

1892.

NEW ZEALAND.

PUBLIC ACCOUNTS COMMITTEE.

(REPORT ON AUDITING OF ACCOUNTS OF THE LANDS AND SURVEY DEPARTMENT.)

Brought up 7th October, 1892, and ordered to be printed.

REPORT.

THE Public Accounts Committee has the honour to report that, at the request of the Auditor-General, it lays upon the table of this honourable House a letter received from him stating his objection to the removal of the Lands and Survey Department accounts from the control of the Audit Department, together with a letter from the Hon. the Minister of Lands in reply.

The Committee regrets that the time now remaining at its disposal will not enable it to examine the Controller and Auditor-General further in reference to the statements contained in the letter of the Hon. the Minister of Lands; but recommends that a full inquiry should be made into the working of the Audit Department.

7th October, 1892.

A. R. GUINNESS, Chairman.

The CONTROLLER and AUDITOR-GENERAL to the CHAIRMAN, Public Accounts Committee.

SIR,—

Audit Office, 3rd October, 1892.

I desire respectfully to add something to the evidence I gave before the Public Accounts Committee, and for which I was somewhat unprepared, on the subject of the transfer of the audit of the land revenue from the Audit Office to the Minister of Lands.

I understood the Hon. the Minister of Lands to state, as a reason for that transfer, that no accounts were kept in his department, and that it was not therefore sufficiently under his control.

I desire to point out that, under the scheme of government which has hitherto subsisted in New Zealand, and which was formulated in the Revenues Act of 1867, 1878, and 1891, Receivers of Revenue are not accountable to the heads of the several departments to which they are attached as regards the revenue which they collect, but only and directly to the Colonial Treasurer; and it is from the Treasury, and not from the Minister, that they receive all instructions as to the receipt of and accounting for their collections of revenue. No accounts are kept in the departments, but only in the Treasury; and it is on behalf of the Treasury that Receivers' accounts are audited by the Audit Office.

An exception to this rule exists in what may be called Revenue Departments proper—that is, departments which exist only for the purpose of collecting revenue, such as the Customs and Property- or Income-tax Departments. In these full accounts have always been kept; and as they possess within themselves the machinery for an audit of their receipts, there is some reason why an additional audit from outside may be considered to be unnecessary. But in all other departments no accounts are required to be kept, the Receivers being by law accountable to the Treasury.

This has especially been the case with the Land Department, in which the Receiver used always to be deemed to be independent of the Commissioner of Crown Lands; each being, in fact, a check upon the other. Hence the Audit Office has always required the Commissioners of Crown Lands to make periodical returns of all lands disposed of under each description of tenure, and has held the Receivers of Revenue responsible for the collection of the revenue accruing from each. Ledgers have been kept in the Audit, posted from the Commissioners' reports and the Receiver's cash-books, in which all revenue receivable has been recorded, and all arrears have been kept in view; and Receivers have been called on from time to time to collect the arrears, or explain why payment has not been enforced.

I desire, therefore, to point out to the Committee that the withdrawal of the audit of the land revenue from the Audit Office is a reversal of the whole policy of Government from the earliest times; for, if applied to one department, common consistency suggests its application equally to all. No reason can be assigned why the same rule should not be applied to the gold revenue, which is of much the same character as the land revenue, or, indeed, to any other department of the public service, or why every Minister should not be entrusted with the audit of the accounts of the officers under him. At the same time, it should not be forgotten, that an Audit Office, wholly independent of the political Government of the day, has been deemed necessary in all countries

where it has been adopted, in order to prevent unauthorised dealing with the public moneys and estates by the political Government of the day, quite as much as to detect embezzlement on the part of subordinate officers. This universally recognised purpose of an audit has been ignored in the change under consideration.

I feel it my duty also to place upon record that this change was effected without any inquiry whatever as to the cause of the arrears into which the audit of the land revenue had fallen, or as to the efficiency or otherwise of the system on which it had been previously conducted, or as to what steps might be taken to provide against such failure in future.

Whatever information the Minister may have received on these matters were, I have reason to believe, conveyed to him by a subordinate officer of my department without my knowledge: information which has been not unsuccessful in greatly improving his own position in the public service. Whether such a mode of conducting an inquiry into the efficiency of a public department is consistent with the ordinary courtesy which has been considered to be due to the permanent heads of the public service, especially to that office which I have had the honour to fill for twenty-five years, I respectfully submit to the consideration of Parliament.

I was asked before the Committee how it was that an officer of the Audit Office had inspected the accounts of the Receiver of Land Revenue at Wellington, and had reported that the deficiency in the cash amounted to only a few shillings. In justice to that gentleman, it is right that I should say that his inspection, which occupied only a short time, extended only to the accounts of two or three recent land-sales, and that his report was only intended to be an *ad interim* report pending further inquiry, which, however, was never made, as the accounts were placed in other hands.

I desire finally to place on record that, whatever deficiencies may be found on due inquiry to be chargeable against the Audit Office will be found to have been caused by an insufficiency of the staff provided, and that, although the Audit Office is considered to exercise its powers and duties specially on behalf of Parliament, it has no channel of communication with Parliament except through another department: the Minister of which, by whomsoever the office was held, has never made any inquiry into, or taken any interest in, the work required to be done or the staff necessary to do it effectually. My experience has led me to the conclusion that the efficiency of the Audit Office would be best secured by its being brought into closer relation with Parliament through a standing Committee. I shall deem it a favour if you will submit this letter to the Public Accounts Committee, and I respectfully request that it may be laid before Parliament.

I have, &c.,

JAMES EDWARD FITZGERALD,
Controller and Auditor-General.

The Chairman of the Public Accounts Committee.

The Hon. J. McKENZIE to the CHAIRMAN, Public Accounts Committee.

SIR,—

Wellington, 4th October, 1892.

In reply to the letter of the Controller and Auditor-General to the Public Accounts Committee, I have to submit the following facts for your consideration:—

In the first place I may say that I never made a statement to the effect that there were no accounts kept in my department, knowing, as I did, that it was in auditing the books of the department kept in the district offices that the frauds were first discovered. The Receivers of Revenue are responsible to the heads of their departments, as well as to the Colonial Treasurer, for the accuracy of their accounts; and the Controller and Auditor-General, by forwarding the report and balance-sheets of his Inspectors regularly to the heads of the various departments direct, is an acknowledgment by him of the responsibility of the Receivers to the heads of their respective departments.

For the information of the Controller and Auditor-General I would state that every District Land Office in the colony keeps a set of books, consisting of cash-books, auction sale-book, deferred payment, perpetual lease, cash land, pastoral run, and local bodies' loans ledgers. It would thus be seen that the Land Department, at least, does keep accounts, although the Controller and Auditor-General does not appear to be aware of the fact, and that his statement that no accounts were kept in the department is altogether contrary to fact.

The Receivers of Land Revenue are not, and never have been, deemed to be independent of the Commissioners, in proof of which I would point out that when the late Receiver of Land Revenue at Auckland was charged with fraud and irregularities in his accounts, the Audit Inspector demanded the immediate suspension of the Receiver at the hands of the Commissioner. This request was complied with, and the facts duly reported to the Controller and Auditor-General, who took no objection to the course adopted by his officer. The Receiver at Wellington was also suspended by the local Commissioner for irregularities in his accounts, thus clearly proving that Receivers of Land Revenue are not independent of the Commissioners as alleged.

The withdrawal of the audit of the land revenue from the Audit Office cannot in this colony be construed into a reversal of policy, for successive Governments have at various times deemed it advisable to withdraw from the control of the Audit Department the audit of the revenue of the Post Office, Railways, and Customs Departments, notwithstanding the fact that the Post Office and Railway Departments cannot be deemed to be Revenue Departments proper within the meaning of the Auditor and Controller-General's letter; and the evidence brought before the Public Accounts Committee showed that in England the Customs Department audited its own accounts; and it is by no means uncommon in New Zealand for defaulters to be prosecuted by their own department for embezzlement, &c., without any reference to the Audit Department.

The Public Accounts Committee appears to be the best judge of the value of the evidence which induced it to recommend to Parliament an alteration in the system of auditing land-revenue

accounts, and of the efficiency or otherwise of the system on which it has been previously conducted; and I would point out that the alteration was first suggested by the Controller and Auditor-General himself.

The Controller and Auditor-General's statement that the information was imparted to me by a subordinate officer of his department without the Controller and Auditor-General's knowledge is almost incredible, and altogether untrue, and one requiring prompt and immediate refutation at my hands. The charge must be taken as referring to Mr. C. O'H. Smith, and the facts are as follows: On the 11th April, 1892, the Controller and Auditor-General informed Mr. Smith by telegram as follows: "If the Minister wishes it you must apply to him for instructions, as your salary, &c., is now being paid by him and not by the Audit;" and, immediately on Mr. Smith's arrival in Wellington, the Controller and Auditor-General brought him to my office and personally introduced him to me in order that he might explain to me the intricacies of the matter then under investigation by him, and supply me with the information which the Controller now wrongfully alleges to have been given without his knowledge.

The so-called interim report to which the Controller and Auditor-General refers, was sufficiently far-reaching to establish in his opinion the honesty of the Receiver and the accuracy of his accounts, notwithstanding the repeated assertions of Mr. Smith to the contrary. The Controller and Auditor-General also unsuccessfully endeavoured to impress upon Mr. Smith the accuracy of his own views, although the fact that the Receiver had previously been reduced in salary for irregularities of a somewhat similar kind was not unknown to him.

The result of Mr. Smith's audit disclosed the fact that, during the period covered by the so-called interim report, there existed undiscovered deficiencies amounting to nearly £500 in excess of the 8s. 8d. disclosed by the interim report; and over £400 of this money has since been recovered.

I venture to assert that that non-discovery of the deficiency of nearly £500 above referred to was not due to the insufficiency of the staff; and the same may be said of a deficiency of £2,000 in the accounts of the Gisborne Harbour Board, and of £500 in the accounts of the Gisborne Borough; nor does it explain the fact that about seven thousand pounds' worth of scrip was examined and passed as correct and left in the books of the office clean and undefaced, and consequently capable of again being exercised in the purchase of Government land, or, why, after two examinations, the scrip irregularities in Wellington remained undiscovered.

I have, &c.,

JOHN MCKENZIE.

The Chairman, Public Accounts Committee, House of Representatives.

[For reports of Public Accounts Committee not printed in Appendix *vide* Journals.]

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