

1925.

## NEW ZEALAND.

## AUDIT OF DEPARTMENTAL ACCOUNTS

(MINISTERIAL STATEMENT IN CONNECTION WITH).

*Laid on the Table of the House of Representatives by Leave.*

## MINISTERIAL STATEMENT.

It is with reluctance that Government finds it necessary to comment upon the Controller and Auditor-General's report as laid on the table of the House in B.-1, Part II.

Several matters referred to have been so set out and interpreted as to create the impression that there exists a state of laxity and failure to control the administration of finance, stores, &c., and Government feels that Parliament is entitled to an explanation concerning the various questions raised by the Controller and Auditor-General.

The Controller and Auditor-General is one of the highest officers of State, placed by law in a position of independence of Government and responsible only to Parliament, quite free and untrammelled as to his criticism of Government, Departments, and public servants. His reports are entitled to every respect and consideration. His powers, however, call for the exercise of judgment and tact in dealing with the many matters that come before him, and English authorities on the duties and powers of the Comptroller and Auditor-General of Great Britain lay great stress on this feature in the performance of his office, because of the difficulty of defining or limiting his duties. His report and remarks should be so conveyed to Parliament as clearly to set out in due perspective the importance of the matters referred to; and in saying this it is to be understood that Government cannot dictate to him in any way as to the manner of their presentation. In the report this year, from the discussions in this House and outside, the meaning taken from the various subjects referred to therein, several of which have been already dealt with, appears to be out of due proportion to the actual facts when ascertained. I purpose, therefore, to lay before honourable members the notes and reports of the Departments concerned.

## AUDIT OF GOVERNMENT STORES AND PROPERTY.

(Pages 7 and 8 of Report.)

In the opening of this paragraph the Controller and Auditor-General states: "In many Departments it has hitherto been the practice to write off losses and deficiencies in stores without sufficient investigation as to the cause of the loss, and without reporting the circumstances to Audit in order that the discharge from the Public Account might be approved by Parliament as required by the Public Revenues Act. The door has thus remained open to speculation and extravagance."

The fact is that in 1922 the Public Revenues Act was amended by Government to provide that all stores, &c., were to be accounted for as cash, and this meant that no loss or shortage of stores could pass without being written off as cash in terms of the Act. This important amendment furnished the means by which the closer audit and inspection of stores was made effective. The state of affairs referred to by the Controller and Auditor-General "that hitherto has been the practice" is therefore prior to that year, since when great progress has been made in the direction of remodelling a system that has run forty or fifty years. As far as legislation could provide, the door has *not* since then "remained open to speculation and extravagance."

The Controller and Auditor-General certainly refers to the steps taken to consolidate in the Treasury Regulations the different regulations previously issued by the Public Service Commissioner, the Stores Control Board, and the Treasury, a consolidation that will enable the adoption of

Departmental Regulations to be subject to Treasury requirements; and, as stated by him, good progress is being made in this direction. It must be expected that the design and adoption of regulations appropriate to all Departments must take reasonable time to become fully operative. Treasury is now responsible to see that measures to ensure stores accounting are so framed as to include provision for the necessary internal check and at the same time make due provision for the difficulties in Departments where there are employees whose efficiency in performing their specialized duties is proved but who are inexperienced in the operation of stores control on ideal lines. Moreover, due consideration must always be given as to whether, in certain cases, the practical application of the new regulations justifies the outlay.

#### GOVERNMENT STOREKEEPER HAVING INTEREST IN A FIRM SUPPLYING GOODS.

(Page 8 of Report.)

In this case, which has given rise to considerable comment, the facts are stated by the Department as follows:—

A Storekeeper employed by the Department had control and supervision of stores, &c., required for mining purposes. He tendered his resignation on the 28th January, 1924, and asked to be relieved as from the 28th February, 1924, as he had accepted a position outside the Service. He was not (as far as is known) prior to tendering his resignation in any way interested in the firm in question. The Department was not able to release him from duty until May, 1924. Later, at the request of the Department, owing to staff disorganizations (caused by a death, illness, &c.), he was intermittently employed for a further three months. *When he tendered his resignation he asked that a stock-taking and clearance of his accounts be made.* The Permanent Head of the Department wrote to the Controller and Auditor-General on the 4th March, 1924, requesting that an audit be carried out, but the Audit Office was not able to do this until August—*i.e.*, after the officer had left.

The Stores Auditor, after a lengthy investigation, reported nineteen cases of alleged irregularities, with overpayments and losses totalling £40 7s. 7d., six different firms being concerned. The purchases from the firm which the officer joined and which were questioned by Audit are included in this amount, and were made in June and July, 1924. Immediately upon receipt of Audit report the Department instituted an inquiry by a qualified Accountant. He reported that "the Audit allegations were without foundation in a number of cases, and in other cases were too doubtful or trivial to prosecute on."

The result of the Department's investigation reduced the alleged loss of £40 7s. 7d. to £1 12s. 2s., and this amount was recovered from the firms concerned. Of this amount, the firm which the officer had joined was concerned in a refund of 17s. 2d. only. The Department's opinion is that this overpayment was due to an error of judgment in identification of the size and weight of a rope, and not to any dishonest motive.

The Department points out that the officer in question only remained on duty to assist them during the illness of his successor. As he was well qualified in stores work, they were only too glad to avail themselves of his services, and, instead of imputing dishonest and improper motives to him, it is considered that his action in returning to duty should have received commendation.

#### RECONCILIATION OF STORES LEDGERS WITH STOCKS ON HAND.

In connection with the same undertaking, the Department reports that a thorough stock-taking was made by departmental officers, and as a result it was ascertained that there were certain discrepancies (both deficiencies and excesses) between the Stock Ledgers and actual stocks on hand.

The review covered a period extending over ten years' trading, and, with the object of effecting a reconciliation, Audit approval was requested to write off certain "book deficiencies," in terms of Treasury Regulation 135 (which came into operation as from the 1st January, 1920). There is no evidence to indicate that these discrepancies arose from any peculation, but are book errors such as do arise in any similar business conducted on the best commercial lines. As a matter of fact, these discrepancies were brought under the notice of Audit by the Department; they were not discovered by Audit, and have not yet been investigated by the Audit Department.

The system outlined by the Department to be followed in the matter of stores accounting was and is a good one. It would bear comparison with that set out and adopted in the best-managed concerns carrying on similar undertakings.

#### MANUFACTURE OF WINE.

(Page 8 of Report.)

The departmental statement shows the following to be the facts:—

This relates to the experimental vineyards at Te Kauwhata, established over twenty years ago. The total value of the seventy-nine cases was £136, issued from the 1st April, 1921, to the 30th November, 1924, and most of it was used for advertising purposes. Sixty cases, value £104 9s. 6d., were sent to Agricultural and Pastoral shows as samples; of the remainder, a quantity valued at £9 6s. 6d. was issued to departmental and ex-departmental officers. The sales for the period amounted to £13,730, and the cost of the advertisement therefore represents less than 1 per cent. on sales.

The Government did not embark on a wine-manufacturing business in a mere profit-earning capacity, but rather to demonstrate the practical side and foster a local industry which included grape horticulture. In all such cases, whether conducted by Government or by private enterprise, it is not unusual for the purpose of establishing a market to make gifts of sample lots.

## Loss of £1,800.

(Page 8 of Report.)

The Department's report shows that this loss was the result of a forced sale, as far back as 1922, of stock held in excess of immediate requirements in connection with special schools. The determination to reduce stocks was the outcome of a recommendation of the Controller and Auditor-General himself that the store should be closed.

The Department, in common with most mercantile firms, in order to secure adequate supplies, was during the immediate post-war period compelled to order goods in excess of immediate requirements. The Department simply followed the mercantile practice of securing supplies during that period. Although the store was to a certain extent overstocked in some lines, yet its issue prices for such were lower than local current prices. For instance, the Department could have sold some of the lines to local warehouses at profits varying from 200 to 300 per cent.

The Department's report clearly indicates that no loss would be shown if the total savings were offset against the alleged losses.

## LOAN OF DAIRY STOCK TO FARMERS.

(Page 8 of Report.)

The departmental report indicates the following: Because of the fact that some four years ago no accommodation was available, a large number of pedigree heifers were likely to deteriorate through lack of care and attention, and in April, 1923, the local Officer in Charge suggested that fifty-eight of these heifers then running on the estate should be handed over to a settler to care for, he to have the use of them for their first season, and to hand them over in good condition for the following season. Had such a course not been pursued, in all probability the heifers would have deteriorated so much that they would have been badly set back for subsequent milking seasons. In the circumstances the head of the Department agreed to the proposal. The heifers referred to were duly returned by the settler in accordance with the arrangement made.

## GOVERNMENT FARM-MANAGER—ALLEGED DEALING IN STOCK.

(Page 8 of Report.)

The facts from the departmental statement are that nothing is known officially of any trafficking by this officer in live-stock detrimental to Government interests, and, further, that the Department is not aware of any investigation by the Audit Office into irregularities of the nature implied.

In regard to the resignation of the Farm-manager referred to, the resignation was brought about by the fact of his preference to resign rather than to transfer to another institution.

## FARMING INSTITUTIONS.

(Page 8 of Report.)

No evidence can be found on record to support the sweeping statement that "generally irregularities in one shape or another exists" in cases where Government officers own farms in the vicinity of the State farms.

In one case of alleged irregularities which was reported, investigation showed that the transactions had the sanction of the Permanent Head.

## GRATUITOUS ISSUES TO STAFF.

The Departments referred to state that where this has been done it is mostly in kind. In one Department the staff is at an isolated place, and it is decidedly more economical to allow these issues than to consider pay to cover cost of procuring the supplies elsewhere.

In another Department some employees on farms were allowed produce at less than retail delivered prices at adjoining town, but the rates were considered reasonable. In other cases the issue of produce of the institutions to employees was part of the agreement as to their employment, and was certainly a less expensive mode of remuneration.

## RECORDING OF WORKMEN'S TIME.

(Page 8 of Report.)

Extract from Engineer's report:

The works were not big enough to warrant the employment of an independent timekeeper.

In all cases of discrepancies between time-books and time-sheets, explanations have been obtained from the overseers and gangers responsible, and these show clearly that the time-sheets were looked upon as the correct record, and the time-books were considered as notebooks of temporary value only. With men scattered over a large area, and many of them visited by a ganger or overseer at off times only, it is obviously impossible to keep an office record against each name of the time worked each day. And where men are working in isolated spots and visited at off times only by an overseer, there is no absolute check on the hours worked, and naturally more importance is placed on the amount of work performed than on the actual number of hours worked.

It is a very difficult matter for an overseer to explain discrepancies in the times worked by odd men over a twelve-month period. Nevertheless, these alleged overpayments have been satisfactorily accounted for in nearly all cases, and the times still in doubt total only ninety hours. The other cases occurred where a Maori was foreman of the gang.

## SHORTAGE OF MOTOR-SPIRIT.

(Page 8 of Report.)

This paragraph appears to convey without any discrimination a statement that a system of illicit sales, shortages, and extravagant consumption of motor-spirit exists generally in Departments controlling stores.

Extract from Engineer's report :—

The principal shortage disclosed—viz., 10½ cases "Shell" and 8 cases "Lion"—was at 1st April, 1923, when the benzine was kept in more than one shed and the control over it was not so strict as it is now. It was to check as far as possible any chance of a shortage that the benzine was since kept in one building. With more than one person issuing the stock the chances of a discrepancy would be greater than when under one-man control, as at present obtains. Unfortunately, the overseer referred to left the works over twelve months ago, and an explanation of the apparent shortage cannot be obtained from him. It is not considered, however, that the leakage was of a fraudulent nature, but has occurred through failure to enter up the books.

## £27,000 PLANT AND MATERIALS.

(Page 8 of Report.)

The facts furnished by the Department are :—

The practice in this Department has been to issue timber, building-material, leather, grindery, and materials for other industries direct from the supplier to the officers in charge of the various works. The preparation of expense accounts, to record the ultimate disposal of these stores and of farm-produce, involves an increase of expenditure on unremunerative clerical and storekeeping labour, with additional store and yarding accommodation, which has not yet been undertaken by this Department. There can be no suggestion that under the present system losses occur to any extent.

Included in the amount of £27,000 is the value of plant and machinery which has not been taken on charge in the stores ledgers, but is properly treated as part of the *capital* assets fixed and belonging to the institutions.

The system of accounting in this Department has received special consideration, and an experienced officer who is a qualified accountant has been solely engaged for some time in bringing into operation a full and complete system of accounting.

## IRREGULARITIES AT BEAUMONT.

(Page 8 of Report.)

No system has yet been devised which is able to afford *immediate* detection of peculations by a dishonest employee in charge of work of this nature. Great care in Store Accounts is taken in the Public Works Department, its stores system being an excellent one. The provision of extra safeguards, as are suggested in the Audit report, would cost more than the possible losses they are designed to prevent, and would never be instituted in any properly organized commercial concern.

## DIFFERENCES IN PRICES OF CONTRACTS.

(Page 10 of Report.)

The reference herein is to urgent printing orders for the Railway Department at Invercargill.

The departmental papers show that the Controller and Auditor-General brought this matter under the notice of the Public Service Commissioner, who caused a full investigation to be made into the circumstances by an accountant of wide commercial experience. The conclusions arrived at by the investigating accountant as the result of his investigations show—

- (1.) That the Dunedin firm in question quoted for special competitive reasons, and their prices were well below the actual cost of production. (In this respect it may be mentioned that the renewal prices are considerably in advance of those in the original contract.)
- (2.) That the prices quoted to the Department by the firm in Invercargill were substantially fair and reasonable.
- (3.) That in the comparison made by the Controller and Auditor-General he entirely failed to appreciate the significance of extra cost where "urgency" and "volume of work" were important factors.
- (4.) That the disparity in prices was due to causes other than the influence of an alleged "ring," as suggested by the Controller and Auditor-General, is clearly evidenced by the fact that the investigating accountant reported that the firm in Dunedin was and is a leading member of the trade association in question.

The findings of the investigating accountant were made available to the Controller and Auditor-General. It is surprising, therefore, that he should have seen fit to refer to this matter, particularly in view of the fact that, by quoting percentages running into thousands when the total value of business in Invercargill is less than £200 per annum, it tends to unduly magnify the actual position.

## NEGLIGENCE OF PUBLIC OFFICERS.

On page 14 of the report a paragraph is headed "Negligence of Public Officers," implying a reflection on public servants generally, and relates to surcharges. As a matter of fact, the Controller and Auditor-General issued last year eight surcharges against officers of the whole Public Service, and these are set out on page 18.

It is considered that the relatively small number of surcharges, and also of prosecutions, if anything, redound to the credit of the members of the Public Service throughout the Dominion. New Zealand has every reason to be proud of its Service. Government could not permit to pass unchallenged anything that might tend to detract from the high standard of integrity known to exist in the services.

It may be interesting to know that stores purchased by the Government last financial year totalled £4,400,000, a very large volume of buying compared with the small amount of actual stores losses reported.

There is another matter that should be referred to before concluding. The names of individuals are mentioned at the end of the paper. In the first place, out of some thirty-six thousand permanent employees of the State, only twelve prosecutions were made in the year on account of theft, defalcations, &c. In most of these few cases the names are of youths or young men who have already been well punished by the publicity or imprisonment imposed by the Police Court proceedings. Is it not hard that their slip should be now recorded in a document that can be produced, say, in twenty years, when these young men may have made good? How much more so is it undesirable to name the unfortunate old people and widows who have failed to give accurate information in their claims for pensions and who have been consequently prosecuted? It is to be hoped that some modification of this system will be adopted on the lines of the British Comptroller and Auditor-General's report, where such matters are referred to without quotation of names. The British Comptroller, in his report of 1922-23, deals on broad lines with the votes and expenditure of each Department, and leaves to footnotes matters which in the New Zealand Controller's report are given such importance as conveys an impression of widespread neglect and inattention to duty.

I have gone into these cases at some length, solely for the purpose of dissipating the somewhat distorted view that appears to have been taken of Departments' operations. It is, I think, reasonable to expect that most people will, with these facts before them, agree in applying to the public servants of New Zealand the words used by the Comptroller and Auditor-General of Great Britain in his report on the British Civil Service above referred to, as follows: "It must also be remembered that the reports necessarily deal only with the small percentage of cases which require comment or investigation, and afford no indication of the high standard attained in the administration of public expenditure taken as a whole."

Having dealt with the question of stores and material referred to in this report, there are several other matters relating to administration by the Treasury and the Public Revenues Act which the Government has asked should be reported upon. The following memoranda have been duly forwarded:—

#### CONTROL OF EXPENDITURE IN LONDON.

(Page 4 of Report.)

Treasury minute:—

Payment for stores and material for railways, public works, telegraph extension, &c., purchased in Great Britain is made by the High Commissioner out of a special account called "Foreign Imprest Account." Advances of cash to this account are all made by bank order authorized by the Audit Office, and the Audit representative in London examines the vouchers before payment and countersigns the cheques. When the paid vouchers reach New Zealand they are charged by the various Departments against the appropriate votes. It will thus be seen that a period of from two to three months elapses before the payments can be brought to charge in the Treasury books, and it is necessary to provide cash for purchases three months in advance of the book-keeping entries. In order to allocate cash advances as far as possible to the relative votes to which the expenditure will ultimately be charged, it is the practice for sums in excess of £500 placed to the credit of Foreign Imprest Account to be provisionally charged against such votes, but smaller sums and advances for miscellaneous payments are charged against General Services Account kept by the New Zealand Treasury. When the vouchers reach New Zealand the provisional accounts and General Services Account are cleared and the appropriate votes finally debited. The Audit control is effective in preventing the debits to any vote exceeding the limit appropriated by Parliament. Those amounts represented by vouchers in transit and not cleared at the end of the year are treated as balances in hand.

Under the system of parliamentary appropriations, a vote is limited to the amount actually brought to charge therein during the twelve months, and no votes are therefore available to provide cash in advance for large amounts disbursed on the other side of the world. To get over the difficulty as regards railway purchases, an additional amount of £85,000 was provided on the railway estimates last year for advances to the High Commissioner. This does not, however, provide sufficient flexibility for other Departments, and if the necessity arises the Treasury, under the discretionary powers provided to meet such circumstances in section 29 of the Finance Act, 1920, has recourse to General Services Account, which enables advances to be made up to £500,000.

It is also evident, in the case of large orders that might be executed much earlier than anticipated owing to slackness of trade at Home, that the pressure on the votes will be heavier than the average incidence of estimated expenditure allows for. It is manifestly undesirable to delay payments for goods delivered under contract, which would invariably happen if the Audit recommendation was carried out. The law as it stands at present allows General Services Account to be used in such an emergency.

Advances from General Services Account and payments from votes are both governed by the authority of Parliament, and it is difficult to see how the control of Parliament can be more complete.

#### SECTION 317, LAND ACT, 1924.

(Page 4 of Report.)

In referring to the amendment of section 317 of the Land Act, 1924, the Controller and Auditor-General states: "Attention is drawn to the fact that the result of this amendment is to make it practically impossible for the Audit Office to exercise any control over these transactions."

The departmental explanation is:—

Authority was obtained when the Land Act was consolidated last session to close the Mining Districts Land Occupation Account in the books of the Treasury, and to enable the moneys to be distributed to local bodies and to the Public Account by the Local Receivers of Land Revenue in the

same manner as timber royalties. Before such allocation of the funds can be made, survey and other expenses that have been paid out of vote "Lands and Survey," and have already been appropriated by Parliament, are recovered by the Receiver and paid to Public Account up to the limit of 3s. per acre only. Compensation for any resumption of land is also to be deducted. The functions of the Receiver are thus limited, and no other powers are vested in him. No claims for expenses or compensation have arisen for many years past.

The policy of the Treasury is to discourage the application of appropriation by Act as recommended by the Economics Committee, so that expenditure can be controlled and voted annually by Parliament. There is no objection, however, to adjustments of this limited character being made without further appropriation when the authority does not give any discretionary power to the paying officer. The total rents received each year only amount to £1,600, of which one-half is paid to the Public Account and the other half to about twenty local bodies.

*The accounts of the local Receivers of Land Revenue are subject to Audit examination by officers of the Audit Department.*

If necessary, the detailed distribution of the funds can be published in the Public Accounts in future in the departmental balance-sheets (B.-1, Part IV) instead of in B.-1, Part II.

#### AUDIT OF LOANS AND PUBLIC DEBT.

(Pages 4 and 5 of Report.)

The Department's statement is :—

As regards the discrepancy between the figures given by the Controller and Auditor-General and those in the Budget, it should be stated that, in consequence of the different methods shown last year, the Treasury in this Budget framed its statement of the debt operations to accord with the mode adopted by the Controller and Auditor-General. This was done, but, as pointed out in the House, the figures do not agree, there being a difference of £200 in the amount raised for redemption in 1925-26. The Controller and Auditor-General in his compilation appears to have assumed that a certain debenture was wholly cancelled out of loan-moneys, whereas £200 of it had previously been cancelled out of unclaimed moneys on New Zealand Government bonds. The Controller and Auditor-General consequently has understated the redemption loan-moneys carried forward at the end of the financial year by £200, and the Treasury figure is correct. The total balance carried forward in Loans Redemption Account, however, is not affected—it is merely a question of its composition. This erroneous assumption has also led to other consequential differences in the figures relating to the increases and decreases in the debt, but the correct figures are as set down in the Budget.

#### LOANS BETWEEN TREASURY ACCOUNTS.

(Pages 5 and 6 of Report.)

Treasury memorandum :—

The reference here apparently relates to the use and investment of cash proceeds of loans for the purpose of temporarily funding other accounts in need of cash by virtue of the powers given by Parliament in terms of section 38 of the Public Revenues Act.

As an index to the extent of the temporary use of loan proceeds for these purposes, the figures from the Debenture Sales Accounts of 1913-14 and 1924-25 respectively, quoted by the Controller and Auditor-General, do not on examination represent a just comparison. For instance, the account for the first-mentioned year does not disclose the fact that £60,000 loan-moneys of the Waihou and Ohinemuri Rivers Improvement Account and £738,400 cash from Loans Redemption Account—all loan proceeds—were temporarily invested as at 31st March, 1914, in the securities of other accounts. The same account for the year 1924-25 contains many transactions which represent more or less permanent investments of revenue, and in no way involve the temporary use of loan balances. For instance, the balance as at 31st March, 1925, quoted by the Controller and Auditor-General (£5,752,275) includes over £2,300,000 of investments held by Ordinary Revenue Account (accumulated surplus) and large sums invested by other revenue-earning accounts and sinking funds, none of which involves loan-moneys. The temporary use of loan proceeds not immediately required has the effect of postponing the raising of moneys for other purposes, and thus actually effects an economy. The Treasury has always recognized the desirability of keeping this floating debt at a minimum, and since 1922 has reduced it considerably. In view of the present annual turnover in cash compared with 1913-14, the balance now used for this purpose is not disproportionate.

In regard to the remedy suggested by the Controller and Auditor-General, it may be pointed out that it is not the practice of the Treasury to allocate to any account loan-money in excess of its requirement for the year. The investments referred to arise from the fact that the whole of the loan-money allocated to any particular account is not required immediately.

The temporary increase of debt that the system incurs could, if thought desirable, be overcome by a method of book transfers without formal issue of securities. The procedure at present followed, however, is in accordance with law.