting-Controller—that is to say, the man who takes the place of the Controller and Auditor-General in the event of his absence from New Zealand?—Under the present Act, the Controller being absent from New Zealand, some person would be appointed Deputy Controller, who would receive £800 per annum. The Deputy in this Bill is an officer of the Department who on the recommendation of the Controller is appointed Deputy, and acts for the Controller in his absence, and performs such duties as may be assigned to him by the Controller.

THURSDAY, 8TH SEPTEMBER, 1910.

Colonel R. J. COLLINS, I.S.O., Controller and Auditor-General, further examined. (No. 2)

1. *Right Hon. Sir J G Ward*] In regard to section 15, which provides that "if at any time the Audit Office finds that any public moneys are lying in the hands of or are due from any person or local authority, which ought to have been paid into the Public Account or any deposit account, or any of the other accounts mentioned in this Act, the Audit Office shall call on such person or authority forthwith to pay such moneys into the account to which the same belong, and in default of such payment shall inform the Minister of such default, who shall take such steps as he thinks fit to recover such moneys." I have no objection to the Audit Office taking the action, but I think it would be a mistake. In all other States it is provided that the Auditor-General shall report to the Treasurer, and it is for him to take the necessary action?—Yes, it is the practice in every other colony for the Auditor-General to report to the Minister, and it is for the Administration to take the legal proceedings.

2. *Mr Allen.*] What is the difficulty at present?—There is no difficulty at all.

3. What action does the Auditor-General take?—He would put a certificate on the Public Accounts; but under this provision he is to report the matter to the Minister

4. Supposing the Minister does not take any action?—The matter will be referred to in the annual report, which is laid before Parliament. The report will include a reference to the surcharge.

5. *Mr Fraser.*] Is there any difficulty, Colonel Collins, in regard to prosecuting local bodies?—No, not that I am aware of. This Bill proposes to leave it in the hands of the Minister, "who shall take all such steps as he thinks fit to recover such moneys to the use of His Majesty"—that means that the matter would be placed in the hands of the Crown Law Officer

6. Are they bound to follow his direction?—I cannot say

7 Can the Audit Office proceed against a local authority independently of the Law Officers?  
—I would rather not attempt it.

8. As the law stands at present, could you do so?—The Auditor-General could take proceedings under common law

9 Under section 107 of the Public Revenues Act, 1908, are you not compelled to do so?—Yes, that gives me power to do it in the case of local authorities. It would rest with the Audit Office to take such proceedings as it thinks fit.

10. *Mr Allen.*] Have these instructions contained in section 107 been obeyed in the past in regard to prosecutions?—Yes, in some instances.

11 With reference to clause 20 of the Bill—we are including stores as part of the business which the Audit Office has to look after: is it necessary to include stores here?—No, not at all necessary.

12. *The Chairman.*] I think the Audit Office controls the issue of stamps, too, does it not?—Yes.

13. Is it desirable to put in here a provision requiring an accounting officer to provide security in regard to stamps?—No, not at all necessary

14. *Mr Allen.*] In regard to clause 26, do you mind telling us what is the meaning of the provision that “all moneys paid into the bank to the Public Account shall be deemed to be public moneys”?—So that, according to law, they cannot be reissued from the Public Account except through the Treasury, and they cannot be issued except under Governor’s Warrant.

15. As to these separate accounts referred to in clause 27?—They are the separate accounts set up under special Acts of Parliament.

16. Are these separate funds all set up by direction of Parliament? Are there not separate funds set up without specific Acts?—I am not aware of any

17 Take the State Forests Account?—That is set up under the State Forests Act. The Scenery Preservation Account is set up under the Scenery Preservation Act.

18. In regard to clause 30, what is the meaning of that?—It provides that imprest-moneys shall be kept in an official account, and shall not be placed to the credit of an officer’s private account.

19. Has that been done?—It has, and it should not be possible.

20. As to clause 39, which empowers the Minister to “borrow from any bank or other person,” I should like to ask why the alteration is put in here?—The old Act of 1908 was a reprint of the Act of 1891, when there were no other balances of accounts from which moneys could be obtained other than the Public Works Fund. The section you have just passed—38—authorizes that any of the balances of the Public Account may be invested, and this simply confirms it. It has been the practice for years.

21 Clause 46 is a very debatable one; it reads, “In any case where any payment of an item is provided for in the estimates as passed by the House of Representatives, and is included in the total of a vote in the Appropriation Act, such payment of the said item may be lawfully made, anything in any Act to the contrary notwithstanding,” and so on. Why are those words put in, “anything in any Act to the contrary notwithstanding”?—That clause was in the old Act.

22 Yes, I know, and we have had considerable discussion about the matter before?—Well, unless this clause were inserted, no payment could be made without a special clause in the Appropriation Act. Though the money is voted by Parliament on the estimates, the Audit Office would say, “That is not sufficient: we require a clause in the Appropriation Act.”

23. Does it not mean that in a case where Parliament has passed a specific law authorizing a certain amount of money for a particular object, Cabinet can override the intention of Parliament by placing a vote on the estimates?—Yes, that is the intention.

24. Do you think that is a wise thing to do?—I submit it is not for me to answer a question of that nature; though I may say that this clause is somewhat misunderstood because it gives authority in general terms to make payment of special items which the Audit Office contends should not be paid without specific appropriation. Without this provision the Audit Office would not pass the payment unless there was a special authority in the Appropriation Act.

25. Take, for instance, the £40 payment to members: could that have been paid?—It could not have been paid without a clause in the Appropriation Act.

26. But that would amount to statute law?—That is so—that is the object. This clause has no force unless Parliament passes the item on the estimates.

27. Do you think Parliament can watch every item on the estimates as closely as it can each section in an Act?—You are making me a judge of Parliament.

28. But you must have an opinion of your own on the point?—I consider that if an item is placed on the estimates, Parliament has quite as good an opportunity to challenge it as if it were a clause in a Bill.

29 Clause 47 is another clause which will give rise to some objection. It allows the transfer of moneys available for one vote to any other vote in that class. In fact, it seems to give the Minister power to utilize votes authorized by Parliament for a specific purpose for expenditure on other items in the same class. Take the public-works estimates, for instance: according to this clause power is taken to transfer a vote from Auckland to the Bluff, as it were?—You are wrong there, I think. You are speaking now of items, whereas this clause has reference to transfers from vote to vote in the same class. If you turn up the summary in the estimates you will see what I mean. Power is only taken to transfer from, say, “Roads, Departmental” to a vote in the same class, not from item to item.

30 You can transfer any item under “Roads” to any other item under “Roads”?—But you do not need this clause to do that. The Audit Office deals only with the totals of the votes.

31. *Right Hon. Sir J G Ward* ] What is the practice in other countries?—The practice in the Commonwealth, Queensland, New South Wales, and Western Australia is the same as that which is proposed in this Bill. I will read for the information of the Committee the Commonwealth law on the subject, which is as follows: “If the exigencies of the public service render it necessary to alter the proportions assigned to the particular items comprised under any subdivision in the annual supplies, the Governor-General may, by order, direct that there shall be applied in aid of any item that may be deficient a further limited sum out of any surplus arising on any other item under the same subdivision, unless such subdivision shall be expressly stated to be ‘unalterable.’”

32. *Mr Allen.*] I want to raise the question here as to those other accounts which the Auditor-General considers it necessary to have pre-audited. Will you tell us which particular accounts you wish to have subjected to pre-audit?—They are as follows: The investment of public moneys, loans to local bodies, advances under State-guaranteed Advances Act, and purchase of lands. There may be others, but I think a provision might be put in the Bill to the effect that the pre-audit can be made in connection with such items as the Audit Office may require.

33. What is the reason for the proviso to clause 1?—It is required to put the Cashier in funds. At the present time he receives moneys from the Miscellaneous vote of the Internal Affairs Department for general expenditure, but the Audit Office requires that any imprests made to the Cashier must be charged against the vote for the service for which the money is required, which at the time of issue to him it is difficult to say. This proposal is on the same lines as the Foreign Imprest Account.

34. Subclause (2) provides that every imprestee shall at the close of business on Saturday in each week, or at such longer intervals, not exceeding one month, as the Treasury in any case directs, prepare an account, &c. What is the necessity for that extension to a month?—It is necessary in cases where men are travelling about the country, and cannot account every Saturday.

35. *Mr Fraser* ] In regard to subclause (2) of clause 54, wherein does that differ from the present Act?—It is proposed by this clause that the Audit Office shall be notified of all charges to “Unauthorized.” If the Treasury agrees to make the expenditure, it will be necessary for a report of the same to be supplied to the Audit Office.

36. In subclause (4) it is provided that “For the purposes of this subsection transfers from votes or from permanent appropriations shall be deemed to be sums recovered”: can you tell us what that means exactly?—That is necessary because it has been found that when transfers come in for credit of “Unauthorized” it materially reduces the amount of “Unauthorized.” The vote may be exhausted to-day, and a transfer on account of service rendered comes in to-morrow, when it should be credited in reduction.

37. That means, so far as the existing law is concerned, that it increases the “Unauthorized”?—No; it has been the practice all along.

38. It could not be wiped out by recovery?—It has always been the practice to give credit for recoveries.

39. *Mr. Allen.*] What is the object of clause 55?—This is a new clause, by which it is proposed to establish a suspense account. In the event of money being provided for a work which at the time cannot be charged to any particular account, it can be placed in a suspense account, and can be charged against the proper item and vote after the work is completed.

40. Will you look at clause 64: I want to know why the Auditor-General is placed under the Minister, as it were?—The Minister may require the Audit Office to inquire into the accounts of his Department. The Minister may call upon the Auditor-General to make an examination of the accounts of any Department under his control.

41. In subclause 2 it says that the Auditor-General “shall forthwith report to the Minister the general result of such inspection,” and so on: now, I want to ask Colonel Collins, does he make that report also to Parliament?—Yes, that is quite clear. The result of the inspection goes in his annual report. This Bill places more power in the hands of the Auditor-General.

42. In regard to clause 65, does not this come into conflict with what we have passed already? I think we have already provided that the Minister shall surcharge?—No, the surcharge is made by the Auditor-General, and if any surcharge unsatisfied is reported by the Auditor-General to the Minister, he (the Minister) is to enforce the same against the person surcharged.

43. Clause 67 appears to be somewhat difficult to follow: it deals with the appeal by the officer to the Minister, and goes on to say that the Minister is to make an investigation, and may determine the matter by an order either confirming the surcharge or directing the relief of the appellant therefrom either wholly or in part?—That is so: the Minister is to make an investigation into the whole matter. You must have some one to appeal to. That is provided for in the report clause, 84 (g). The Auditor-General has to report to Parliament on all unsatisfied surcharges, and all surcharges disallowed by the Minister on appeal.

44. Clause 84 contains new provisions: may I ask whether this includes a report upon anything done under section 14, which says that he shall report to the Minister upon all matters arising under this Act, and so on? Is that included in the report which is to be placed before Parliament?—Yes, I think so. It would come under subclause (i).

45. And in regard to the details of revenue and expenditure referred to in clause 84: is there any provision that these are to be laid before Parliament?—Yes, in subclause (4).

46. What are these details of revenue and expenditure?—That depends upon what is prescribed by regulations.

47. Who prescribes it?—The Governor in Council.

48. Where is the provision for regulations in the Bill?—In section 3.

49. But the Auditor-General should be responsible for the form of the accounts?—No, sir; the Auditor-General is never responsible for the form of accounts.

50. *Mr. Fraser*] If the regulations are drawn by the Ministry of the day, they might not desire to give the information respecting details—how are we then going to get them?—Through Parliament.

51. The Bill does not provide for it?—But the regulations have to be placed before Parliament.

52. What is there new in clause 86?—Regulations may be made, such as to provide for the Post Office paying accounts on behalf of the Treasury—They will be paid more promptly by that means.

53. *Mr. Fraser*] They do that now, do they not?—Yes, up to a certain amount, or upon special instructions from the Treasury

54. Is there any new matter in clause 90?—It simply gives authority for the payment of claims from the Consolidated Fund. The Audit Office has hitherto objected to such payments, on the ground that there was no authority for them.

55. With regard to clause 92: does the fact of its appearing here obviate the necessity for repeating it in the Appropriation Act?—Yes.

56. In clause 120 it says that the Audit Office shall surcharge in connection with amounts expended or applied without authority—I was under the impression that the Audit Office had to report the matter to the Minister, and the Minister was to surcharge?—No. That clause referred to “public moneys”; this clause deals with moneys of the local authorities.

57. Will the clause effect what is necessary, do you think?—It has been effective in the past.

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TUESDAY, 13TH SEPTEMBER, 1910.

Colonel R. J. COLLINS, I.S.O., Controller and Auditor-General, further examined. (No. 3.)

1. *Right Hon. Sir J. G. Ward.*] You are now Controller and Auditor-General of New Zealand?—Yes, that is so.

2. How long have you been connected with the Treasury?—Thirty-two years.

3. Has the Treasury during the whole of that time been under the pre-audit system?—Yes, it has been under the pre-audit system during the whole of that time.

4. From your experience of the Treasury, does this alteration to the post-audit system give the Controller and Auditor-General more power or less power than he had before?—It gives him more power under section 84, which he had not before. That section gives him the power of reporting to Parliament everything in connection with the financial transactions of the Government that comes under the Audit for review

5. Does the alteration to the post-audit system, in your opinion, give the Government of the day or the Minister more power or less power than exists under the pre-audit system?—It certainly does not increase their power—Whatever payment by a Minister is made under the system of post-audit—*i.e.*, audit after payment—the Administration has to justify that payment, otherwise the Auditor and Controller-General would have the right to report it to Parliament under the provisions of the present Bill.

6. It does not give him more power?—No, it does not give the Minister more power

7. What is your opinion as to the effectiveness of the post-audit as against the pre-audit system in regard to the conduct of the business of the country: is it preferable or not?—Yes, I think it is preferable, because it means that a payment will not come before the Auditor-General for examination until it is completed. The payment voucher will be complete in every respect when it reaches the Audit Department.

8. In other words, under that system of post-audit the whole operation is complete, as against the existing system, which is not complete when it reaches the Department?—Yes. There is no doubt the audit examination should take place when the whole operation is complete.

9. *Mr. Allen.*] With regard to the system of pre-audit, I understand there is a waste of time regarding the production of the Public Accounts. We have been told that we cannot get certain public accounts because the system of pre-audit delays it. In what way does the system of pre-audit delay it?—Pre-audit does not delay the publication of the Public Accounts.

10. Not in any way whatever?—No, not in any way whatever

11. Can you get the Public Accounts as quickly under the pre-audit system as under the post-audit?—Yes, just as quickly, but the question that has been raised is that you cannot get a statement of the payments actually made, because, although the cheques may have been issued, it is not known that such cheques are actually paid until after an examination of the vouchers. The statement you get would be a statement of the cheques issued.

12. And would be a statement of your books?—Yes, a statement from our books.

13. Well, can you under the post-audit system get a statement of the books on the 31st March?—Yes, you can do so just the same as we do now under pre-audit.

14. Will all cheques that have been issued on the 31st March, if you are going to have the post-audit system, go into the audit of that year?—They will be in the accounts of that year

15. Will cheques issued on the 30th March, if they are not paid till the 2nd April, come in for the year ending 31st March?—No, because the receipt could not be returned in time.

16. Therefore under the pre-audit system you get the audit which you do not get under the post-audit. A cheque issued on the 30th March, which is not paid till April, is audited for the year ending 31st March under the pre-audit system?—It is audited at the time of issue.

17. In case of post-audit, if it is not paid till after the 31st March it cannot be audited till after the end of the financial year?—But it is included in the accounts. You may audit a voucher on the 31st March under the present system which may never be paid.

18. *The Chairman.*] Supposing, for example, a cheque for £10,000 was issued for railway stores on the 30th March, and was not paid until the 4th April, would that payment appear as a payment for the year ending 31st March?—Yes, for the year in which it was issued.

19. *Mr Allen.*] But under the post-audit system it would not have been audited till the next year?—Not till after the 31st March.

20. *The Chairman.*] Although the audit would not be complete it would appear in the financial operations of that year as having been made?—Yes, under the post-audit system.

21 Does the Audit Department audit the whole of the business of the Government Departments?—Yes.

22 Post Office and Railways and everything?—Yes.

23. And the system that obtained some years ago, when some Departments did their own auditing, has been superseded?—Yes.

24. *Mr Fraser.*] Under the pre-audit system are the tables which accompany the Financial Statement of the Government audited or not?—They are not audited for that purpose. It does happen that Table No. 1, the abstract of receipts and expenditure, is audited. That is laid on the table of the House as a parliamentary paper duly audited, but there are no requirements to entail the tables accompanying the Financial Statement being audited.

25. Under the post-audit system the statements accompanying the Financial Statement will not necessarily all be audited accounts?—They are not now, with that one exception. It would be just the same as at present. The abstract of receipts and expenditure for the year will be sent to the Audit Office for examination and be audited as heretofore.

26. Under the pre-audit system?—Yes. Section 80 reads, “(1) The Treasury shall, within fourteen days after the end of each financial quarter except the last, and within thirty days after the end of the last financial quarter, in the financial year, prepare and send to the Audit Office an abstract of the revenue and expenditure of the Public Account, as provided by this Act, during such quarter; and shall also within thirty days after the end of each financial year send to the Audit Office a similar abstract of the revenue and expenditure of the Public Account during that year (2.) Every such abstract shall be certified by the Audit Office and returned to the Treasury within fourteen days after the receipt thereof from the Treasury as aforesaid, and the Treasury shall forthwith publish the same, certified as aforesaid, in the *Gazette*, and lay the same before Parliament if sitting, or, if not sitting, then within ten days after the commencement of the next ensuing session thereof.”

27 Do I understand that under post-audit or pre-audit the statements of account would be much the same in respect of audit?—Much the same. This system is very simple.

28. You said that the items would appear in the accounts but would not be audited?—Yes, that is so: the voucher would not be audited.

29 I suppose it would be audited before the Financial Statement is produced?—No, not necessarily before the Financial Statement is produced.

30. When would it be audited?—As soon as the receipted voucher is returned to the Treasury

31 *Right Hon. Sir J G Ward.*] Does the fact of a payment being made on the 31st March and the cheque for that payment appearing in the Public Accounts—does the fact of it not being audited until after the 31st March render the check of the Audit Department upon that account any less effective than if it came in prior to the 31st March?—It depends upon whether the voucher was correct in respect of which the cheque was issued on the 31st March. The audit of the voucher does not take place till after the 31st March under the post-audit system.

32 If a payment was made on the 31st March under the pre-audit system, the Audit Department would authorize the payment of that cheque, and later, if it was found there was a mistake in that account, that would have to be discovered quite irrespective of pre-audit?—Yes

33. Would the circumstances be any different if a payment was made on the 31st March and the account came in in April?—Under the present system the voucher would be audited before payment, but under the post-audit system the audit examination would not take place till after the payment was made.

34. *Mr Allen.*] There was an extract you read from one of the Australian States?—Yes, the Commonwealth.

35. Was that put in with your evidence?—Yes.

TUESDAY, 20TH SEPTEMBER, 1910.

JAMES KEMMIS WARBURTON examined. (No. 4.)

1 *The Chairman.*] Until recently I believe you held the position of Controller and Auditor-General?—Yes.

2 And you are now retired?—Yes, on pension.

3 *Right Hon. Sir J G Ward.*] From your long experience in dealing with the accounts of the Dominion, Mr Warburton, do you consider it desirable to introduce the post-audit system instead of pre-audit?—Yes. In the Post Office, the accounts of which are kept according to a system introduced by myself, there is practically post-audit. I introduced the system there many years ago. The Post Office under the present law makes nearly every payment chargeable to the appropriations, out of moneys advanced by way of imprest, and, of course, all those payments are audited after they are made. And there is very little irregularity in the payments of the Post Office—practically none. In the Public Trust Office, the accounts of which are kept on the system introduced by myself, the system is audit after payment. The officers there understand, of course,

that for the regularity of the payments theirs is the responsibility, and they take good care not to make any payment which they are unable to justify. The consequence is that there is no trouble at all in auditing the accounts of the Public Trustee. When I was before the Public Accounts Committee in 1898 I submitted a memorandum in explanation of the grounds on which I think audit after payment is better than audit before payment. The memorandum is in I 7A, 1898, and is as follows:—

*“ Audit, Pre-audit, and Post-audit.”*

“ Whether the Audit Office passes a voucher or not, the responsibility of the administration ought to remain the same.

“ The expenditure of the administration must naturally be confided, and cannot but be confided, to the care of its officers. These officers, being employed directly in the service of the administration, must be assumed to consider it their principal duty to study, with a view of promoting, the best interests of that service, and to be incapable of knowingly authorizing any payments which in their judgment the Audit Office, with all the information, should be unable to pass.

“ Under the system of post-audit, the system of auditing after payment, the administration is under the necessity of justifying its payments at the audit, and this obligation must operate effectively to keep the administration alive to its responsibility by the fear of having, as the consequence of failure to justify the payments, to make good the amount of them.

“ Under the system of pre-audit, the system of auditing accounts for payment before the payments are made, the administration has not, of course, the great motive for prudence which is but the natural effect of having to justify the payments after they are made; and if, consequently, the responsibility of the administration should not operate so effectively to secure to the public service a justifiable expenditure, that security which the responsibility of the administration should give for a justifiable expenditure would be either weakened or lost. The justification might then be left to depend almost, if not entirely, on the failure of the Audit Office to detect irregularity. The passing by the Audit Office of the vouchers for expenditure before the payments are made is in practice apt to beget an assumption that this passing beforehand is the main justification in any event, and the tendency of such an assumption must be to weaken or destroy whatever security the responsibility of the administration ought to afford.

“ A department of administration has the special knowledge necessary to and the best means of judging whether every particular item of the expenditure of the department can be justified. The Audit Office, on the other hand, has but a general knowledge, and cannot be expected to detect all cases of irregularity. Where, then, the audit follows the payments, the administration is uncertain what payments the auditor may question, and naturally does not make any payments which in its judgment the auditor ought not to pass. The judgment and discretion of the administration are thus exercised to secure, independently of the Audit Office, just and regular expenditure. Where, however, the audit of expenditure precedes the payment, and the auditor passes what practically are but proposals to pay, the administration may be content to make all the payments that the auditor may pass—that is to say, may be less careful of being able to justify the payments on any other ground than that the auditor has not objected to them. The powerful motive of self-defence is wanting.

“ But, in any case, the responsibility of the administration remains, and its officers must have the care of the expenditure, not less because they are assumed to be incapable of proposing to make or of approving of any unjustifiable payments, than because the Audit Office is a check against irregularity.”

4. Are you still of the opinion you expressed in that memorandum?—Yes, still of that opinion.

5 *The Chairman.*] What was the general purport of that paper?—It was a matter of dispute that came before the Public Accounts Committee in 1898.

6 *The Right Hon. Sir J. G. Ward.*] What is your opinion as to the effectiveness of post-audit as against the pre-audit system for carrying on the business of the country? In the memorandum you have just read you referred to the officers: how is it going to affect the officers?—I do not see how it could affect the business of the country. The Treasury would be subject to no requirements from the Audit Office except that the money necessary to its expenditure should be authorized by the Audit Office to be issued from the Public Account, and that authority would be given in accordance with the appropriations.

7 Do you think it would facilitate the prompt payment of claims?—I think so. In the two places I spoke of, the Post Office, which makes nearly all its payments before audit—that is, out of imprest moneys—and in the Public Trust Office, there is undoubtedly facility in making payments, and the business, I think, is accelerated.

8 Can you tell the Committee what the practice is elsewhere?—I do not know of any audit in any part of the world that precedes payment—that is to say, any audit of the proposals to pay. It seems to me that pre-audit is a contradiction in terms. An audit is really the hearing of what the Department has to say respecting the work it has actually done—finished with. The administration should have an unrestricted use of the money before audit, except, of course, it should have no more money than the appropriations authorize, but it should have an unrestricted use of that money, and it should submit its accounts of that money to audit afterwards.

9 And then I understand that our imprest system is practically post-audit?—Yes, except so far as the issue of imprest-money itself is made. The amount issued by way of imprest is first passed by the Audit Office as a proposal to pay that amount of money to the imprestee, but the expenditure of the money by the imprestee is made before audit.

10. And that is carried out to a very large extent?—Yes, by the Post Office.

11. And by the Public Trustee?—Yes, and by the Public Trustee.

12. And by the Railway Department?—Yes, the Railway Department pays very largely out of imprest.

13. Is there any greater liability to improper payments being made under the post-audit system, in your opinion?—No, I do not think so. Everything depends on the honesty of the officers.

14. Well, in the case of mistake, what is the remedy?—Surcharging the officers in fault. In Australia, for instance, the Minister of Finance is surcharged.

15. *Mr Fraser* ] The Minister of Finance there is surcharged with what?—The Minister of Finance is surcharged with any deficiency

16. *The Right Hon. Sir J. G. Ward.* ] In your opinion, Mr Warburton, is the country properly safeguarded in the case of a wrong payment?—I think so. I think the officers of the administration can be confided to do the business of the country as safely as the officers in other countries.

17. Then, I understand you to say that more care is bound to be taken in the authorization of vouchers under the post-audit system?—Yes, I think there is better security for correct payments of public money under the system of audit after payment than under the other system.

18. Now, under pre-audit a voucher may pass audit and the payment of the money may be made to the wrong person the Audit Office has no check on that?—No. The Audit Office depends upon the officers of the administration to make the proposal to pay in accordance with that proposal as submitted to the Audit Office.

19. The Audit Office does not re-examine the vouchers paid by the Treasury under the present system to see that the money has reached the proper person?—That is so, I believe. It was so when I was in the Audit Office, unless, of course, there was any irregularity and the Treasury officers who were appointed to examine the vouchers as they came in brought up the irregularity; and if there was any difficulty in adjusting it or correcting it the Treasury officers would sometimes refer to the Audit Office. But there is very little of such irregularity, as far as I can recollect.

20. Therefore, as far as the audit is concerned, payment of a salary passed in favour of John Brown may have been made to Thomas Smith?—Yes, or there may have been forgery

21. But in any case in practice that is so, that, though pre-audit of a salary in favour of John Brown has been authorized by the Audit Department, it may be paid to Thomas Smith, and the Audit Office would not have an opportunity of examining that under pre-audit?—Yes, but the Treasury may direct that a payment to Smith may be made to Brown, which may not be strictly irregular

22. In other words, the wrong payee could be as easily dealt with under pre-audit as under post-audit without the Audit Department having any knowledge of it?—It could be dealt with as easily under the post-audit system, and so much better dealt with that no irregularity of that kind could well pass.

23. Under the pre-audit system a mistake of that kind could be made after the Audit Department had authorized the payment?—Oh, yes! it could be made.

24. Is the power of the administration greater under post-audit than under pre-audit?—No, I think the responsibility that the administration has amounts to the same, but the only difference is, I think, in favour of better security for the payment under post-audit, because the officers of the administration, knowing that their payments have to go before the audit after they have made them, are very much more likely to take care that they can justify the payment than if the Audit Office passes it before payment.

25. Well, is it not a fact that where audit follows the payment the administration is uncertain of what payments the auditor may question, and consequently they are not likely to make any payments which in their opinion the auditor would not pass?—Yes.

26. Where audit precedes payment I understand you to say that the administration would be more likely to be content to make any payment that the auditor may not pass?—Yes, I think so. I have known such payments. I stated before the Public Accounts Committee many years ago the facts of a case, in which I then had the evidence before me, but which I could not perhaps very well prove now. I stated that a proposal to pay was submitted time after time to the Audit Office—that is to say, a proposal to make a payment was submitted at least three times to the Audit Office with a view of getting it passed by the Audit Office. Now, had it been the duty of the officers of the administration to pay that before audit, the question is whether they would have paid it. I do not think they would have in that case, as far as I can recollect. Now, for instance, under pre-audit the principal defence of a payment as to which any question is raised is that it has passed the Audit Office.

27. I understand you to say that, as the administration has to justify any payment made under this system of audit after payment, it must operate more effectively in keeping the administration alive to its responsibilities?—Yes, I think so.

28. Well, now, is it or is it not a fact that the post-audit system will give the Audit Department independent review of the Treasury operations, which the Controller under this Bill will require to deal with in his report to Parliament?—Yes.

29. And under the pre-audit system as it exists that is not the case?—No. Under the present Public Revenues Act the auditor is required to certify subject to such objections as he thinks fit, and he has to confine his remarks to such objections as he may have to raise to any transactions in the account.

30. And that he would report to Parliament?—He would add that to his certificate, which would go before Parliament. Perhaps I may read the opinion of the Chairman of the Audit Board upon Mr Gladstone's views when the present system at Home was introduced "In com-

menting upon Mr Gladstone's recommendations, Mr Romilly, the Chairman of the Audit Board, deprecates the imposition upon the Audit Department of any duty partaking of an executive character. The duty of an auditor of public accounts should be, according to him, to pass in review the acts of an accountant *after those acts have been completed*. His functions cannot properly begin until those of the department whose receipts and payments he has to check have ceased." Then Mr Romilly uses these words: "Any interference, direct or indirect, on the part of the auditors previously to payment being made or recorded cannot but lessen the responsibility of the accountant. It also renders the auditor incompetent to express an opinion on acts which he has himself advised and sanctioned. The freest possible action should be left to the executive to expend the public moneys intrusted to it on its own responsibility, *subject nevertheless to the subsequent examination and check of the auditors*. The result of such examination by the auditors should be reported by them *directly* to those by whose authority the rules which the accountant is bound to observe were made. The mere knowledge that any deviations from those rules will be so reported—as, for instance, that deviations from the directions of Parliament will be brought directly under the cognizance of Parliament—cannot but be a most effective check upon improper or irregular expenditure of every kind, and, in so far as the main branches of the executive are concerned, the publicity which must necessarily be given to such reports to Parliament furnishes the most effectual mode by which control can be exercised through the instrumentality of an Audit Office."

31. When was that?—That was the opinion of the Chairman of Audit Board upon Mr Gladstone's views in a memorandum of the Auditor-General's on financial control and audit, ordered by the Legislative Assembly of New South Wales to be printed on the 23rd March, 1865.

32. Now, regarding the transfer of one appropriation to another, what is the practice in other countries?—Take, for instance, the Cape of Good Hope Audit Act of 1906, section 33. It states, "If the exigencies of the public service render it necessary to alter the proportions assigned to the particular items comprised under one vote, it shall be lawful for the Minister charged with such expenditure to authorize the use of surpluses on items in a sub-vote to cover deficits on items in the same sub-vote, or, when there are no sub-votes, the use of surpluses to cover deficits for items which are not incongruous: Provided that no surplus on a sub-vote shall be made available for expenditure on another sub-vote, or any surplus in a vote which has no sub-votes for expenditure of an incongruous kind under the same vote, without the authorization of the Treasurer; and, in the latter event, the said Treasurer's approval, upon a form prescribed in the regulations, shall be forwarded to the auditor in order that the amount may be duly transferred as though the estimates had originally shown the figures as so modified, and that the facts may be reported by him to Parliament. Provided further, that on no account shall any salary grants be supplemented from savings under any other items." That is practically, I think, a provision such as we had for years in the Public Revenues Act, enabling the surplus of one vote to be carried to another vote by order of the Governor.

33. In your experience as Controller and Auditor-General in this country, is that necessary?—It would be necessary to avoid application to the Unauthorized Expenditure Account.

34. Are you of opinion that some such provision should be provided to enable the administration to be carried on properly?—Well, I think that is a question simply for the administration and for Parliament. If there was no such provision there would have to be a larger provision for unauthorized expenditure. If there could be no recourse to the surpluses of votes for the expenditure on exhausted votes under the same class, such expenditure would either have to be deferred until Parliament made an appropriation, or paid under the authority for unauthorized expenditure.

35. So that in practice one system or the other would be necessary?—Yes, or payments would have to be postponed.

36. Then you say that either of the systems would be necessary, either of transfer of one appropriation to another or payment out of unauthorized—either one of the other would have to be done without the authority of Parliament until afterwards. If it was unauthorized Parliament would have no control of it until after the unauthorized expenditure had been incurred?—No. Parliament has, subject to its subsequent approval of unauthorized expenditure, authorized the Administration to spend up to the amount of the statutory limit for such expenditure.

37. But the details of limit of unauthorized expenditure, so long as the aggregate authorized was not exceeded, would devolve entirely upon the Administration?—Yes.

38. So that within the limits of authorization it would put the power of providing for what has never been had—the transfer of appropriations—into the hands of the Executive alone?—Yes, into the hands of the Executive alone, but the Audit Office would see that no money was issued for unauthorized expenditure in excess of the amount to which that expenditure is limited by the Public Revenues Act.

39. That is, the total authorization?—Yes.

40. But I am talking about amounts within the total authorization, which is the point I wish to get clearly before you. Within the limit of the authorization of Parliament, the Executive, in the absence of authority, transfer one appropriation to another, and can do what it likes with that?—Yes.

41. So that you say, in the event of the transfer system not existing, then the unauthorized would require to be increased in order to take its place?—Yes, I think so, assuming that the unauthorized is insufficient for the purpose already.

42. Then in any case, in the event of the transfer of one appropriation to another being abolished, the payments to be made out of it would require to come out of unauthorized?—Yes, there would be no authority for them. The transfer is required of the surplus of one vote to another under the same class because the expenditure under the votes to which transfers are to be



made has already reached the limit of the votes, and, of course, nothing could be expended beyond those limits except out of unauthorized expenditure if transfer ceased to be authorized.

43. Regarding the powers of audit in London, is it not a fact that some of the Australian States have unrestricted powers of payment in London without audit?—This is the provision, and I will read it. It is almost word for word the same both in Australia and the Cape “Moneys outside Commonwealth: Notwithstanding anything in this Act contained, the Governor-General may make such arrangements as he considers necessary for the collection, receipt, custody, issue, expenditure, due accounting for, care, and management of any money belonging to the Commonwealth outside the territory of the Commonwealth, and for the keeping of books and accounts, and furnishing statements, returns, and vouchers, and for the examination, inspection, record, and audit of such books, accounts, statements, returns, and vouchers.” So that the Audit may arrange the whole business of paying outside the colony, and the audit of it is authorized by their Audit Act to be arranged as the Governor-General considers necessary.

44. But in New Zealand our audit in London is governed entirely by the Audit Office—it is mandatory under the Public Revenues Act?—Yes, all the provisions are in the Public Revenues Act.

45. So that in that respect we are allowed to leave nothing to the Governor in Council—it is under the supreme administration of the Controller and Auditor-General, and fixed by Act?—Yes, there is an Audit Officer appointed in London, through whom nearly everything has to pass.

46. And that is under the direct control of the Auditor-General here, not the Government?—Yes, that is under the Audit Office there, and is subject to no direction but that of the Controller and Auditor-General here.

47. He is subject to no direction of the High Commissioner either?—No.

48. Under the Public Revenues Bill as we have it, would the powers of the Controller and Auditor-General be lessened in any way by the introduction of the post-audit system?—I do not know whether the Bill is the same.

49. This Bill gives the Auditor-General the same power: it gives him the power of pre-audit in certain instances at his discretion, such as payments on lands and loans to local bodies. Would the Bill as you see it lessen the powers of the Auditor-General under the post-audit system?—No; I think the powers would be more effective under that Bill. He has, you might say, unlimited authority to report on everything in connection with the accounts, and to make suggestions.

50. Then the only other question is, in your opinion, is the post-audit system, for the general administration of the public business of this country, preferable to the pre-audit system?—Decidedly, yes, I think so.

51. At this stage I desire to put in a letter and the reply. It is a copy of a letter, dated the 4th June, 1909, sent to W. R. Morris, Esq., Acting-Secretary, General Post Office, Wellington; J. K. Warburton, Esq., Auditor and Controller-General, P. Heyes, Esq., Commissioner of Taxes, Wellington; and R. J. Collins, Esq., Secretary to the Treasury, Wellington. I sent a copy of the letter to each of those gentlemen separately and the letter is as follows:—  
“SIR,—As it appears to me to be desirable that the system of keeping the accounts of the various departments of the public service of the Dominion of New Zealand should be carefully examined with the object of determining whether it is possible to rearrange and simplify the proceedings incidental thereto, and reduce the cost of administration, I have decided to appoint a special Committee for the purpose of investigating the system of accounts kept in every Department, and of formulating proposals for any improvement which may, as the result of such investigation, be deemed necessary, such proposals to be embodied in a report to be submitted to me at the earliest possible opportunity. It is my pleasure to nominate you to act conjointly with Messrs. W. R. Morris, J. K. Warburton, P. Heyes, and R. J. Collins on such Committee; and you are hereby authorized to examine persons, to have the right of entry into all Government Departments, and to demand the production of all books and documents which you may consider necessary. I also desire that you should carefully consider the relative merits of the systems of ‘post-’ and ‘pre-audit’ of accounts, and report specially thereon. A copy of a Bill entitled the Public Revenues Amendment Act, 1909, which has been prepared for submission to Parliament is submitted for your information.—I have, &c., J. G. WARD, Prime Minister.” You received that letter?—Yes.

52. The following is the reply, dated the 15th April, 1910:—“Memorandum for the Right Hon. the Prime Minister. Owing to circumstances to which it may possibly be regarded as unnecessary to more specifically refer, the Committee appointed to report on the system of accounts of the various Departments of the public service of the Dominion have been unable to make, as required by their appointment, the desired investigation and formulate proposals for any improvement. But we (Messrs. J. K. Warburton, R. J. Collins, and W. R. Morris, members of the Committee) have conferred informally, and decided as the result to recommend that direct advances from the Treasury by way of imprest should, as outlined in the attached statement, be restricted to the Treasury Cashier, the Post and Telegraph Department, and the Railway Department, and that individual officers to whom the Treasury is recommended to make advances should be authorized to obtain them by means of Treasury credit notes. It is considered that the adoption of this arrangement would prevent large sums of money, amounting in the aggregate to, at times, little short of half a million, from lying idle at credit of the imprestees. It would also minimize the risk of moneys being converted to the personal use of the imprestees, instances of which are known to have existed. We do not see our way, so far as we have been able to consider the question, to recommend, pending amendment of the law as at present exists, any alteration in the arrangements for the receipt of revenue and direct payment of expenditure. With regard to the Minister’s desire that the Committee should consider the relative merits of the post- and pre-audit systems of audit, we have no hesitation in reporting that we regard the system

of audit after payment as affording better security for the care and proper application of the public money than the system of audit before payment; and, as to the Public Revenues Amendment Bill, of which a copy has been supplied for our information, we think that it would be better for the purposes of the system of audit after payment rather to reconstruct the Public Revenues Act for such purpose than to amend the present Act, constructed for the system of audit before payment. If the Minister should decide to give effect to this suggestion, advantage might be taken of the opportunity thus afforded for amending the law in the direction of making it possible that the collection of revenue and direct payment of expenditure might, if so desired, be made through the medium of the Post Office, or through any other Department, under regulations to be made under the authority of the Governor in Council.—J. K. WARBURTON, R. J. COLLINS, W. R. MORRIS.

—*Imprests to Officers in New Zealand:* (1) The Treasury to issue money by way of imprest only to the Treasury Cashier, the Post Office, and the Railway Department, and to issue it on application in the same manner as at present. (2) Out of the moneys so issued by the Post Office and Treasury Cashier, any special advance approved by the Treasury on the application of an officer requiring it to be made on a credit note provided by the Treasury and presented by such officer. (3.) All payments in Wellington out of moneys issued by way of imprest, except payments for services of the Post Office and Railway Departments, and the payments for which the special advances out of such moneys may be used, shall be made only by the Treasury Cashier. (4.) All payments out of imprest moneys elsewhere than in Wellington, for which no special advances are made except those out of imprest moneys issued to the Railway Department, to be made at the Post Office money-order offices at which they can most conveniently be made, and on the certificate of an officer to be notified by the Treasury to the Post Office. (5.) The Treasury, on the receipt of the application for a special advance, to furnish the officer to whom the advance is to be made with a credit note which would enable him to obtain from any Post Office money-order office, or from the Treasury Cashier, sums to the amount limited, and within the time limited, by such note; and the officer to account direct to the Treasury or to the Post Office, as the Treasury may direct, for the money obtained on such credit note. (6.) In any case, in which it may be impracticable or inexpedient for a Postal Officer to take from the payees themselves receipts for the payments to be made by a Postmaster out of moneys imprested to the Post Office, he may employ to take such receipts, and supply with the necessary money the paying officer authorized by the Treasury, taking his receipt to account for the money pending the production of the receipted vouchers for it." That letter, with the enclosure, was sent to me in reply by yourself and the other two officers mentioned?—Yes.

53. Now, the suggestion made there is that a credit note should be issued to an officer instead of an imprest?—Yes.

54. That would prevent him from having the amount that the imprest was limited to entirely at his disposal for operating upon either in or away from Wellington?—Well, it would practically be a letter of credit to draw within the amount of the letter from the Post Office in cash. Of course, he could draw the whole amount at once anywhere, but an irregularity of that kind by which he would obtain more money than he required for his immediate purposes the Treasury would notice. It is impossible to prevent irregularities, but, as the Treasury noticed any such irregularity, and the Audit Office too, that would prevent the use of more money than as a general rule the imprestee requires, and the result would be that probably some hundred thousand pounds or more would lie at the credit of the Public Account at the Bank, instead of in the pockets or hands of imprestees.

55. *Mr Fraser* ] Is that the case now?—There has been occasionally out on imprest an amount of £500,000—money in the hands of imprestees or to the credit of imprestees.

56. Not in one sum?—No; aggregated sums for the Dominion out of the Public Account. Under the other system, which is a very reasonable system, half at least of that sum might remain continually at the credit of the Public Account.

57. *Right Hon Sir J G Ward.* ] On that point you are referring to, Mr Warburton, about the irregularity being possible, that an amount beyond the actual requirements of the imprestee may be availed of by him, under the existing imprest system he controls the full amount?—Yes. He could do so in both cases, but it would be an irregularity contrary to instructions in one case. It is impossible under any system to prevent irregularities, there must be irregularities, I might say, in all businesses, and the Public Revenues Act is, I might say, designed with a view not to completely prevent them, but to keep them down.

58. By the payment of notes to distant post-offices—I mean, away from the seat of Government—those notes would be transferred immediately by the Postmaster to the Head Office?—You mean bank-notes?

59. No, credit notes?—The Postmasters would send up the receipts which they received from the imprestees for the moneys which the imprestees got from the Post Office. They would be sent to the Treasury, and be charged to the imprestees and credited to the Post Office.

60. In other words, under the present system the imprestee can draw cheques upon his Imprest Account, and he need not return the receipted vouchers until he has expended the whole of his imprest or until he has returned to Wellington?—Yes, that is so.

61. So that the system of credit notes, from the point of view of more frequent check, is better than the present system?—Yes; it brings up the payments out of the money issued on imprest at once.

62. So that the proposed credit-note system is a more effective check as against the imprestee by the Audit Department and by the Treasury both?—Yes, I think it would be a more effective check. The Post Office would require the vouchers at once, and the Treasury would get an early advice from the Post Office in the receipt of the imprestee for a certain sum of money for immediate expenditure, and that expenditure, of course, would be under the eyes of the Treasury, and the vouchers would be called for.

63 *Mr Reed.*] Do you consider, Mr Warburton, that the introduction of the post-audit system will remove the sole responsibility from the Audit Office and throw that responsibility equally amongst the Department and the Audit Office?—I do not think it will remove any responsibility from the Audit Office.

64. At the present time they are solely responsible in the first instance. When the vouchers come back from the Audit Office under the pre-audit system the Treasury has not to consider as to whether they are legal payments or proper payments, because they have passed the audit. Now you throw the responsibility on the Departments to see that the vouchers are properly paid in the first instance, so as to be prepared for post-audit?—Yes. In practice I believe that the Treasury, though responsible, rely on the Audit Office—that is, their responsibility is not felt by them.

65. And now they will take more responsibility under the post-audit system?—Now their responsibility will be a real responsibility. They will be surchargeable with the loss of any money due to any fault in payment.

66. Having that opinion, you also, I presume, agree with the provisions of subclause (5) of clause 52 that is being introduced into this Bill, giving the Auditor-General power if he wishes to take it to refuse to countersign the requisition if he considers any of the vouchers upon that requisition are not being paid as they should be—you agree that he should have that power in case he wishes to exercise it?—That seems to me a reasonable provision.

67. The reason I asked the question is that you quoted Romilly's remarks where he was advocating unrestricted powers for the Executive in paying. You agree that the Auditor-General, if he is so disposed, should use such powers as those?—This is a provision for the issue of money. This is not a submission of the voucher except for the purpose of the issue of money. It is not a submission of the voucher for audit.

68. It is an issue of the vouchers for payment?—Yes. That seems to be a reasonable provision. It is so reasonable that I might say it seems to me to be hardly necessary. The Auditor would, if he saw among the vouchers submitted to him for the issue of money strong objection to them, refuse to pass the requisition.

69. But he would require such power before he was able to make any official comment on the requisition, and you agree with the provision there?—Yes. I think I should do that if I were auditor, whether there was provision or not.

70. I ask the question because in that statement you read of Romilly's he used the words that the power of payment should be absolutely unrestricted?—Yes. This—the provision in question—is only for the issue of money. The issue and payment are distinct. It should be absolutely unrestricted in the payment. The Treasury here, under these provisions, sends the vouchers to the Audit Office before payment, with a view to the issue of the money. That is not going quite so far as they go in England or elsewhere, issuing the moneys for payment authorized by the appropriations, and without allowing the Audit Office to have the vouchers. This provision, you may say, is going half-way. It does not go so far—it shows the Audit Office the particular vouchers.

71. And under the English law you say that the vouchers do not get into the hands of the Audit Office until the actual audit takes place?—Yes. But I cannot say that I see anything inconsistent with the submission of the vouchers for the purpose of the issue of the money.

72. Do you look upon this as an advance for the protection of public moneys, that the audit should have the handling of this requisition prior to the payment of the moneys under post-audit?

Yes; this is a requisition for the payment of money, and the Treasury everywhere is restricted to the amount which the appropriations authorize, and the Controller therefore passes the issue to the Treasury.

73. He passes the issue, but he also has power to review the detail of that requisition?—No, he has no power to review the detail.

74. But he may refuse to countersign the requisition?—On the ground that there is no authority for the issue of the money?

75. No, on the ground that he is of opinion that any such voucher is not in accordance with the law?—Yes, that is so—that it is not a voucher for the payment of money appropriated by Act of Parliament.

76. And you think that is a step in the right direction for the protection of public moneys?—It is certainly a protection.

77 *Mr Allen.*] First of all, with regard to the proposal to do away with the imprest accounts, or certain of them, do I understand that your suggestion is that no imprest should be given except to the Post Office, the Treasury, and the Railways?—Yes. I should say, first, that the imprest should be issued by the Treasury in the first instance to those three offices.

78. And that no other imprest account should be given at all?—And that no other imprest account should be given. I am, of course, speaking of the Dominion.

79. And with regard to all others a letter of credit should take the place of the imprest?—Yes.

80. Will the letter of credit be probably for the same amount as the imprest in each particular instance or any particular instance?—The letter of credit would be for the amount which the imprestee would require during the period for which he proposed to spend the money.

81. That is the same as the imprest?—Yes.

82. And you say he could draw the whole of the letter of credit at once?—Yes.

83. And I understand you to say that there would be an additional check because the Post Office would notify the amount of the payment of the letter of credit at once?—The Post Office would act in two ways. Probably, if the officer were not travelling far, or were stationary, like the manager of a public works, he would be treated by the Post Office as a sub-accountant. He

would take what money he required from the Post Office, enter it in his accounts as due to the Post Office, and send in the vouchers for the expenditure of that money by way of credit to that account.

84. When would the vouchers be sent in?—Well, the Post Office would see that they are sent in at the first convenient opportunity

85. When would that be?—It would be by every mail.

86. By the first mail?—By every mail.

87. Sir Joseph Ward asked you a question from which the Committee were led to think that in the case of an imprest account the imprestee had no occasion to send in his vouchers till the whole of his imprest was exhausted: is that correct? What does the law require now from an imprestee with regard to his vouchers?—That he shall send in his accounts weekly

88. Every week?—Except in those instances in which the Treasury may authorize him to send them in at longer intervals.

89. There is a special authorization by the Treasury that they cannot exceed one month?—I cannot recollect that without reference.

90. I will read you the clause “Every imprestee shall, at the close of business on the Saturday in each week, prepare and post to the Postmaster-General an account showing the whole expenditure of such moneys during the week, and the balance remaining unexpended, supported by such vouchers and other documents as are required by the Treasury or the Audit Office; but the Treasury may extend the period within which any imprestee is required to account to an interval not exceeding four weeks in any case.” That is the law?—Yes.

91. He must send in his vouchers?—It just depends upon whether his money is in his hands—I am speaking now of an irregularity—

92. I am speaking of the law?—The law is as you stated, but if an officer has money in his hands—if the money is not in the bank, for instance, and he is travelling about, and he draws cheques on that bank, there are cases in which the imprestee has to hold his vouchers back or use the money irregularly

93. That would occur with the credit-note system—he could use the money irregularly?—I do not think, under the Post Office, he could.

94. After he once got the money there is no check?—The Post Office is likely to look very closely into those things, because there they are closer to the accountant, and if no vouchers were sent in to any Chief Postmaster, you might say, during a very short interval for expenditure for which he had received money, the Post Office would call the imprestee to account—or, rather, the sub-accountant.

95. You say that there is a large amount of money in the hands of imprestees generally?—Yes.

96. Well, would there not require to be a larger imprest in the hands of the Post Office if they are going to accept these letters of credit?—No, because the Post Office is always remitting its receipts to Wellington. It has an imprest from the Treasury

97. But would not the imprest at Wellington require to be larger?—No. From Christchurch they come up in one day. The receipt which the officer gives, for instance, is for a small sum. Say the manager requires £200 to pay altogether, he can take £50 of that at a time and he accounts for that £50, and that £50 is the total amount of the imprest. By the time he wants a second amount of £50 the vouchers are in Wellington, charged to the expenditure and credited to the Post Office, so that the Post Office, before the second £50 is required, has the money back as remittances to Wellington.

98. What about the small country post-offices—how are they going to meet these letters of credit?—They always have money in hand, and if they have not enough they obtain money from the bank by draft.

99. You do not think there will be any difficulty in regard to country post-offices in meeting these letters of credit?—No. They meet at present a very large expenditure. Generally speaking, all Post Office payments are made out of the cash in the hands of the paying officer

100. *Mr Fraser*] There might be several letters of credit with regard to one imprest?—No, I do not understand that.

101. Where does the letter of credit come from?—The Treasury authorizes a letter of credit for the total amount that the imprestee may require.

102. From time to time?—No.

103. Is the letter of credit for the same amount as the imprest?—Yes, the letter of credit would be for the total amount of the imprest, and he would draw within that amount from time to time so much as he requires of that letter of credit, and what he drew would be entered up.

104. *Mr Allen*.] The only difference between the two would be that in the case of a letter of credit the Post Office keeps the money, and in the case of the imprest system the imprestee keeps it in the bank—is that it?—Or in his pocket.

105. *Right Hon. Sir J. G. Ward*.] Under the imprest system as it exists now the only check is at the head centre—that is, Wellington?—Yes.

106. Under the credit-note system there is the check of the post-office having to immediately transmit that to Wellington, otherwise the man cannot get the money—is that not so?—He can get the money, but the circulation is quicker—the turnover, so to speak, is quicker, and therefore you do not require so much.

107. *Mr Allen*.] Now with regard to the pre-audit and post-audit systems I understood you to say that one particular advantage of the post-audit system was that it would make the Treasury and departmental officers more particular in preparing their vouchers?—In authorizing their payments.

108. Do you mean to say that they are not now careful in preparing their vouchers?—I do not think, myself, that the Treasury officers recognize their responsibility so fully—that they are not as careful in making a payment when the payment is to be previously passed by the Audit Office.

109 It is not a question of making the payment: it is a question of preparing the voucher. Are not the Treasury officers careful in preparing vouchers for audit before payment?—I do not know that there is any irregularity in the preparation of the voucher, even if it is for an unlawful payment.

110. From your long experience as Auditor and Controller-General can you tell this Committee whether there has been any carelessness or neglect in the preparation of vouchers for pre-audit?—The Treasury knows very well that the vouchers come before the audit before the payments are made, and, as the vouchers are prepared not by the direction of the audit, but by the Treasury on their own responsibility, that secures their accuracy.

111 Then, what further accuracy can you have with the post-audit system in the preparation of the vouchers?—My evidence has been given upon the lawfulness and irregularity of the payments, not upon the accurate preparation of the vouchers. There might be an accurate preparation of a voucher for payment that the Audit Office could not pass.

112. You mean to say this that they are more likely to prepare an illegal voucher under the pre-audit system than under the post-audit?—They are more likely to make a payment. I think it tends to make the officers less careful in making a payment when the Audit Office has to pass the proposal to make it, as the law requires at present.

113. Statements have been made that it relieves the Treasury officers and departmental officers of responsibility in pre-audit does it do so?—I do not know. It should not.

114. Have you had any instances in which it had been done?—I spoke of an instance.

115. How many instances can you tell us of?—I have no recollection of instances, but I know very well that the administration is often prepared to make payments which it would not make on its own responsibility if the Audit Office would not pass them?—That is an unquestionable fact.

116. How many cases have you reported to Parliament in all your experience?—I do not report such cases to Parliament.

117 You report to Parliament when there is a difference between you and the Treasury as regards the legality of a voucher, do you not?—No, not unless it is paid. We stop the proposal to pay, and then of course there is no payment.

118. Have you stopped many?—Oh, yes! any number.

119. Does not the pre-audit system bring in the additional safety in that the Audit Office would not pass it?—Yes, it does, except when the money is issued by way of imprest—except as to payments made out of imprest—and there is no limit as to the amount of money in appropriations that may be issued by way of imprest. Practically half the payments are made in that way.

120. Then I understand that pre-audit is safer, but that several of our accounts are paid without pre-audit?—No, I did not say that. I said, except as to payments made out of moneys issued by way of imprest no money could be paid out without the sanction of the Audit Office.

121 I am not dealing with that, but with payments that may be made with the sanction of the Audit—is that as safe?—I do not think it is anything like as safe as the other system—the system of post-audit. I say the Audit Office has only a general knowledge of the administration of all the Departments. That responsibility is by post-audit imposed upon the Departments without reference to the Audit Office, and they are not likely to make any payments which they think the Audit Office would question.

122. Is not the responsibility on the Departments now in the preparation of the voucher?—Yes; but I do not think they realize it.

123. You say you are in favour of the post-audit system?—Yes, and always have been.

124. What was your predecessor in office in favour of, do you know?

*The Chairman* I do not think you can ask a question like that. What his predecessor was in favour of is not for him to answer.

125. *Mr Allen.*] You have referred to the evidence taken in 1898 before the Public Accounts Committee?—Yes.

126. Can you recollect this evidence given by Mr Heywood, Secretary to the Treasury? He was asked, “The Auditor-General is strongly in favour of post-audit. He says it is better that the responsibility should be on the heads of Departments”, and he replied, “The matter was very much discussed at the time by the late Controller, who had visited all the other colonies and inquired into the different systems of account-keeping. The Government of the day adopted the proposal of the Controller, and it was admitted that the system of pre-audit was far better.” Do you remember that evidence?—Yes, I think I do.

127 Then the late Mr Seddon asked a question, “The system of pre-audit had the approval of the late Auditor-General after he had examined the systems obtaining in other places”; and Mr. Heywood replied, “Yes, he had a mission to make himself acquainted with the various systems of account-keeping”?—All I have to say is in the memorandum at the end of that paper.

128. Are the total imprest accounts pre-audited before they are sent out?—The amount to be issued is audited now.

129 Now I understood you to say this in your evidence: that you thought it was right the administration should have unrestricted use of money before audit?—Yes, I think so still, except with the restriction I have already explained—within the appropriation.

130. You still adhere to that—you think the administration should have the unrestricted use of money before audit?—Yes.

131 Now, in regard to making up the accounts at the end of the year if you have the post-audit system, how are you going to manage in making up and balancing your accounts at the end of the year?—Well, take the Public Trust Office, for example, where it is audit after payment: we have an audit officer who takes in everything day by day as it is done with. As the vouchers come into the office in the schedule from different parts—from Wellington or other parts of New Zealand—they are done with, and ready to be entered up and the one side tallied with the other, so that day by day everything is ready for the audit at the end of the year.

132 Under the pre-audit system, before an amount is paid it is audited, is it not?—Well, it is, as a proposal to pay

133 When the cheques are made up and a cheque has been drawn, that account has been pre-audited?—Yes, that is so.

134. So that on the 31st March all your accounts are pre-audited except the details of imprest?—Yes.

135 Very well. Now, under the post-audit system how are you going to get your audit complete up to the 31st March? Say a cheque is drawn on the 29th March for a voucher, the voucher is not returned to the Treasury till some time in April, what check have you got on that for the year ending 31st March?—Up to the 31st March?

136. For the year ending 31st March. The account is made up to the 31st March the cheque drawn will appear in the account, but the voucher, not being returned, will not be audited?—No.

137 Well, what check have you got on that?—When the voucher comes back.

138. That is after the year is completed?—Yes.

139. The account as presented to Parliament will not be checked so far as that instance is concerned?—The accounts presented to Parliament will be the accounts as they are presented in the Commonwealth, and the Cape, and other places.

140. Made up to the 31st March?—Yes, but not made up on the last day. The accounts up to the 31st March under the present system are audited before payment, under which you treat the issue of a cheque as a payment. That account is not audited for six weeks after the 31st March.

141 The account so far as the book entry is concerned with pre-audit is audited before it is paid?—Yes.

142 Well, so far as the book entry is concerned it is correct?—The law makes it correct at present.

143. But in the case of post-audit you would have to wait?—You would have to make a perfect audit under the one system, and under the other you merely pass out a proposal of which you know nothing except that it was a proposal.

144. Then the accounts have to be kept open till all the vouchers come in?—In every audit of every public company a voucher has to be produced for the payment of money—not the issue of a cheque without a voucher

145. That is not an answer to my question. I asked you whether the accounts would have to be kept open after the 31st March under the post-audit system until the last of the vouchers come in?—Generally speaking, that must be so. The accounts are not audited now under the law for six weeks. There is a month after the 31st March to allow the Treasury to prepare the accounts, and it is fourteen days after that that the Audit Office certifies to them.

146. What do you say about the six weeks?—The years' accounts to the 31st March are required by the Public Revenues Act to be prepared within a month after the 31st March, and to be audited a fortnight after that, so that it is six weeks at least after the 31st March before the accounts are ready to be presented to anybody

147 Do you mean by that that under the system of pre-audit a voucher prepared for payment may be pre-audited six weeks after the 31st March, and may appear in the accounts of that year?—No.

148. Then what do you mean?—The books have to be made up.

149 When are the books closed?—The books are closed for actual payments on the 31st March.

150. Is there any account that is pre-audited after the 31st March which appears in the accounts up to the 31st March or not?—Only transfer and adjustments of one account to another

151 I am talking about any fresh vouchers—would any fresh voucher appear?—You mean vouchers for payment.

152 Yes?—No, it would appear in the next year

153. In regard to transfers you quoted the Cape of Good Hope Act. Was it the use of surplus moneys that was referred to there that might be transferred from one vote to another?—The word "surplus" is not used in the Cape Act.

154. Read the section again. Is not the word "surplus" used?—Yes.

155 He can only use the surplus of the item?—Yes.

156. Well, is our law like that? Section 47: is that the same as the Cape law?—That seems to me to be practically the same.

157 Is there the word "surplus" there?—No, but it may be transferred from any other vote of the same class. It seems to me that it could only apply in the case where money is required in aid of a vote—that is, where the moneys authorized by the vote have been expended, and there are moneys available in another vote.

158. Do you remember that some years ago the word "surplus" did occur in our Public Revenues Act with regard to these transfers?—Yes, I recollect that.

159. And do you remember that being repealed?—Yes.

160. Why was the word "surplus" cut out?—Because the Audit Office objected to a transfer until the end of the year under that section for any money whatever, on the ground that until the end of the year it could not be shown that there was any surplus.

161 Then, does the Cape law refer to the surplus vote?—The Cape law refers to the surplus vote.

162 Does our law refer to the surplus of a vote?—No, our law does not.

163. Then, do you think the two things are comparable?—I think they are. I think the Cape administers that provision the same as we should under this Bill.

## WILLIAM RUSSELL MORRIS examined. (No. 6.)

1 *The Chairman.*] What are you?—Assistant Secretary and Inspector of the Post Office.

2 *Right Hon. Sir J G Ward*] From what source, Mr Morris, would the Post Office obtain the funds necessary to give effect to the proposals under which it would provide the funds now issued by the Treasury?—The Post Office has at all times a very considerable sum of money in its possession resulting from receipts from various sources. That, together with imprests from Treasury, enables it to meet a very extensive payment. A country Postmaster has in his hands money-order moneys, savings-bank moneys, and general revenue, and it is not necessary to make any distinction between them—they are in the aggregate available for the purpose of making payments which the Postmaster is authorized to make. If a country Postmaster fell short of funds, he would apply to the Chief Postmaster to replenish his supply, and in extreme cases where a Postmaster could not be credited quickly we have an arrangement by which the Postmaster would apply for funds by telegraph, and those funds would be placed to his credit at the Government's bank in the nearest town. The Postmaster is supplied with cheques to enable advantage to be taken of this arrangement, and he can discharge payments by cheque; but he has always moneys in his hands apart from those issued by the Treasury.

3. Is the proposed system of credit notes likely to embarrass the Post Office in regard to providing funds?—No, not in the least. The Treasury provides us with money by way of imprest. We do not send this money down to the particular post-offices; we simply send them authorities to pay, and the adjustments are between the General Post Office and the Treasury in Wellington. It may be that the payments at times exceed the imprests made to us, but that is simply a matter of adjustment.

4. I should like you to give the Committee your opinion in regard to whether the small country post-offices generally could meet the proposals that are contained in the memorandum which I previously read?—Yes, most decidedly they could. Might I refer to the question of co-operative workers? We have had quite a considerable number of these cases. The Postmaster is authorized to make an advance to the engineer or officer in charge of the works, taking his interim receipt for the advance so made, and subsequently receiving from him the receipted vouchers which he claims credit for in his account to his chief office, and through his chief office they reach the Treasury, so that they are never at a loss. The engineer or other responsible officer acknowledges the receipt of the full amount to pay the wages of these men, and it is an undertaking on his part that he shall subsequently produce a receipt signed by each man to whom payment has been made.

5 *Mr Reed*] And do those vouchers then pass through the Post Office?—Yes, and the Postmaster takes credit in his account with his Chief Office for a remittance of the amount mentioned in those receipted vouchers. When it reaches the Chief Office it is entered in a statement of miscellaneous payments, and taken credit for in an account rendered to the General Post Office in Wellington. The vouchers are then sent to the Treasury as a credit against the imprest that we had. If we have made any payment in excess of the imprest, the Treasury refunds the amount to us, and puts us in funds at once.

6. *Right Hon Sir J G Ward*] Would the adoption of the proposals mentioned prejudicially affect the Department's control, or weaken in any way the Department's audit?—No, not in the least. Certain officers would be appointed in each district to certify to the correctness of the vouchers, and they would be sent to the Post Office for payment. The Treasury credit notes which it is proposed to issue are only supposed to be used for amounts required for immediate expenses. At the present time imprestees are given large advances to cover payments which, under the proposed arrangement, would be made by way of vouchers submitted to the certifying officers in the particular district, and subsequently sent to the Post Office for payment.

7. What is your opinion as to how it would work from the standpoint of economy—would it be more economical than the present system?—Yes, decidedly, because imprestees have to make out rather elaborate accounts under the present system. I also think there would be a safeguard against irregularities.

8. The Post Office at the present time collects the revenue for a considerable number of Departments?—Yes, for almost all.

9. And is responsible for expenditure for a great many Departments?—Yes.

10. Is it possible to have that extended without the Post Office experiencing any difficulty?—Yes, we have got the machinery, which is quite equal to any demand which is likely to be put upon it.

11. Do you agree with the statement that has been made by the Controller and Auditor-General, and referred to in the memorandum which was read, that certain Departments should be exempted from the proposed system, and have imprests?—Yes, I think so. The Railways would certainly have to be exempt, and the Customs.

12. The general experience of the Post Office has been that the audit has been after payment: do you agree with post-audit as against pre-audit?—Yes, most decidedly; and as evidence of its superiority I would refer to the fact that every commercial institution and Government in every British-speaking country has the post-audit system in force. New Zealand is the only place that has pre-audit.

13. *Mr Allen*] What about South Africa?—I believe they are proposing to adopt post-audit. If a voucher is passed under pre-audit for £30, there is nothing to prevent it being paid for £300. There is no subsequent check by the Audit Office. Or it may be paid to John Smith instead of Tom Brown. There are a variety of irregularities that could occur under pre-audit.

14. *Right Hon Sir J G Ward.*] And under the post-audit system?—There would be a complete check.

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