The bulk of the exchange charges is, however, incurred on remittances for interest payments in London, and the above proposals of the Treasury will affect the position to a very minor extent, as it is ascertained that for the past year the amount recovered under these proposals was £22,136 only. The total gross sum incurred for exchange for the year was £2,309,629, but of this sum £584,815 was in connection with the redemption of a loan and was capitalized and added to the Public Debt.

The present practice of charging the bulk of the exchange against the Ordinary Revenue Account of the Consolidated Fund has the effect of understating the departmental expenditure.

It also has the effect of rendering the departmental commercial accounts inaccurate. By way of exemplification I may cite the case of the Printing and Stationery Department's Profit and Loss Account for the year 1934–35, which shows a net profit of £12,055, whereas, as a matter of fact, if the exchange costs had been shown in the Account the profit would have been £547 only.

Amongst other cases in which accounts are relieved of the charge for exchange on payments in London are those of the State Advances Account, £122,523; Working Railways Account, approximately £500,000; Electric Supply Account, £110,000; and Lands for Settlement Account, £21,000.

It is of course recognized that some of the separate accounts may be unable to find the cash out of revenue with which to pay the full amount of their exchange costs, but the Audit Office contends that the full amount of the charge and the amount of the assistance received from the Consolidated Fund should be clearly shown in the Accounts even in cases where recoveries cannot be made.

These difficulties would be overcome if, instead of appropriating a single sum in the ordinary revenue estimates to cover the whole of the Government exchange costs, each Department were required to take a separate item on its estimates to cover the exchange charges pertaining to that Department alone. The departmental accounts would then show accurately the amounts actually disbursed for the cost of exchange.

Control of Expenditure: Form of Public Accounts.

The guiding principle in the system of public finance is stated to be the supreme control by Parliament over its grants, appropriated for specific purposes, and covering given periods. To achieve this object Parliament either makes statutory provisions of a permanent nature or appropriates moneys annually to cover the expenditure. Control is exercised firstly by parliamentary procedure when supplies are granted, and, secondly, by the supervision of the Audit Office, which, in carrying out its investigations on behalf of Parliament, is required to see that moneys appropriated have been applied in conformity with the direction of Parliament.

The accounts are approved by Parliament in such form as will ensure proper control. The system of control by Parliament is greatly assisted by publicity and by the simplicity of the form in which the details of the accounts are shown. It is laid down by the highest authorities that no important alteration should be made in the form of the accounts without the sanction of the Public Accounts Committee being first obtained. I fear that this rule has not always been observed in New Zealand, and that many important alterations have been made without the authority of Parliament.

Continuity in the form of accounts is also held to be of great assistance in the control of expenditure, as it enables comparisons to be made between the annual expenditures of present and past years. It is even laid down by authorities on the subject that in some cases an admitted improvement in the accounts from an administrative point of view should not be adopted if the proposal necessitates a breach of continuity.

I bring this matter to the notice of Parliament solely for the purpose of pointing out a principle which seems frequently to have been overlooked, and in doing this I do not wish it to be inferred that Audit necessarily condemns all of the alterations which have of recent years been made without the authority of Parliament.

Interest on Cash Balance Investment Account.

The principle adopted of allocating interest on cash balances which are invested per medium of the Cash Balance Investment Account has certain undesirable features to which I have already drawn attention in previous reports. The object of this account is to enable the aggregate balances of the various separate sub-accounts of the Public Account to be pooled for the purpose of investment, which is, of course, a desirable object. It is to the system adopted for the allocation of the interest earned to the various accounts to which Audit takes exception, as no provision is made for allocating the interest to the accounts in proportion to the amount supplied for investment. This practice results in some accounts being credited with interest which they did not earn, while other accounts are deprived of interest which they did earn.

In the case of very insignificant amounts the present practice may, perhaps, be excused, but in cases where large sums are involved Audit is of opinion that the interest earned should be credited only to the account which provided the money for the investment.

Irregular Methods.

I have previously drawn attention to the following instances where the law is not being strictly complied with and which I would like to see remedied:—

(1) Under section 84, Public Revenues Act, 1926, the Bank of New Zealand, London, is required to submit twice a month to Audit and Treasury statements showing the entries made in the Foreign Imprest Account. This has not been done hitherto. If the Treasury is of opinion that it is unnecessary, the Act should be amended; but, whilst the statutory requirements exist, the law should be complied with.

(2) There are two accounts kept by the High Commissioner's Office which are not authorized by law—namely, the High Commissioner's Deposit Account and the Finance Officer's Imprest Account. Audit has pointed out on previous occasions that these accounts should either be abolished or made statutory as the Treasury may determine. They should not be left high and dry as at present.