

I am not altogether satisfied that the basis of inter-departmental charges is uniform as between Departments. For instance, Cabinet decided that Departments undertaking work in connection with the small-farm scheme were not to recover administrative charges incurred therewith other than a reduced charge for the erection of cottages and milking-sheds. This, of course, refers to the cash accounts, and the Audit Office does not press the matter as regards these cash accounts, but is of opinion that the value of the services rendered should be shown in the respective Income and Expenditure Accounts of the Departments concerned, such as the Departments of Agriculture, Public Works, and Valuation. Otherwise the respective accounts would be shown as bearing a part of cost of administering the Unemployment Fund through the small-farm scheme.

I have drawn attention in previous years to the fact that some Departments do not charge interest on the cost of works under construction. This practice is not in accord with Audit views, and is far-reaching in its effects, as Departments holding assets constructed out of Public Works Fund (General Purposes Account) do not reflect in their balance-sheets the true capital cost of the works, and the revenue accounts of such Departments will also not reflect the true amount of interest chargeable. The practice is also inconsistent with the system in force in the Electric Supply Account, in which case interest during construction *is* being charged.

Audit of Government Stores.

The principles of stores accountancy appear to be well established now in all parts of the Service, and the result of the Audit inspection during the year has been on the whole satisfactory. Owing to shortage of trained officers, however, I have been unable to make a complete audit of the Railway and Post and Telegraph Departments during the year. It will be recognized that a complete audit of all Government stores and material in New Zealand entails a very considerable amount of work, and I am now providing for the training of additional officers, and hope to be able to keep pace with the work in the early future.

Audit of Accounts of Local Authorities.

The satisfactory position of the work of auditing the accounts of local authorities which was recorded in last year's report has been well maintained during the year.

It is the aim of the Audit Office to audit the accounts of all local authorities within a reasonable time after the close of the financial year, and I am pleased to report that the majority of local-authority officials show a commendable desire to have their accounts audited with promptitude, and consequently prepare their accounts expeditiously. With a view of expediting the work it has been found necessary to increase the inspectional staff by the appointment of two additional Inspectors.

A great deal of extra work has been thrown on the Audit staff in connection with the conversion of local bodies' loans under Part II of the Local Authorities Interest Reduction and Loans Conversion Act, 1932-33.

During the year there were thirty-six instances where local authorities had contravened the statutory provisions governing borrowing on overdraft, and there were twenty-six instances where they had incurred liabilities, additional to overdraft liabilities, in excess of their current year's revenues.

As pointed out in my previous reports, the present economic position has disclosed the inadequacy of the provisions of section 3 of the Local Bodies' Finance Act, 1921-22, as a safeguard against excessive borrowing. It would appear that at the present time the limits of overdraft, as fixed by section 3, are excessive in cases where arrears of rates include any large proportion of uncollectable rates. Many local authorities take full advantage of the present law to expend moneys in anticipation of the receipt of the rates levied by them for the year, which experience has shown cannot in many cases be collected to an amount sufficient to recoup that expenditure.

The tendency of some local authorities to endeavour to economize at the expense of their debenture-holders by refraining from meeting their obligations in respect of the payment of sinking-fund instalments was again evident during the year. The accounts of no less than seventeen local bodies disclosed that they had failed, either to establish sinking funds, or to make the annual payments to the Sinking Fund Commissioners.

During the year the Audit Office dealt with fifteen cases of misappropriation of funds by local-body officials, particulars of which were in every instance placed in the hands of the police. The defaulters were all dealt with by Criminal Court action, and a sentence was imposed by the Court in each instance. The total sum involved in the defalcations amounted to £2,435, and the largest sum misappropriated by any one official was £995. In one instance, where the amount misappropriated was £716, the misappropriation was made easy by the practice of the local-body members signing blank cheque forms and leaving them to be completed by the official concerned. Audit Inspectors have on quite a considerable number of occasions reported instances where this practice obtained in the offices of local authorities. In all cases where the practice has been reported to the Audit Office by the Inspectors steps have been taken to ensure its discontinuance immediately.

Eight members of local authorities automatically forfeited their seats during the year on account of being concerned or interested in contracts with the local authorities, of which they were members, to an extent in excess of the statutory contractual limits, or on account of their holding an office or place of profit under or in the gift of such local authorities. In all instances the members concerned appear to have acted in ignorance of the law.