

1894.  
NEW ZEALAND.

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ACCOUNTS  
  
OF THE  
  
PUBLIC TRUST OFFICE

FOR THE  
  
YEAR ENDED 31<sup>ST</sup> DECEMBER, 1893.

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*Laid before the General Assembly in pursuance of Section 42 of "The Public Trust Office Act, 1872," as amended by "The Public Revenues Act, 1882," Section 15.*

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WELLINGTON.

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1894.



## BALANCE-SHEET of the PUBLIC TRUST OFFICE for the Year ended 31st December, 1893.

Name of Account.	Balances on 1st January, 1893.				Transactions.				Balances on 31st December, 1893.			
	Cr.		Dr.		Cr.		Dr.		Cr.		Dr.	
	£	s. d.	£	s. d.	£	s. d.	£	s. d.	£	s. d.	£	s. d.
Properties placed in the office. (Wills No. 1 ..	224,825	8 9½	..	..	96,445	1 9	50,067	10 3	271,203	0 3½	..	..
Intestates' estates ..	96,345	11 5	..	..	48,557	18 1	44,591	9 3	100,312	0 3	..	..
Real estates ..	56,959	19 10½	..	..	25,590	3 0	26,408	1 5	56,142	1 5½	..	..
Lunatics' estates ..	8,464	14 11	..	..	552	1 10	219	18 10	8,796	17 11	..	..
Convicts' estates ..	16,387	8 2	..	..	8,865	1 5	7,708	4 2	17,544	5 5	..	..
Native reserves ..	7	19 9	..	..	..	..	7	19 9	..	..	..	..
West Coast Settlement Reserves ..	16,214	0 10	..	..	7,906	17 10	6,537	7 8	17,583	11 0	..	..
Special deposits ..	2,432	6 0	..	..	9,568	19 3	13,080	16 3	..	..	1,079	11 0
"Public Works Act, 1876," sections 65 and 66 ..	14,674	9 0	..	..	1,726	2 7	4,268	6 7	12,132	5 0	..	..
Police Reward Fund ..	1,565	19 1	..	..	104	15 9	57	7 1	1,613	7 9	..	..
"Public Works Act, 1892," sections 64 and 65 ..	822	7 4	..	..	61	1 8	666	3 8	217	5 4	..	..
"Public Works Act, 1892," section 151 ..	48	7 11	..	..	..	..	48	7 11	..	..	..	..
"Native Land Court Act, 1886," section 87 ..	17	6 0	..	..	..	..	13	0 0	..	..	..	..
"Rating Act, 1876," section 63 ..	442	12 0	..	..	..	..	376	15 0	65	16 0	..	..
Rating Act 1876 Amendment Act, 1879," section 4 ..	114	7 4	..	..	..	..	114	7 4	..	..	..	..
"Rating Act, 1892," ..	3,423	10 2	..	..	284	7 8	719	14 9	2,987	3 1	..	..
"Native Land Act Amendment Act, 1878," section 13, No. 2 ..	260	6 0	..	..	174	8 10	49	14 3	385	0 7	..	..
"Native Land Act Amendment Act, 1892," section 6 ..	6	6 0	..	..	..	..	6	6 0	..	..	..	..
"Native Land Laws Amendment Act, 1883," section 14 ..	6,486	2 4	..	..	118	10 4	4,128	11 2	2,476	1 6	..	..
"Shipping and Seamen's Act, 1877," ..	1,456	9 0	..	..	343	12 9	495	8 9	304	13 0	..	..
Permanent Militia Reward Fund ..	1,159	9 8	..	..	52	14 9	32	1 6	1,180	2 11	..	..
"Debtors and Creditors Act, 1876," section 209 ..	531	7 7	..	..	..	..	206	13 5	324	14 2	..	..
"Harbours Act, 1878," section 73 ..	5	7 5	..	..	..	..	5	7 5	..	..	..	..
"Industrial Schools Act, 1892," ..	11	14 2	..	..	12	0 0	17	12 0	6	2 2	..	..
"Civil Service Reform Act, 1886," ..	6,376	10 4	..	..	3,070	17 9	766	14 9	8,680	13 4	..	..
Trustees Relief Act ..	361	14 11	..	..	..	..	..	..	361	14 11	..	..
Auckland Hospital Reserves Act ..	1,119	4 10	..	..	2,590	16 9	3,706	8 9	3	12 10	..	..
"Maori Real Estate Management Act, 1889" ..	6,007	7 4	..	..	7,056	16 4	3,094	17 7	9,969	6 1	..	..
Land Assurance Fund ..	86,322	0 6	..	..	4,480	4 10	3,053	3 11	87,749	1 5	..	..
Native 10-per-cents, Auckland ..	2,542	7 5	..	..	..	..	..	..	2,542	7 5	..	..
Native 5-per-cents, Wairarapa ..	252	16 7	..	..	..	..	..	..	252	16 7	..	..
Natives at Wellington ..	659	13 2	..	..	..	..	..	..	659	13 2	..	..
"Native Equitable Owners Act, 1886" ..	45	11 5	..	..	..	..	..	..	5	18 3	..	..
Railway Servants' Fund ..	1,793	17 2	..	..	3	7 7	43	0 9	1,927	5 3	..	..
General Investment Account ..	..	..	..	..	133	8 1	..	..	..	..	594,337	10 7
Returned Cheque Deposit Account ..	2,111	9 10	..	..	246,497	12 6	289,734	8 4	1,413	7 9	..	..
Expenses Account ..	1,865	0 6	..	..	42	6 11	740	9 0	1,405	3 1	..	..
Interest Account ..	..	..	..	..	17,865	11 11	18,325	9 4	..	..	..	..
Suspense Account ..	129	18 8	..	..	31,205	9 7	31,205	9 7	..	..	..	..
"Bankruptcy Act, 1893" ..	5,374	2 1	..	..	5,192	9 2	4,768	16 11	558	10 11	..	..
Cash ..	..	..	..	..	714	1 9	490	16 2	5,597	7 8	..	..
Consolidated Fund Advance Account ..	1,414	6 9	..	..	438,828	4 3	439,192	19 8	..	..	21,325	11 10
Coal-miners' Relief Fund ..	..	..	..	..	..	..	..	..	1,414	6 9	..	..
Deficiency in Realisation of Mortgage Securities ..	..	..	..	..	759	3 6	774	12 3	395	11 9	..	..
"Defence Act, 1886," ..	..	..	..	..	2,041	6 8	581	11 5	..	..	340	4 9
New Lease Deposit ("The West Coast Settlement Reserves Act, 1892") ..	19	2 8	..	..	1,027	10 8	888	19 8	..	..	..	..
Accepted Tenders ..	220	0 0	..	..	1,209	0 1	1,040	7 10	358	11 0	..	..
"Unclaimed Lands Act, 1892" ..	..	..	..	..	..	..	..	..	168	12 3	..	..
"Native Land Court Act 1886 Amendment Act, 1898," section 10 ..	..	..	..	..	599	5 0	270	8 9	328	16 3	..	..
	568,861	11 2	568,861	11 2	958,681	10 10	958,681	10 10	617,085	13 2	617,085	13 2

PUBLIC TRUST OFFICE EXPENSES ACCOUNT.  
RECEIPTS AND DISBURSEMENTS for the Year ended 31st December, 1893.

Dr.

Public Trust Office,—

To Balance on 1st January, 1893

Commission and charges ..

Exchange on cheques ..

Rents received on securities taken over

Valuation-fees ..

Transfer from Interest Account

Sundries ..

Refund of advance

Refund of stamps on obsolete forms ..

Proceeds of sale of office furniture not required

Refund of pension paid C. D. de Castro during 1892-93

Part of cost of Canterbury District Agent's railway-ticket re-  
funded ..Cr.  
£ s. d. £ s. d.

£ s. d. £ s. d.

1,785 16 4

3,905 9 9

10 8 0

928 6 6

77 14 0

7,369 10 9

23 3 11

12,313 12 11

700 0 0

5 13 10

4 18 6

186 17 6

2 4 3

899 14 1

Public Trust Office,—

By Salaries of officers,—

Public Trustee ..

Solicitor ..

Chief Clerk ..

Accountant ..

Examiner ..

8 Clerks—1 at £253 15s., 1 at £160, 1 at £159 10s., 1 at £156,

1 at £147 10s., 1 at £123 15s., 1 at £117 8s. 8d., and 1 at

£117 5s. 4d. ..

Clerk, from 1st January, 1893, to 30th May, 1893 ..

Clerk, from 1st January, 1893, to 30th November, 1893 ..

Clerk, from 1st August, 1893, to 31st December, 1893 ..

Clerk (proportion of salary) ..

2 Cadets—1 at £92 2s. 6d., 1 at £86 17s. 1d. ..

Cadette ..

Cadette, from 1st July, 1893, to 31st December, 1893 ..

Type-writer, from 1st January, 1893, to 21st June, 1893 ..

Temporary clerk, from 13th May, 1893, to 31st December,

1893 ..

Temporary clerk, from 14th August, 1893, to 31st December,

1893 ..

Clerical assistance ..

Messenger ..

£247 13s. }

£104 0s. }

Commission paid to Agents ..

Salaries paid to Agents ..

Cadet, Christchurch Agency ..

General Post Office, postages ..

General Post Office, services ..

Stationery, printing, and office requisites ..

Rent, Head Office ..

Rent, agencies ..

Advertising ..

Cost of audit ..

Contribution towards cost of services of Agent-General's office

Refunds of commission ..

Telegrams and stamps ..

Valuation-fees ..

Travelling-expenses ..

Land-tax, 1892-93 and 1893-94 ..

Exchange on remittances ..

Legal expenses ..

Coal, gas, office-cleaning, and night-watchman

Advance to estate ..

Sundries ..

Sundries, Canterbury Agency ..

Carried forward ..

14,999 8 4

4,849 11 9

5,747 15 1

10,597 6 10



**"CIVIL SERVICE REFORM ACT, 1886."**  
**STATEMENT OF ACCOUNT for the Year ended 31st December, 1893.**

B.—9.

Dr.

To Balance on 1st January, 1893 ..  
Deductions from salaries ..  
Refund on account of J. A. Wilson ..  
Interest added to account ..

	£	s.	d.	£	s.	d.
	2,725	11	7	6,277	1	6
	45	17	2			
	299	9	0			
				3,070	17	9
				£9,347	19	3

By Amounts paid on retirement from the Service ..  
Balance .. ..

£	s.	d.
668	9	0
8,679	10	3
9,347	19	3

Dr.

To Interest on mortgages ..  
Interest on Government securities ..  
Interest on Kailua Valley Railway debentures ..  
Interest on fixed deposits in banks ..  
Interest on current account in bank ..  
Interest on Dunedin Corporation bonds ..  
Interest on Borough of South Invercargill debentures ..  
Interest on Masterton Borough debentures ..  
Interest on sundries ..  
Dividends on shares ..

**INTEREST ACCOUNT for the Year ended 31st December, 1893.**

	£	s.	d.	£	s.	d.
	16,857	11	8			
	11,796	7	7			
	1,100	0	0			
	403	17	9			
	388	3	4			
	49	19	3			
	59	19	3			
	12	0	0			
	73	17	7			
	463	13	2			
				31,205	9	7
				£31,205	9	7

By Interest transferred to estates ..  
Refund on account overcharge, Bayly ..  
Balance, transferred to Expenses Account ..

£	s.	d.
23,835	16	10
0	2	0
7,369	10	9
31,205	9	7

Dr.

1893.  
Dec. 30. To Balances in the undermentioned accounts, unclaimed for six years:—

**CONSOLIDATED FUND ACCOUNT for the Year ended 31st December, 1893.**

Dec. 30. By Amount paid to Public Account ..

	£	s.	d.	£	s.	d.
Intestate estates ..	2,181	19	9			
Lunatics' estates ..	8	11	6			
Section 209, "Debtors and Creditors Act, 1876" ..	206	13	5			
Section 151, "Public Works Act, 1892" ..	48	7	11			
Section 180 of Act No. 56 of 1876, and section 65 of Act No. 50 of 1876 ..	172	15	9			
"The Bankruptcy Act, 1883" ..	432	18	5			
"Shipping and Seamen's Act, 1877" ..	59	18	1			
Section 13 of Act No. 40 of 1878 ..	23	16	1			
Section 6, "Native Lands Act Amendment Act, 1882" ..	6	6	0			
Section 73, "Harbours Act, 1878" ..	5	7	5			
Special deposits ..	80	16	5			
Section 4, "Rating Act, 1876" ..	114	7	4			
Sections 64 and 65, "Public Works Act, 1882" ..	0	9	4			
Convicts' estates ..	7	6	6			
Section 63, "Rating Act, 1876" ..	376	16	0			
Section 87, "Native Land Court Act, 1886" ..	13	0	0			
"The Rating Act, 1882" ..	595	13	4			
				4,335	3	3
				£4,335	3	3

£	s.	d.
4,335	3	3

6

£	s.	d.
4,335	3	3

## SECURITIES held by the PUBLIC TRUST OFFICE on the 31st December, 1893.

	Nominal Value.			Cost Price.		
	£	s.	d.	£	s.	d.
Treasury bill No. 23 .. .. .	15,000	0	0	15,000	0	0
Treasury bill No. 30 .. .. .	153,400	0	0	153,400	0	0
Treasury bill No. 31 .. .. .	59,000	0	0	59,000	0	0
Consolidated stock debentures Nos. 920 and 921 .. .. .	10,000	0	0	10,000	0	0
Consolidated stock debenture No. 835 .. .. .	10,400	0	0	10,400	0	0
Consolidated stock debenture No. 841 .. .. .	11,000	0	0	11,000	0	0
Government Loans to Local Bodies, debentures Nos. 852 to 866 .. .. .	15,000	0	0	15,000	0	0
Government Loans to Local Bodies, debenture No. 713 .. .. .	1,000	0	0	1,000	0	0
Immigration and Public Works Loan, 1870, debentures Nos. 4 to 11 .. .. .	800	0	0	672	0	0
Immigration and Public Works Loan, 1870, debentures Nos. 1921 to 1925 .. .. .	500	0	0	500	0	0
General Purposes Loan, 1873, debentures Nos. 32 to 35 .. .. .	400	0	0	340	0	0
General Purposes Loan, 1873, certificate No. 74 .. .. .	800	0	0	696	0	0
Kaihu Valley Railway Company (Limited), debentures Nos. 6 to 27 .. .. .	22,000	0	0	23,100	0	0
Borough of South Invercargill Loan, debentures Nos. 11 to 20 .. .. .	1,000	0	0	1,000	0	0
Borough of Masterton Gasworks Loan, debentures Nos. 1 and 2 .. .. .	200	0	0	200	0	0
Dunedin Waterworks Loan, debentures Nos. 1137 and 1143 .. .. .	100	0	0	104	0	0
Dunedin Waterworks Loan, debentures Nos. 1032, 1033, 1044, 1074, and 1075 .. .. .	500	0	0	535	0	0
City of Dunedin Mortgage Bonds, Nos. 552 to 555 .. .. .	200	0	0	228	0	0
Wellington Trust, Loan, and Investment Company (Limited), shares certificate .. .. .	350	0	0	350	0	0
New Zealand Loan and Mercantile Agency Company (Limited), shares certificate .. .. .	185	0	0	185	0	0
National Mortgage and Agency Company of New Zealand (Limited), shares certificate .. .. .	182	0	0	182	0	0
Northern River Steam Navigation Company (Limited), shares certificate .. .. .	87	10	0	87	10	0
Wellington Gas Company (Limited), shares certificate .. .. .	300	0	0	300	0	0
National Bank of New Zealand (Limited), shares certificate .. .. .	747	10	0	747	10	0
Bank of New Zealand, fixed-deposit receipts .. .. .	629	19	8	629	19	8
Mortgages .. .. .	289,680	10	11	289,680	10	11
Total .. .. .	£593,462	10	7	£594,337	10	7

J. K. WARBURTON, Public Trustee.

E. F. WARREN, Accountant.

Examined and found correct except as stated in the report herewith.

JAMES EDWARD FITZGERALD,

Controller and Auditor-General.

6th June, 1894.

The CONTROLLER and AUDITOR-GENERAL to the Hon. the COLONIAL TREASURER.

SIR,—

Audit Office, 7th June, 1894.

I have the honour to enclose herewith my report on the balance-sheet of the Public Trust Office for the year 1893.

I have, &amp;c.,

JAMES EDWARD FITZGERALD,

Controller and Auditor-General.

The Hon. the Colonial Treasurer.

## REPORT ON THE BALANCE-SHEET OF THE PUBLIC TRUST OFFICE FOR THE YEAR 1893.

I REGRET that I have again to report that, owing to the unsatisfactory manner in which the accounts of the Public Trust Office are kept, I am unable to certify to the accuracy of the balance-sheet without taking exception to errors it still contains, notwithstanding the correction of the numerous mistakes in the accounts to which attention has been called by the Audit Office in the course of the past year. Out of 347 Audit queries on the past year's accounts, a considerable number of which affected the figures in the balance-sheet, in 320 instances the errors have been admitted and corrected. Of the remaining twenty-seven, eleven are still unanswered. Of the errors in the balance-sheet pointed out in my report last year, the whole have been adjusted in the accounts of the present year. It cannot, therefore, be said that the objections raised by the Audit Office have been idle or unnecessary. Nor can the above figures fail to indicate the unsatisfactory manner in which the accounts of the Public Trust Office are kept. In the accounts of any other Government office, including the Treasury and the Government Insurance Office, which are subjected to a similar vigilant scrutiny, mistakes and errors such as those here pointed out are unknown, nor would they be found in the balance-sheet of any of the principal local bodies in the colony.

Objections are taken to the following entries in the balance-sheet under review:—

1. The balance-sheet states the cash receipts for the year to have been £433,828. The total cash received, however, was only £226,376. The difference is accounted for by Treasury bills which were renewed on maturity, but where no cash passed. The result is that cash receipts are represented to have been £200,000 in excess of those of former years, which was not the fact.

2. In the *Expenses Account*,—

(1.) A sum of £17 10s. is charged as agent's salary, a part of which should have been shown as salary of an officer employed in the head office, in effect diminishing the apparent cost of the latter.

- (2.) Advertising, £227 8s. 6d., should be £233 8s. 6d.
- (3.) Valuation fees, £75 6s., should be £76 13s.
- (4.) Commission refunded, £103 4s. 1d., should be £91 18s. 1d.
- (5.) The balance of the Expenses Account is stated in the balance-sheet to be £1,405 3s. 1d. In the detailed statement of the Expenses Account it is stated to be £1,350 3s. 1d. But both accounts should represent the same facts.
- (6.) Lessees under the West Coast Settlement Reserves Act have been charged for cost of revaluation in excess of the sum actually paid by the office.
- (7.) Sums amounting to £704 6s. 1d. are standing in the "Expenses Account," or "Profit and Loss Account," which should have been transferred to the estates to which they belong.

### 3. Investment Account.—

The values of the following mortgages are wrongly stated:—

- (1.) £2,000 1s. 7d., should be £1,427 19s. 7d.
- (2.) £600, should be £450.
- (3.) £75, should be nil.
- (4.) £1,200, should be £1,100.

The difference in each case has been discharged; but, in the case of (1), although the difference has been discharged, cash has not been received by the office.

4. The Act requires that all investments of money in the Public Trust Office shall be made by authority of the Public Trust Office Board. In two cases moneys have been so invested without reference to the Board: (1) In a deficiency bill, £15,000; (2) in debentures under "The Government Loans to Local Bodies Act, 1886," £15,000. It also appears that, in one case at least, the Public Trustee has lowered the rate of interest fixed by the Board on a loan on mortgage of real property without consulting the Board.

5. The West Coast Settlement Reserves Account is shown to be overdrawn. It only appears so from the neglect to transfer to the respective grants moneys standing to the credit of the *globo* account under the head of "Special Deposits," notwithstanding that the attention of the Trust Office was specially called to the matter.

6. The ledger account of one estate was rightly credited with the sum of £2 10s. The sum has been altered, to make it agree with an erroneous entry in another account, to 2s. 10d. The estate is therefore deficient by £2 7s. 2d.

7. The regulations require two Investment Accounts to be kept, one of the "common fund," the other of the investments on account of particular estates. This direction is not obeyed. There is only one Investment Account, as shown in the balance-sheet.

8. There is no general statement kept, showing the total of the interest payable to the office annually; nor a similar statement showing the total of rentals so payable.

9. In my report last year (Parliamentary Paper B.-9, 1893) I said, "I feel it my duty to call attention to the fact that the system of book-keeping in the Trust Office under the present management throws a considerable amount of additional labour on the Audit examiner, as well as on the staff of the Trust Office itself, arising from the fact that loose unnumbered sheets of 'statements of lodgments' are substituted for the ordinary cash-book in use in commercial institutions; and, notwithstanding that the labour of preparing such statements is imposed on the staff of the Post Office, there has been no saving in the work or in the cost of the Trust Office itself. The increase in the value of properties coming into the Trust Office has been much less in 1892 than in some former years, whilst the staff employed in the office is larger, and the cost is not less than in former years."

To the above remarks the Trustee thought proper to reply, "The system of accounts now entails on the Public Trust Office examiner and officials *only a fraction of the labour of old methods*. The saving of work and expense in accounting is too obvious for discussion: it is incredible that such is not Audit experience."

The following table, compiled from the reports presented to Parliament annually, is sufficient evidence of how little the statements made by the Public Trustee can be relied on:—

A RETURN showing the Business done, the Cost, and the Numbers of the Staff employed in the Public Trust Office during the Last Three Years of the late Management and the First Three Years of the present Management.

Year.	Cash.	Investments.	Total.	Expenses.	No. of Staff.	Ratio of Expenses to Total.
	£	£	£	£		
1888 ... ..	14,234	366,886	381,140	8,770	21	2·3
1889 ... ..	...	462,782	463,746	9,299	20	2
1890 ... ..	14,966	478,595	493,861	8,756	21	1·77
1891 ... ..	17,920	505,349	523,270	9,257	23	1·76
1892 ... ..	15,961	551,101	567,061	10,448	23	1·84
1893 ... ..	21,326	594,338	615,664	13,417	27	2·18

Thus it appears that the cost of the office, and the number of hands employed, have increased, notwithstanding that the labour imposed on the officials is "*only a fraction of the labour of old methods*," and that the "*saving of work and expense in accounting is too obvious for discussion*."



10. I reported last year that "loose unnumbered sheets of statements of lodgments are substituted for the ordinary cash-book in use in commercial institutions." The Trustee replied in his published minute (see Parliamentary Paper B.—9, 1893), "*The cash-book is perfect.*" It will hardly be believed that no cash-book at all, in the sense in which that term is used amongst professional accountants, is kept in the Public Trust Office; that all the entries in the ledgers, whether cash or journal entries, are made from loose unnumbered slips, and from no other book.

I may add that this complaint on the part of the Audit Office was formally inquired into by the late Premier, Mr. Ballance, who heard the case on both sides stated by the Assistant-Controller and Auditor and by the Public Trustee, before himself and the Secretary to the Treasury, and directed, after very full discussion, that a cash-book should be brought into use in the Trust Office. There was no such book previously, even in name. The book now called a cash-book was then opened, and has since been kept; but no entries are made from it to any other book in the office, and the system of account is practically the same as before Mr. Ballance's decision.

11. A new feature seems to me to be disclosed in the management of the Public Trust Office, which deserves the attention of the Government. Having been principally concerned in the establishment of the institution, I may be permitted to say that it was originally formed to take charge of moneys belonging to private persons which were held in the Deposit Account in the Treasury, including moneys accruing from the Native reserves; and the scheme was enlarged so as to include any property which private persons might prefer to place in a Government office rather than in the hands of private trustees or agents. The office was to have no personal interest in the property intrusted to it, further than such charges as would cover the cost of management. An idea, however, seems to be springing up that one, if not the principal, object should be to make the institution a financial success, and to consider the interests of the office as a financial institution, instead of exclusively the interests of its clients. This has displayed itself in the mode of dealing with mortgages, in which the moneys of certain estates had been invested, by arbitrarily changing them from individual investments to investments of the "common fund." The "common fund" is required by the Act to pay 5 per cent. interest. It is, therefore, an object with the office to invest it in securities paying a higher interest than that paid by Government or other public securities, such as mortgages paying from  $6\frac{1}{2}$  to 8 or 9 per cent. In one case, where the money of a client was invested in mortgages at a high rate of interest, the mortgages were arbitrarily transferred to investments of the "common fund," and the client was informed that he would in future receive the statutory interest of 5 per cent. paid by the "common fund." The result was that he immediately withdrew his whole estate from the office, and had it returned to him in England. The Public Trustee stated, in reply to a memorandum of mine on this subject, "No transfers of such investments have been made from estates to the common fund . . . except in the cases in which the mortgagors have ceased to pay interest, and the mortgages have been guaranteed." This statement, however, is not correct, as I have a list before me of at least sixteen cases in which such transfers have been made, and where there has been no failure of interest. Whether such transfers, without the consent of the Board or of the *cestui que trusts*, can be legally made is a question; but, at all events, it is unquestionable that the Trustee is acting in such transfers as agent for two parties, the client and the office, who have different and competing interests. It is obvious that that is a position which the Public Trustee ought not to occupy.

12. I feel it my duty again to point out the inconsistency of the law as regards the Public Trust Office and every other branch of the financial institutions of the colony. For many years past the system of control of the public moneys by an authority independent of the political Government, and acting as the agent of Parliament itself, has been the law in this colony. When the Insurance Office and the Public Trust Office were established it was held by all parties that institutions which were guaranteed by the public money should be under the same control; because any failure, whether from mismanagement or otherwise, on the part of such institutions to meet their obligations must ultimately fall on the taxpayers. This control was removed from the Public Trust Office by the Act of 1891, and the Controller is therefore powerless to insist, as he ought to be in a position to insist, upon the accounts of a public institution being kept in the form and on the principles which have been settled by all scientific accountants to be the most likely to secure the stability of a financial institution, and to afford the readiest information as to its proceedings and financial position.

For more than twenty years this control was exercised over the Public Trust Office without complaint or hindrance to the business of the office. It is so exercised still over the Government Insurance Office. The Public Trust Office alone stands in the anomalous position of being relieved from a control which is imposed on every other department dealing with moneys which are supplied by or guaranteed by the taxpayers of the country.

JAMES EDWARD FITZGERALD,  
Controller and Auditor-General.

6th June, 1894.

The PUBLIC TRUSTEE to the Hon. the COLONIAL TREASURER.

Public Trust Office, Wellington, 15th June, 1894.

The Hon. Mr. Ward.

In a few days the General Assembly will meet, to which, in regular course, this balance-sheet should be presented with Mr. FitzGerald's report; and though I am, as you are aware, so fully employed on matters of very great importance that an exhaustive reply might hardly, at this moment, be expected of me, I shall of course endeavour, in the few hours which I have at my disposal for the purpose, to furnish, as well as I can, my own version of the condition of things. The fact that Mr. FitzGerald was engaged upon this report, which bears internal evidence of having been a work of some months of preparation and study, has been so very well concealed from

me that I confess myself in some surprise. The report is for the year ended the 31st December, 1893, and, as more than five months have since elapsed, might thus seem to have been delayed until—what may be said to have actually happened—I should hardly have time to deliberately deal with every point. Such, however, have been the conduct of Mr. FitzGerald and the circumstances of this report; and such is the strength of my own position, that even my ability is sufficient to enable me to reply in time, though not perhaps so completely as I would wish. Of the work which I have done during my long official career of nearly thirty-three years, and of which so much has been acknowledged to be of substantial merit, no part ought, in my humble opinion, to bring me more commendation, on impartial inquiry, than my administration of the Public Trust Office, and its present efficient condition.

When Mr. FitzGerald was, by the legislation which he deplores of 1891, deprived of the power to control the Public Trustee, and it became practicable for me to make simple and efficient arrangements as well for keeping the accounts of the Public Trust Office as for its general administration, I came to the conclusion that, as the necessary consequence, the withdrawal should have followed of his authority to audit and report on the subsequent administration of the office. For it was not in human nature to be expected that Mr. FitzGerald would furnish, as to the result of an arrangement which implied at the least a condemnation of the administration of his own department, a report which should justify that condemnation. I did certainly think of suggesting to the Government, as much in consideration of the difficulty of Mr. FitzGerald's own position as with a view to an audit from which a fair and unbiassed report on the Public Trust Office could be reasonably expected by the Government, that there should be an independent audit; but I regret to say that a weakness which is not always regarded as a fault, and which has often been the occasion to me of many sufferings, overcame me into silence. If, indeed, I had not been powerfully moved by a regard for the interests of the Public Trust Office, of the Government service, and of the colony, my naturally compliant disposition would have led me to make, at the expense of these interests, my peace with Mr. FitzGerald. I was influenced also by a consideration for the younger man on whom Mr. FitzGerald imposes the clerical duties and the other services which are required in connection with the audit of the Public Trust Office, and who has been, in Trust Office matters, Mr. FitzGerald's mouthpiece. But now to his report.

In this report, or, as it may now be called, annual attack by Mr. FitzGerald on my administration of the Public Trust Office, and of the legislation by which his power of control over the office has been withdrawn, his confession that in the books and accounts of the office—books in which so large a volume of pecuniary transactions is daily recorded, and in which the entries are made in continual doubt as to what the law may authorise, and accounts of every variety of commercial and official transactions—he, the director of a fault-finding department, and with the strongest possible motive to establish a case against the Public Trust Office, should have been unable to make up, for the whole year, a list of more than 320 errors, can only be regarded as a very flattering testimony to the general accuracy and efficiency with which the books and accounts are kept. He has doubtless studied the list anxiously, and though I shall make clear that, to speak tenderly, he has, in many of the statements which he has made, exaggerated or garbled the facts, or been inexcusably careless, his assertion that he has been unable to discover more than one error a day, involving not the loss of a penny, would, even if correct, be consistent only with the rarest accuracy in the accounts. Here is the Auditor-General of the colony making—after probably the longest and severest study to which he has ever subjected the balance-sheet and the administration of the Public Trust Office, and with a naturally strong desire to prove a case which would counteract in some degree the reflection under which he lies in being deprived of his former power over the Public Trustee—a declaration that the accounts of this great department have been so well kept that, notwithstanding the number, character, and variety of the pecuniary transactions, he has been unable to discover more than one error a day, and, as he ought to have added, an error which had been commonly adjusted at the time of the discovery, and which, if corrected according to Audit method, would not have been counted an error.

Mr. FitzGerald's allegation as to the absence of errors in the books of the Treasury, and in the books of other accounting offices, I shall leave for what it may be considered worth, after the perusal of my remarks respecting the character and accuracy of his other charges. I know nothing of the Government Insurance Office accounts; but I question the truth of Mr. FitzGerald's statement, for even should there be clerks enough to do the work as leisurely as the Audit officials perform their duties in the Public Trust Office, and the expense of accounting should thus be unwarrantably high, one error a day of the trifling character of those of the Public Trust Office must be very far below the average. His statement, indeed, carries its own refutation. The Public Trust Office is authorised to pay and make up accounts according to the practice so long adopted by the Post Office—that is to say, without being subjected to that system which, of audit before payment, would render impracticable the present safe, efficient, and satisfactory conduct of the Post Office business. When a payment is to be made about which there may be doubt, the doubt rarely applies to more than a small portion of the amount. The payment can therefore be made safely enough, subject to the deduction of the doubtful portion, and the public thus saved inconvenience and delay, with no worse a result than the precaution becoming one of such errors as have made up Mr. FitzGerald's list of 320. An audit preceding payment, or administration, gives Mr. FitzGerald the power to paralyze business, and, if he puts his own interpretation upon the law, in defiance even of the Solicitor-General, and makes law defeat the principal object of all laws, everything must stand still.

I have, however, seen kept in the Audit Office one important book so full of errors, and in such regular confusion, as to prove a periodical puzzle, amusing to those who have the time to unravel it; while the colonial balance-sheets, which Mr. FitzGerald has himself prepared, independently of

the Treasury, serve but as examples to our beginners in financial inquiry of the circumspection with which figures must be accepted, even from sources supposed to be infallible.

The Post Office accounts, in which errors have to be adjusted in the manner in which errors are now adjusted in the Public Trust Office accounts, and in which, as the instructions recognise, errors are unavoidable, would be estimated to be marvellously well-kept if the errors were no more numerous and serious than these, which are thought by Mr. FitzGerald sufficient for his attack on the Public Trust Office. In the best system of accounts in the United Kingdom, provision is made throughout the books, and even in the balance-sheet, for a "balance of errors." Errors are no more to be entirely prevented than fraud, unless at an expense which would not be warranted by the result; and the book-keeping of accounts ought not to allow of the correction of errors, except by entries as of transactions on the day of discovery.

I shall, I think, be reasonable in assuming that Mr. FitzGerald's disposition would be such as to lead him to select for his case against the Public Trust Office the worst of the errors in his list of 320, and that he has omitted nothing which he could plausibly allege in disparagement of the arrangement of the accounts, or of the administration. I learn, indeed, from my Accountant, that the errors were generally of a very trivial character, and that many of the "queries" were actually written after the errors had been discovered and adjusted by the Trust Office officials, and after the Audit had become aware of the adjustment. The fault would in this case be only the method of correction or adjustment.

But before I proceed to the details of each case, taken by itself, I trust that I may not become tiresome in offering, with a view of facilitating an easier comprehension of the position, a few general remarks respecting my own experience of the Audit Department in its conduct under Mr. FitzGerald. Unprofitable to the colony, as I cannot but show his administration of that department to have been, I do not propose to extend my relation beyond what may be necessary to a proper conception of my own position. I have no object but a complete defence to Mr. FitzGerald's attacks, and in propriety of expression I trust that I may not exceed the bounds which Mr. FitzGerald himself has set, in venturing upon the assumption that he has conclusively shown "how little the statements of the Public Trustee can be relied on."

Upwards of fifteen years ago, when I was in charge of the Postal accounts of the colony, and when these accounts had become the model which they have ever since remained, Mr. FitzGerald reported to the Government that the Post Office accounts, which were distinguished by the absence of the cumbrous and unintelligible methods approved by himself, were kept without books, and that the system was dangerous; and he recommended that a Commission should be set up to inquire into the matter. I answered by explaining the system, and by offering my ready concurrence in the proposal for a Commission; but on the condition that, as Mr. FitzGerald and myself had expressed ourselves a little warmly on the subject, we should be excluded. I said that the result of the inquiry would be to bring about more rapidly the adoption of the Postal system by the other departments of the colony. Mr. FitzGerald, however, rejoined by admitting that my explanation had satisfied him, and that he had rushed too hastily to his previous conclusions; and I understood at the time that the subject had been dropped.

The Audit of the Post Office accounts was then, as it is now, almost entirely effected in the Post Office itself. The Post Office Savings-Bank ledgers, the money orders, postal notes, &c., are never audited by the Controller and Auditor-General's Department. It is doubtful whether the entire staff of that department could, in the whole year, accomplish the single task of auditing the Savings-Bank ledgers alone. To do so, they would have to apply themselves more closely than the Audit officials of the Public Trust Office apply themselves to their duties. The Post Office Account, however, not less for the conspicuous merit of the system under which it was kept, and still continues to be kept, than for the absence of Audit interference with the arrangements for the conduct of the business, was obviously a reflection on the methods which the Audit insisted that other departments should observe in official pecuniary transactions, and which are rather methods of not keeping the accounts; for it used to be common for an accountant, from whom, for example, 2d. might be due, to be required not to account for the money in a proper manner, but to carry the amount to the bank to be entered in a separate voucher, and to be lodged separately for the credit of the Public Account. These methods are the development of what may be described as the inherited idea or delusion of the Audit officials, that every sum of money due to the Public Account must be actually paid into the Treasury chest, and that every amount due for the public service, or every legal demand for money from a public department, should involve an actual recourse to that chest. The hope of shaking this unfortunate idea has been lessened by the promotion to the principal offices in the Audit of officials brought up and educated in the Treasury under Audit dictation.

The fatal fascination of Mr. FitzGerald by this idea or delusion, that all receipts must be remitted in cash to the Treasury, and all payments remitted from the Treasury, rendered the Post Office Account his stumbling block. This principle is the foundation of all his objections to reform, and deprives the public service of the real economy of accounts. And yet Mr. FitzGerald has continually on his tongue some expression implying his appreciation of commercial practice and the service of banks, and is apparently without any conception of the fact that his unfortunate delusion renders him incapable of adopting commercial methods, and that a bank is not essentially, and ought not to be made legally, necessary to the machinery by which a Public Account is kept. On the subject of the dependence on a bank of the machinery of a Public Account the following correspondence may prove interesting:—

"The Public Trustee.

"It appears to be now the system in the Public Trust Office to pay parts of the receipts, at the discretion of the Public Trustee, into the hands of the Cashier, instead of into the bank, the Trustee giving his receipt for record of the transaction. It is true that the clause of the Act of

1872, which required all moneys to be paid into the bank, has been repealed; but, although the law is not violated by this course, I feel it my duty to record my emphatic protest against the practice, as one which is opposed to every system of public accounts, and which opens the door to irregularities and obstructs audit. It seems to me that the simple removal of the Trustee's receipt from the file would afford every opportunity for speculation, and remove every means of discovery.

"23rd March, 1892."

"JAMES EDWARD FITZGERALD.

"Public Trust Office, Wellington, New Zealand, 31st March, 1892.

"Controller and Auditor-General, Wellington.

"I HAVE received your memorandum of the 23rd instant, in which you emphatically protest against the practice which is adopted under the present system of accounts in the Public Trust Office, of allowing the cash receipts, at the discretion of the Public Trustee, to come into the hands of the Cashier instead of into the bank, a practice to which you object, as opposed to every system of public accounts, and as opening the door to irregularities and obstructing the audit.

"Since your memorandum was written, I have explained to you that it was my intention to arrange as well for the direct receipt in cash of any money due to the Public Trustee's Account as for the direct payment in cash of the accounts against the Public Trust Office.

"I do not think that the services of a commercial bank should be necessary to any system of public accounts, or to the pecuniary transactions of a public office, and it has accordingly always been my study to make the business of receiving and paying money as light and efficient in a public office as it is in a bank itself. Banks are not now proverbially safe; and no system of public accounts should, it seems to me, render a bank necessary, even as a depository for the money.

"The receipts and payments by Postmasters throughout the colony of the large amount they deal with on Post Office account, pass over the counters of the post-offices entirely in cash, and a long experience shows the practice, necessary to the efficient and economical transaction of the business, to be one which can be followed without danger.

"J. K. W."

"The Public Trustee.

"I AM unable fully to understand the meaning of your memorandum of the 31st March. All I gather from the new system is, not that the Trust Office is at all less in need of a bank than any other office, but that you make the Post Office your banker, and the Post Office makes the Bank of New Zealand its bankers, and, unless you intend to manage a public department as it would have been managed in the eleventh or twelfth century, you cannot do without a bank.

"I shall have to report fully on the proposed system of accounts when the first under the new system are presented to me for audit. In the meantime I will only say that the whole of the commercial world has been long since in agreement as to the facilities afforded by a bank for checking cash transactions, and that that system ought not to be altered in the case of a public department without the distinct permission of the Government.

"JAMES EDWARD FITZGERALD,

"4th April, 1892."

"Controller and Auditor-General.

I think that after these memoranda were written there happened enough to bring about the conviction, even in Mr. FitzGerald, that we ought to try to do without a bank.

In my report which was published on the Public Trust Office last year, and to which I shall here occasionally refer, I illustrated the absurdity of Mr. FitzGerald's idea—that all receipts should be remitted to and all payments remitted from the Treasury—by the example of two persons who, being apart from each other, and each receiving a ton of coals for transmission to the other, should be required to settle their obligations, not by acknowledgments and leaving the coals alone, but by transporting the ton of coals in each direction. To bankers, who are the carriers of money, the superfluous remittances defended by the Auditor-General must appear as extravagant as to carters must appear the carriage of the coals in the foregoing example. Bankers are not fools; they are, as I may here repeat, the servants of institutions whose object is the acquisition of gain. And commercial morality would not require them to expose the extravagances by which they benefit. I do not know to whom Mr. FitzGerald refers for commercial opinions. Mr. Parfitt, however, with all his scruples, might, as a business man, be excused if he applauded an idea so profitable to his principals; and I can imagine the easy and conscientious complacency of Mr. Tolhurst's assurance, when he was the Government banker, that, commercially speaking, the system of the Public Account left nothing for him to desire. I should not, for my own reputation, like my arrangement of the Public Trust Office accounts to be commercially satisfactory in this sense.

Then, too, there has been the awful waste of money in foreign exchange. For a long period the Treasury remitted money to London at par—that is, free of exchange—by means of bank drafts, payable 120 days after sight; and, as the course of post was over six weeks, the bank had possession of money, without charge, for upwards of five and a half months. The result of this arrangement, so complete in its simplicity, would be that if the money were worth the low rate of  $6\frac{1}{2}$  per cent., the bank would receive indirectly about £300,000 for the remittance of only ten millions sterling. The drafts are now payable at ninety days' sight. The persistence in New Zealand in carrying out this absurd idea, so repugnant to a proper account, has thus cost its unfortunate people an enormous expenditure, as well for superfluous remittances within the colony as for remittances to and from London, the exchange on which might have been saved by some little study of accounts, and of the laws of exchange. I believe that in these respects alone, the system of Public Account—the system which Mr. FitzGerald would impose on the Public Trust Office—has resulted in a loss to the public, to put it temperately—of ten times more than the whole expense of the Audit Department, and the whole amount of all the possible losses which might have happened from defalcations, if that department had never existed; and before the arrangement was in operation under which the Government remittances are now made within the colony free of exchange, I used often to express the

opinion that the department ought to go, if it should be in the way of adoption of a less extravagant system. It may be urged, perhaps, that the necessary capacity for the study of the questions from these high points of view can hardly be expected of Government officials; and who is likely to trouble himself for the benefit of the public about reforms and systems of account, when every original thinker on the subject must be oppressed, who carries out his ideas in accordance with the law and with the courage of his convictions, simply because Mr. FitzGerald objects to the independence of his arrangement? There should be an end of this tyranny. Progress and real public service are impossible under it.

I have related Mr. FitzGerald's condemnation in years past of the Post Office Account, as affording an example of how, in these small matters, history may repeat itself. The reflection, however, which was implied in the growth and development of the Post Office Account in its payments under a system which "dispenses with Audit control," and which is peculiarly fitted for the safe, prompt, and efficient transaction of a large volume of pecuniary business, is light in comparison with the reflection, from the adoption in the Public Trust Office of an improvement of the same system under the protection of legislation, which, as Mr. FitzGerald himself has put it, "has deprived the Audit of the power of compelling compliance with its requests."

Before I was appointed to the Public Trusteeship, my convictions had been confirmed by a perusal of the reports of the late Royal Commission, and by my own experience of the general conduct of the Audit Department under Mr. FitzGerald, that the difficulties which had overtaken the late Public Trustee were to be attributed in a large measure to the paralyzing dictation of an Audit, incapable of appreciating or understanding the requirements of a department so largely commercial in its character as the Public Trust Office. When I became Public Trustee, my fears were more than realised. I found the Audit Office continuing to exercise over the Public Trust Office officials generally a tyranny which soon became insupportable. I was informed that the late Public Trustee had been given by Mr. FitzGerald to understand that he was "Controller as well as Auditor"; and I can well believe it. I saw that Mr. FitzGerald's control had been round the neck of the office as a millstone which, whatever were the faults which could not be laid at the door of the Audit, rendered satisfactory and efficient administration of the office impossible. Determined not to submit to dictation, I did at first purpose to invite the criticisms of Mr. FitzGerald on the arrangements which I had resolved to make; for when, on the 24th July, 1891, he wrote, "I think there should be a scheme of the books required submitted to the Treasury and Audit Office before any system is adopted," I replied, "My scheme is a very simple one, which was designed the day after I came into this office, which I have seen no reason to modify, and which I will shortly submit in the conviction that it will be adopted." About a month afterwards, on the 28th August, 1891, Mr. FitzGerald again wrote, "I think we ought to have submitted to us a complete scheme of the books proposed;" to which I replied, "As to my own proposals, they are so simple as hardly to deserve the title of a scheme; I shall have one cash-book, through which all debits and credits will pass, and every debit and credit entry indicating the class to which the transaction will belong." Mr. FitzGerald rejoined, "You will find it impossible to keep correct and intelligible accounts without a journal. If you carry journal entries into the cash-book, there will always be trouble with the cash. You must keep cash-books for cash only." This was really a submission to the Audit of the outline of my proposal, with the result tantamount to a declaration from Mr. FitzGerald that agreement on the first step would be "impossible." I did not regard myself as under any obligation to submit my arrangements to any one, and, as I have already said, I was determined not to submit to dictation, and especially not to the dictation of an official whom I regarded as largely responsible for much of the mischief which had happened.

Soon after the close of the session of 1891, and before Mr. FitzGerald realised that the legislation had removed his control from the office, he, in company with Mr. Gavin, paid my office a visit for the purpose of learning from me the particulars of my arrangements for putting the accounts in order, and keeping them afterwards; and when they left, after spending the morning with me, I flattered myself that, as they had expressed themselves, they were unable but to congratulate me. When, however, he came to realise what had been effected by "The Public Trust Office Acts Amendment Act, 1891," nothing would satisfy him. His officials set to the work, which was, I regret to say, congenial enough to them, of spending in my office the time which should have been given to the auditing, in collecting and preparing material for charges against me and my system of accounts. I, however, pursued my way, undeterred by this, and by such Audit disapproval as the following memoranda disclose:—

"Public Trustee.

"THIS innovation of putting payment vouchers and transfer vouchers on to the same form is a most objectionable one, as the one is always possible to be mistaken for the other; and it imposes additional labour, for the words 'Cross-entry Voucher' have to be written. The old plan of a distinctly different heading for the two was preferable on every ground, and gave every one, the Audit Inspector included, less trouble.

"24th April, 1892."

"J.E.F'G.

"Mr. Warren (Accountant, Public Trust Office).

"STATE the facts, and how the 'additional labour' affects the office.

"4th May, 1892."

"J.K.W.

"The Public Trustee.

"CERTAIN land in the estate of — was sold by the Public Trustee. There was a mortgage over it, and, for the general convenience of vendor, mortgagor, and purchaser, it was arranged that the purchaser should pay the amount owing to the mortgagee out of the purchase-money, and only

pay to the Public Trustee the balance due after settling with mortgagee. It was necessary that the transaction should appear in our books, and this is effected in the following manner :—

“ 1. By entering the amount on a lodgment statement as a receipt ;

“ 2. By entering the amount on a payment statement as a payment.

“ As a receipt, it is expressed as part proceeds of land sold ; as a payment, it is expressed as amount of principal and interest due under mortgage.

“ For purposes of proper record a receipt-form is filled up, on the one hand, and a voucher prepared on the other. The labour involved and the results obtained are the same as would be implied by journalising the transaction.

“ 5th May, 1892.”

“ E. F. WARREN.

“ Mr. FitzGerald.

“ I PREFER the course I have adopted. There can be no difference in the work of treating the transaction as a transfer and that of treating it as a cash entry. But by treating it as a transfer the fact would be lost sight of that the amount was a cash receipt. It would be dangerous to adopt your suggestion. It would lead to confusion and save no work.

“ 5th May, 1892.”

“ J. K. WARBURTON.

“ It seems to me desirable that it should be settled at once whether the practice involved in these entries is to be allowed. In my view it is not in accordance with sound book-keeping that any statement should be made in the books which is not in accordance with fact. To enter money paid by the mortgagees to the purchaser as cash paid to the Public Trustee is to state what is not true, and if, as is generally the case, all cash were banked, the bank pass-book would not tally with the cash-book. As the Public Trustee proposes to pay cash into and out of the office till, and only bank surpluses, the inconvenience noted would not occur. But that is merely to state that one irregularity supplements the other. To abandon the check afforded by a bank, and to treat ‘ transfer ’ or ‘ journal ’ entries as cash transactions, are both courses which would be condemned in any commercial establishment.

“ 9th May, 1892.”

“ JAMES EDWARD FITZGERALD.

Mr. FitzGerald.

“ I REGRET that I cannot adopt your suggestion either with satisfaction to myself or convenience to the office, nor can I agree with your assertions as well-founded. Transactions of this kind are of cash. No check has been abandoned for which a better check has not been substituted ; and as to commercial practice and commercial establishments, it might be inferred from what you write that commercial accounts were the model of the present public accounts, instead of affording the most shocking contrast to them. The Post Office accounts and the present Public Trust Office accounts are as much superior to commercial accounts as the latter are to the cumbrous public accounts. In a future memorandum I will explain a few of the absurdities and impositions of the system of public accounts and audit in New Zealand, and show what the Audit tyranny over this office has been, and might have become.

“ 10th May, 1892.”

“ J. K. W.

“ The Public Trustee.

“ I REGRET that I must still decline to pass these vouchers. In reference to your memorandum of to-day, I feel that it would be but waste of time to discuss individual points. You have before you a general report on the objections taken by the Audit to the system of accounts you desire to adopt. As soon as I have received your reply to that report, the whole question must be referred to the Government and to Parliament to determine whether the accounts of the Public Trust Office are to be kept on the system adopted by *competent professional accountants* or on the system *proposed by you*.

“ 10th May, 1892.”

“ JAMES EDWARD FITZGERALD,

“ Controller and Auditor-General.

The italics, hardly necessary, are mine.

“ Mr. FitzGerald.

“ WITH reference to your memorandum of the 10th instant, you shall have my reply in due course to Mr. Gavin's report on the system of accounts which I have adopted. I am endeavouring to collect the official papers which support the facts which I propose to relate, and I shall be quite willing to leave it to the Government, to Parliament, and the world, to determine whether my simple arrangement of the Trust Office accounts is not more satisfactory than the system, if it can be called a system, which the arrangement has succeeded. You speak of the ‘ system adopted by professional accountants,’ and the ‘ system adopted by me,’ as if I had aspired to the professional character and merited the sneer. No, I am even a bad book-keeper ; but it has been my good fortune to lay fast hold of the truths that every account must be made up of receipts and payments, that accounts are means not ends, and that no systems of check ought to be set up which would cost more than they can save. I will show in my reply, which you say will be referred to the Government and to Parliament, what the Audit has cost the colony ; but, though I am confident that I shall be convincing, I shall endeavour to abstain from unworthy reflections. An auditor should not, in my opinion, do more than in the course of his audit suggest what he regards as desirable amendments ; and I find fault, not with your proposal to submit your suggestions to the Government and to Parliament, but with your attempt to force me to adopt them against my conviction.

“ 12th May, 1892.”

“ J. K. WARBURTON.

The expression “ scientific accountants,” in the report of Mr. FitzGerald, is a repetition of the little sneer which is conveyed in one of the foregoing letters, and which I can afford to leave to the



judgment of those who may examine my work and consider the tests which it has stood. But though such exhibitions are unbecoming in and can only recoil on one who is not himself a professional accountant, and who is the great obstacle to the adoption of any reform in the accounts of our public departments, I should obviously be attributing to him an impartiality of which human nature is hardly capable if I were to expect that he could point out a single satisfactory result of such a reform as the removal of his control from the office.

It was doubtless thought to be politic, as well as conducive to a more satisfactory conduct of the business of the Public Trust Office, and necessary to reform, that there should be no insurmountable difficulty from the Audit Department. The wisdom of the Act of 1891 might now appear to be unquestionable. We may discuss commercial practice and the service of banks, systems of account and methods of book-keeping, and Mr. FitzGerald may even refuse to affix his certificate to an account which is not according to his taste, or even to some arbitrary theory; but I can now, on my own responsibility, with no more serious consequence than one or two of such queries as have made up Mr. FitzGerald's total of 320, pay the account, and the business of the public can proceed; and, this being the case, the public will regard our discussions as interesting only to men of leisure or to the antiquary.

The introduction, however, of the arrangement authorised by the Act, and by the regulations which were made under it, was met with some resistance early in 1892. The Post Office actually refused to make, as my agent, Trust Office payments out of the moneys collected by the Post Office for, and belonging to the Trust Office, without Mr. FitzGerald's sanction, notwithstanding the express provision of the law. This state of things was probably due to the common departmental fear of the Audit, for it has always been the peculiar disposition of the Post Office to readily second me in my arrangements of the business of the Trust Office. And it was not until I had exposed the absurdity of the objections to a compliance, with a request in the very words of the law, that I could convince the Post Office that there was no occasion for fear. Mr. Gray refused to listen to my earnest entreaty that he should pay some account of this office out of the money which he had collected for the office. He actually refused to comply with the wishes of the Colonial Treasurer, because, as he wrote, he was, "pending the result of your conference with Mr. FitzGerald, decidedly of opinion that effect should not be given to the direction of the Colonial Treasurer." But I had agreed to no such conference; all that I wished being obedience to the law, even from Mr. FitzGerald, I put an end to the difficulty by writing the following letter, and, as I was ostensibly finding with Mr. Gray a fault for which Mr. FitzGerald was apparently responsible, I wrote with much pain:—

"SIR,—

"Public Trust Office, Wellington, New Zealand, 9th January, 1892.

"With reference to your memorandum of to-day, in which you suggest that I should remit you the money required to pay the claims on the Public Trust Office, I beg to point out that, according to a statement sent to me from your office yesterday, a sum of £287 15s. 7d. remains as a balance in your hands of Public Trust Office moneys received by your department. What I desire is that you shall apply this money to the payment of the claims in question; and, in order that it may be so applied as to occasion you no uneasiness that the law, as you interpret it, would be infringed, and to satisfy me that the law, as I read it, would be observed, I would ask you to draw a cheque on the Post Office Account for the amount, and pay the cheque back into the Post Office Account as a remittance from me to pay the claims, or as an imprest, or an advance, or whatever other name it may be expedient to give the transaction. If you will do this, it will not be necessary even to advise me that you have done so, as I cannot think it would serve any useful purpose to make any corresponding entries in the Public Trustee's Account. But, after all, you may yet think it superfluous to go through even this simple process, yet leave the money where the process will leave it, and give effect to my first request.

"I am, &c.,

"The Secretary, General Post Office, Wellington."

"J. K. WARBURTON.

The Public Trust Office, however, could not, in spite of its strength and triumph, afford to be less circumspect than formerly. Wherever occasion could be found or plausibly invented for attack, the attack came with a regularity which has served to exercise the Public Trust Office in the strict discipline by which assaults of every character can alone be rendered abortive. On the 22nd of April, 1892, Mr. FitzGerald, in one of his many memoranda of complaint and objection, wrote: "As the Audit has been deprived by the legislation of last session of the power of compelling compliance with its requests, the only course left is to make a special report to Parliament of these facts." I replied by pointing out that no allowance appeared to have been made for a transition period, a period "when a trying operation has become necessary to a healthy existence." And I added, "The system, if it can be called a system, under which, up to the 31st December last, the accounts of this office were kept, was such as to reflect no credit on any one responsible for it; and, though in former years you may have been furnished with the annual balance-sheet in less time than it has taken to furnish it for the year just ended, it has not been a balance-sheet of satisfactory accounts. To give no more than one instance of the deficiency of the accounts of the past, it may be sufficient to bring to your recollection the fact that forms of receipt, each stamped with the duty of one penny, had, until recently, been issued from this office for years, for the use of its Agents, without even an entry having been made or any account kept of the issue of the forms or of the value of them; and that, when I confessed my inability to furnish you with an account by which the forms returned as obsolete under the new system could be checked, you yourself very truly observed, 'these matters seem to have been managed with no conception of what is necessary to secure the department from fraud.' I filed away the papers on the subject because cases like this are just as well buried. They belong to a wretched past. But what is the value of a prompt balance-sheet and its signatures, with all the concomitant neatness of books from an office in which

'matters were managed with no conception of what is necessary to secure the department from fraud.' This was one of the few instances of candid acknowledgment by Mr. FitzGerald of a serious neglect on the part of his department.

The balance-sheet is still of the form designed by Mr. FitzGerald. Of this form of balance-sheet I wrote in my report: "The old form of balance-sheet, showing the totals of receipts and of the payments in each general account, still remains for removal as one of the few last vestiges of the past." And I propose to have a balance-sheet of a more intelligible form to show the business of the present year. Bad, however, as is the form of the balance-sheet, the balance of the Expenses Account, or, as it ought to be called, the Profit and Loss Account, is shown incorrectly, as the result of the exclusion of the credit for interest accrued but not received at the close of the year. The amount of profit is consequently understated. But this being the old arrangement, the Audit, of course, raises no objection.

These Audit "queries" were left to my Accountant to answer, as they generally related to matters which had been previously adjusted and pointed out by himself, or only to such small clerical errors as are, within reasonable limits, only to be expected in the accounts kept by a comparatively small staff of clerks of a large volume of such transactions as take place in the Public Trust Office. And I left my Chief Clerk to return these "queries" and to sign the documents. Mr. FitzGerald, however, found in this common practice of all large establishments some ground of objection:—

"I CANNOT receive replies to queries sent by the Audit which are not signed by the officer to whom they are addressed.

"JAMES EDWARD FITZGERALD,

"28th November, 1893."

"Controller and Auditor-General.

"The Controller and Auditor-General.

"I HAVE now signed the various sheets of queries attached. I observe that, in one case of these papers, your own signature has been affixed by means of a stamp. I have no objection to raise, but I think the use of a stamp would be unsatisfactory for signatures to more important documents.

"J. K. WARBURTON,

"1st December, 1893."

"Public Trustee.

"THE use of a stamp was ruled by the Court of Exchequer, three Judges declining even to hear counsel on the other side, to be good at law. I can refer you to the case if you desire it. I have forgotten it for the moment.

"4th December, 1893."

"J. E. F'G.

"To be *good at law* would not prove the use of the stamp to be satisfactory, and the three Judges who gave the ruling to which you allude might consistently agree with me that the use would be unsatisfactory. I attach an extract from a memorandum addressed by your office on the 13th September, 1887, to the late Public Trustee, but of which I was not aware on the 1st December, when I expressed the same views:—

'The approval for payment of claims on the Public Trust Office has, for some time past, been signified by a stamped fac-simile of the signature of the Public Trustee, or, in his absence from the seat of Government, by the stamped initials of the Chief Clerk. The practice in both cases manifests a weakening of the responsibility under which such payments should be made.

'The use of a fac-simile stamp for the authorisation of payments has been altogether interdicted in other departments of the public service; and it is considered that the expenditure of the Public Trust Office should not be less strictly guarded than that of other branches of the public service.'

"That the signatures might have been *good at law* would not have been regarded by myself as a defence of the practice to which the Audit objected, and to which I should still object, as unsatisfactory.

"6th December, 1893."

"J. K. WARBURTON.

"THE Government ordered that stamps should not be used by officers *authorised to certify to accounts*, and the rule was carried out. I am not likely to alter a practice I have used advisedly, for I should think, about twenty years.

"12th December, 1893."

"J. E. F'G.

It may here be desirable that Mr. FitzGerald's objection to the "entries in the balance-sheet under review" should be taken in numerical sequence; and in commenting on them I only wish it to be clearly understood that I have not opposed, and would not in the smallest degree discourage, the strictest audit; and this was my opinion when on the 23rd April, 1892, I expressed myself in a memorandum to Mr. FitzGerald as follows: "I have always regarded a severe audit carried out in a proper spirit as of valuable assistance to me; and the clerks have ceased to express their surprise at my tolerance of every fault of the Audit, from their knowledge, no doubt, of my feeling that it would be a greater misfortune for the Audit Officer to be under the slightest restraint. To this is due a forbearance which may have seemed a confession of defencelessness."

The objection No. 1 is hardly worth consideration. The fact was that Treasury bills were redeemed, and the amount paid by new bills for the same amount. Whether this transaction should be regarded as a sale and cash transaction or a transfer is of very little moment; and the only remark which suggests itself to my mind as appropriate to the objection is that a large number of such transactions have in the past been treated by the Audit as cash transactions. The objection, however, affords an argument in favour of the adoption of the Public Trust Office and Post Office methods of debit and credit without distinction.



The objection No. 2 (1) is not correct. The agent mentioned was appointed to Greymouth on the 1st June, 1893, and his salary, *as an agent*, was shown from that date and not before. The objections Nos. 2 (2), (3), (4) are trifling clerical errors in analysis—cases of items placed under the wrong special headings. The total of the expenses is not affected in any way.

The objection No. 2 (5) relates to a difference of £55, the total amount of certain accounts issued by the office for payment prior to the 31st December, 1893, but which were not actually paid until after that date. They are, consequently, rightly treated as outstanding. A similar explanation was given to a similar objection last year. The objection is rather, I imagine, to the system of accounts.

The objection No. 2 (6) is a misrepresentation of the facts. The value of the land comprised in each lease is fixed by me, and there are besides my own expenses, which are not charged, those of the two persons whom I employ to inspect and report upon the land to enable me to fix the value. It will be sufficient for me to say that the expense of the two in furnishing the report is, if anything, considerably in excess of the charge made to the West Coast lessees.

The objection No. 2 (7) is difficult to answer without a knowledge of the details, which the Audit withholds. It probably includes some items of interest which were not credited to estates until after the close of the year, and which have since been adjusted.

The objection No. 3 (1) has no foundation in fact, and must have been raised out of incapacity to understand the transaction. The details cannot be given for fear of an exposure of the private business of a client.

The objection No. 3 (2) was an error, since adjusted. The difference was treated accidentally as interest, instead as of a repayment of principal. Errors like this should, of course, be taken into account by the Audit in making the adjustments, subject to which the balance-sheet would be passed. But, to particularise such an error as the foundation for such a report as Mr. FitzGerald's is, I submit, uncalled for.

The objection No. 3 (3) relates to the case of an investment coming into the office with an estate, and which was treated for convenience in a manner to which the Audit raises an objection, in which I do not concur.

The objection No. 3 (4) relates to an error in an amount of £100 having been credited to the Estate Account, instead of to the Investment Account. The error was, as usual, properly adjusted by a cross entry.

The objection No. 4 is a good one. I did overlook the fact that the placing of a sum of money in Government securities was, in strict accordance with the law, an investment of the money. The Board's intelligible function, however, is more to deal with investments in which there may be a risk than with such a transaction. Mr. FitzGerald is right to call attention to the informality, in order that the omission may be supplied; but I do think the matter very trumpery for the purpose of charges so serious as those contained in his report. The money may be said to have been lodged with the Treasury instead of at the bank, at a better rate of interest than the bank could give, and until a more profitable investment could be found.

The interest was lowered in one case, if not in two cases, without the authority of the Board; the fact being that, until I saw Mr. FitzGerald's report, and I had asked my solicitor, I was not aware of the authority being necessary. But this is a case of much the same character as the preceding one.

The objection (5) to an overdraft which, as Mr. FitzGerald states, "only appears so from neglect to transfer," &c., is due to the analysis not yet having been satisfactorily completed of the so-called "Globo" Account, which belongs to the old arrangement, which there was not time to satisfactorily unravel, and which it is prudent to unravel before any transfer is made.

The objection (6) is to the case of an error discovered and adjusted before the balance-sheet was prepared, and in the regular course. The objection appears to be one of method, and, though the error is one which should properly go to make up the balance of errors for the adjustment of the balance-sheet, the making of such an insignificant error a ground for a serious charge carries the refutation.

Objection No. 7 is correctly stated. Two accounts are not kept in accordance with the regulations, because, as Mr. FitzGerald well knows, it is impossible, until the law is altered, to clearly define what moneys should go into the common fund. Mr. FitzGerald ought to have pointed out this, and, in doing so, that a large number of the provisions of the statutes themselves relating to the Public Trust Office have become impracticable, and that these statutes ought to be consolidated and amended.

Objection No. 8 is one that proves Mr. FitzGerald to have little knowledge of the arrangements. There are registers showing the interest payable. There is an account showing the total amount of interest received. There are summaries showing the amount of interest allowed to each separate account in the office quarterly.

Before I proceed to remark on the other objections of Mr. FitzGerald, it will be expedient to quote his report on the balance-sheet for 1892, and my minute on that report:—

"REPORT ON the BALANCE-SHEET of the PUBLIC TRUST OFFICE for the Year 1892.

"THIS balance-sheet has been examined and found correct except as regards the Investment Account, which is stated to amount to £551,100 14s. 9d. This includes the sum of £276,393 8s. 6d. of mortgage securities; but the sums for which the office holds security appear to be incorrectly stated in the following cases: (1.) The mortgage is for £400; but the property has been sold, and £145 remains on mortgage: £230 should be written off to deficiencies on realisation of mortgages. (2.) The mortgage is for £300; but the mortgage has been discharged. (3.) The mortgage is for £150, of which £50 has been repaid. (4.) The mortgage is for £6,807 8s. 3d.; but, part of the land having been sold, the value of the security is only £5,335 11s. 7d. (5.) The mortgage is for £350;

but the property has been sold, and the mortgage discharged. (6.) The mortgage is for £2,567 13s. 8d. The estate is being sold in parcels. The value of the mortgage should be reduced by the amount of the sales. (7.) Mortgage for £400. Fifty pounds' worth of the property has been sold. The security is now for only £350. (8.) Mortgage for £150. The property has been sold on deferred payment. The value of the security is only £100.

"There are mortgages in the office, amounting to £19,746 16s., which are not included in the investments. They consist of moneys lent by deceased persons whose estates have come into the Public Trustee's hands. Attention has been called to this in past years; but they are still omitted from the statement of investments, apparently without sufficient reason. Eight mortgages are included in the investments for which there are no deeds in the office, and for which receipts from solicitors or others in whose possession they are have not been submitted to the Audit.

"I feel it my duty to call attention to the fact that the system of book-keeping adopted in the Trust Office under the present management throws a considerable amount of additional labour on the Audit Examiner as well as on the staff of the Trust Office itself, arising from the fact that loose unnumbered sheets of 'statements of lodgments' are substituted for the ordinary cash-book in use in commercial institutions; and, notwithstanding that the labour of preparing such 'statements' is imposed on the staff of the Post Office, there has been no saving in the work in or in the cost of the Trust Office itself. The increase in the value of properties coming into the Trust Office has been much less in 1892 than in some former years, whilst the staff employed in the office is larger, and the cost is not less than in former years.

"Another objectionable feature in the accounts is that the totals of the transactions as shown in the balance-sheet are not to be found in the ledgers, but must be arrived at only after study of the accounts. This was not formerly the case.

"JAMES EDWARD FITZGERALD,

"24th February, 1893."

"Controller and Auditor-General.

"Minute on above Report.

"QUARTERLY totals of transactions appear in ledger summaries. The system of accounts now entails on the Public Trust Office Examiner and officials only a fraction of the labour of old methods. The saving of work and expense in accounting is too obvious for discussion: it is incredible that such is not Audit experience. The cash-book is perfect. The term 'loose unnumbered sheets' is one of misapprehension, and misleading. Numbering is idle. The Post Office is employed instead of the bank, and renders more valuable service, with half the work formerly imposed on the bank. Properties under administration are more numerous and worth more. The services performed are of greater value. The business is larger and more efficiently conducted. Mortgages for loans by deceased persons are not, and should not appear as, Trust Office investments. Deeds are accounted for. A few in course of transmission must always be outstanding. Mortgages realised, or realising, form adjustments made by Accountant before the 31st March, 1893; but in the statement to the 31st December the investments are correctly subject to adjustment for the items except (6). Mr. FitzGerald, the Audit responsible, wrote to me about a year ago, respecting faults of the late management: 'These matters seem to have been managed with no conception of what is necessary to secure the department from fraud.'

"J. K. WARBURTON, Public Trustee."

The return which relates to the Public Trust Office, and appears in the 9th objection of Mr. FitzGerald's report, he parades with all the deliberate triumph of one whose conclusions are demonstration. I stated that "The *system of accounts* now entails only a fraction of the labour of old methods, and that the saving of work and expense *in accounting* is too obvious for discussion"; and Mr. FitzGerald gives the total expenditure for all purposes, including official administration expenses, including even the administration of the West Coast Settlement Reserves, and of the Unclaimed Lands Act, &c., as indicating the work and expense *in accounting*, and trusts, no doubt, that his mere authority will be sufficient to insure the acceptance of a ratio between the total amount of the general office expenses for all purposes of management, and the total amount of the investments and balance of cash in hand, as showing what has been comparatively the annual *expense of accounting*. I can now no longer say of the saving which, *in the work and expense of accounting*, is regarded by Trust Office officials as too obvious for discussion, that "it is incredible that such is not Audit experience."

Let me, by taking for an example the one large estate of the West Coast Settlement Reserves, illustrate his fallacy. Those reserves have temporarily required an increase of upwards of £1,000 a year in the expenditure necessary to enable me to carry out the administration of that territory, and to secure the present splendid results; but, though the property is of enormous value, and will eventually more than repay the office expenditure on the administration, the property has obviously no *capital in investments*; and it is only not ridiculous because it is serious, that an official in the position of Auditor-General of the colony should so far presume upon our confidence as to suppose that we could accept the ratio which the amount of the expenditure in the general office administration of this great property bears to the amount of the capital funds in the Public Trust Office, as conveying the slightest indication of the *expense of accounting*. If, for another example, to make the matter more clear, I had been authorised to administer all the Native lands of the colony on similar conditions to those which are authorised by "The West Coast Settlement Reserves Act, 1892," and I had gone, in one year, to an office general expenditure of £100,000 for the purpose of an administration necessary to the settlement on these lands of tens of thousands of colonists, the commission on whose rents, &c., would soon repay that expenditure, I should have probably failed to secure the direct addition of one penny to the capital funds in the Public Trust Office. And yet Mr. FitzGerald, triumphant in a parade of this expenditure, would make it the foundation of a grave charge against me of applying that large sum of money to the *expense of accounting*.

If he will turn to my report of last year, he will find that I have there remarked that the Public Trust Office officials can now “afford to bestow on *the administration*, which is *the principal business of the office*, much of *the attention which was wanting*, and which has been saved by the *abolition of unwieldy methods of book-keeping*.”

This was the reasoning by which I was led to the further remarks in that report that, “in short, the accounts of the office are now as easy to keep as they are safe, and consequently require in their *relatively subordinate importance* no more than the attention which should be given to them.” . . . “It may, indeed, be confidently pronounced that, though the accounts have required less attention, the business of the office during the last two years has been, in respect both to the work which has been accomplished and the work which is in progress, larger, more arduous, and more important than the business attempted during any such preceding period. But, in estimating the worth of enduring work—work of which the benefit will be lasting—it would be a great error to apply, without regard to indirect and prospective value, the narrow measure of the pecuniary transactions of the period.” And, similarly, it will be obvious to every man who is in a position to judge with impartiality, that the great majority of the officials are required, not for the purpose of *accounting*, but for the work of administration. Of the twenty-seven clerks in the office, no more than four would be employed in the *work of accounting*. Mr. FitzGerald, however, would appear to have concluded that the Public Trust Office staff is employed entirely, as his cumbrous methods of book-keeping would have employed them, in the almost hopeless effort, which they were making under the old Audit arrangements, to find time for anything else than the accounts. The only pecuniary ratio that might be offered with plausibility would be the ratio which the expenditure bears to the income, and to the whole capital value of the estates, &c., in the office. But even this ratio would have to be qualified by a consideration of the work done on account of the past and of the future. The truth of our common experience is often attended, like Fate, by an unfeeling irony, to which may be due the reticence of wise men and their characteristic premeditation; but the conclusion of Mr. FitzGerald—that his return “*is sufficient evidence of how little the statements of the Public Trustee can be relied on*”—displays a precipitation which is too extreme even for the shafts of ridicule, and turns away irony in compassion.

I acknowledge with satisfaction that no cash-book such as Mr. FitzGerald implies a desire to see kept in the Public Trust Office has been brought into use. My intention from the first, as is shown by the correspondence already quoted in this memorandum, was that which I have carried out—to introduce the book to which he objects, and which, in my report of 10th June, 1893, H.—11, I have described as a “book of small dimensions, in which the receipts and payments are balanced daily, and in which all the direct cash transactions, as well as the transfers of journal entries, appear in classified totals.” Wherever this book may differ from “the cash-book, in the sense in which that term is used among professional accountants,” it differs for the better, and for this fact I have the assurance of the accountants of the best ability in the colony. And as to the *loose unnumbered forms* of which he speaks, these are forms of statement similar to those used by Chief Postmasters to support Post Office cash-books—books constructed on the principle from which the Trust Office book is designed. But in my report the whole process is both clearly explained and conclusively shown to be perfect. I state there that “the numbering of forms, whether of receipt or of statement or of account, being understood by all who have carefully studied the subject, and generally acknowledged to be of no service in the prevention of fraud, has, with the duplication of vouchers, been discontinued wherever the discontinuance would not remove a mechanical assistance to the book-keepers.” Mr. FitzGerald should read that report again. I learned a day or two ago from one of our newspapers that General Wolseley, in his work on the great Duke of Marlborough, speaks of the opinion of another distinguished man that one of the qualifications of a good general was the ability to tell what an enemy was doing on the other side of a hill. Mr. FitzGerald could hardly have recollected my report, after concluding his own, without being struck with the possibility that I had divined not only what was taking place over the hill, but what would happen there in a year.

The formal inquiry which Mr. FitzGerald alleges Mr. Ballance, the late Premier, to have made into “the complaint on the part of the Audit” was no more than a meeting in his presence for the purpose of ascertaining whether there was any compromise to which, for the Premier’s peace sake, I could agree. Mr. Heywood, the Secretary to the Treasury, knows and could have informed him that I had expressed myself as determined rather to retire from office than to permit an interference with my arrangement of the accounts. And I had arrived at this determination out of a conviction that Mr. FitzGerald’s control, and the impracticability of his methods, had contributed to bring the office into the disrepute which required my appointment to the Public Trusteeship, and would, if continued, bring my best efforts only to futility. The book now called a cash-book was not opened after that conference. This book was that which I have already described as a part of my design. The only book that I am keeping as the result of the compromise is a book which does not disturb a single one of my original arrangements, and of which the only merits are that the book is not in the way, and is not so unwieldy as are the books usually approved by the Audit.

Mr. Ballance, to whom not a word of my contention with the Audit was ever conveyed by myself, had, weeks before I became aware that Mr. FitzGerald had been endeavouring to unsettle him, pressed me with an anxiety which I could not understand as to my proposed arrangement of the accounts, and also as to the ledgers, which, as might have been expected, were none the more presentable for the invasion by extra clerks during the inquiry by the Royal Commission. To all these inquiries, however, my invariable reply was that everything would be put on a proper footing as soon as possible, and that I trusted him to dismiss the matter, and to leave the entire responsibility to me. I felt then, as I told him, that I would extort approval from the most unwilling, and that I should be prepared to put my work to every test, and to invite every inquiry; and my hopes of that moment have been more than realised, my proposals more than accomplished. Mr. Fitz-

Gerald and Mr. Gavin sought to impose upon me the work of piling up ledgers and journals and cash-books, numbered vouchers, and triplicate receipts without end. Mr. Gavin talked of imprests, imprestees, imprest advance accounts, and imprest ledgers for the few small advances out of my cash; advances that would have been lost sight of in the maze, as I believe that moneys in these imprest accounts have sometimes been lost sight of in the past. How should I have ever been able to find those five little advance fish in the enormous imprest pond which he would have constructed for them? And as the fish were not to be kept long, the pond only might soon have been left as the cumbrous monument of our genius.

Then came objections to payment in cash instead of by cheque; and further objections to the absence of the unwieldy books which the Audit appears, from habit rather than on any reasonable grounds, to regard as necessary to a perfect system of book-keeping. Absence of all considerations of profit and loss in matters of accounts and of audit, as well as of precautions against fraud, would imply that, in the eyes of the Audit, book-keeping is the object to be attained, not a means of safety to business. As to cheques, and the objection to cash payments, somebody must pay the cash for which a cheque may be drawn, so that, however respectable the drawer might be, every cheque must, according to the Audit, have an objectionable destination. The use of cheques is, as every one's experience proves, more dangerous for the great majority of payments than the use of cash. But the risk would not be worth mentioning, if the result were the profit and convenience of the public. It is absurd, and often trying to the public, that no person should have the right to receive, except by a cheque, money due from a public office, in the manner in which money is received and paid by a shopkeeper. If State banking were to be adopted in New Zealand, Mr. FitzGerald would have two banks, so that one might draw cheques on the other, and keep in a commercial bank whatever money they might possess.

Then the Audit affected to entertain some doubt whether the Post Office could with safety much further extend the service which it was affording to other departments. I remarked that it was difficult to offer more than the result of experience by way of removing such a fear. Soon after the introduction, almost a generation ago, of the Post Office Account, of which the principle was comprehensive enough for the business of receiving and paying money for every department of the public service—and the Post Office accordingly undertook the collection of the revenue from various sources, including the property-tax, to the great convenience of the public, and at a saving of thousands a year—fears, like this Audit fear, in which Mr. Gavin had concurred, were expressed that the Post Office would be overtaxed. We, who know what the business of the Post Office now is, are amused at those fears. It may well be, when our little colony has grown older, when its population and the business of its Post Office have enormously increased, that those who come after us may read of the fear of Mr. Gavin, and be amused in their turn. If any disaster should befall the Post Office, it will be due, not to any defect in the system of the Post Office Account, not to the calls upon the Post Office to render the services of which it is capable, but to really fatal mistakes, to want of judgment in the choice of officials for its administration, to neglect to preserve and increase its efficiency, to distrust and jealousy, and to such fear and hesitation as are affected by our Audit officials.

A docket in the till of the cashier keeps an advance daily before the accountant, proves the accuracy of the advance, and, to the consternation of the Audit, indicates an escape from the tyranny of its books. The Audit should endeavour to teach that accounts and book-keeping involve nothing but, pecuniarily expressed, the receipt and payment of money, and that the processes are best by which the record is efficiently kept with the least labour and expense. If some of the Post Office accountants were to seriously apprehend an introduction of the unwieldy system of imprest accounts and books for the enormous volume of the Post Office advances by Chief Postmasters, so accurately and efficiently arranged during the last twenty years, and accounted for as included in the balances of money due from Chief Postmasters, they would receive the announcement with death in their faces.

The Audit Department, under Mr. FitzGerald, appears to ignore the truth that the audit of business of any kind is really a matter of profit and loss. No audit can be defended of which the benefit may not be worth the expense; no check should cost more than it is expected to save; no commercial man, however philanthropic, would, in his senses, ever dream of setting up, at an expense of £200, a check on pilfering by which he might lose £50; and no person who has studied the subject of accounts, the receipt and payment of money, and the audit of the transactions, would ever propose to set up a system which would entirely prevent fraud. If such a system were possible, its cost would be sure to preclude its adoption. The more the question is studied, the more surprising it is that men of intelligence like Mr. FitzGerald should be writing about numbered and unnumbered forms, and making laws and regulations that the public must observe all sorts of small irritating precautions in the receipt and payment of money due to or coming from a public office. A person having money to pay to this office will, and always would, as a general rule, hand it to any one in the office, or employed by the office, ready to take it, and, speaking from a large experience of my own, would care very little, in nine cases out of ten, what sort of receipt he obtained. The numbering of forms is calculated rather to impose on weak minds than to receive the approval of accountants, who combine with a knowledge of the theory of their business some experience of the trying carelessness of the public.

From the blighting effects of the Audit despotism the Post Office has escaped, and a Post Office Account has become possible and been introduced, which, distinguished by the absence of all superfluous book-keeping, extorts universal admiration. Recovering from the same blighting effects, the Public Trust Office is in a state of convalescence, when Mr. FitzGerald sounds a dire alarm that this, his dearest principle, is at stake. But it is too late now. The Post Office cannot turn back to old impracticable methods, under old Audit dictation. What would the Property-Tax Department do; what the Education Department; what the Stock and other Departments? Why,

the very Treasury itself depends upon the Post Office already to make small payments, and will soon, it is to be hoped, use the Post Office instead of the bank for the receipt and payment of money generally. But Mr. FitzGerald would, it might seem, by compelling the Post Office to follow a course which must end in the destruction of its efficiency, break up every department's arrangements which did not accord with his own peculiar views, and his own unfortunate principles, no matter what the public might suffer, and, I presume, no matter what the expense.

In the eleventh paragraph of his memorandum Mr. FitzGerald begins with a general reflection on the principle of the Act of 1891, that the capital funds of estates in the Public Trust Office should become one common fund, guaranteed by the colony, and be entitled to a common rate of interest. He speaks of that principle, I presume, when he says, "An idea appears to be springing up that one, if not the principal, object should be to make the institution a financial success, and to consider the interest of the office as a financial institution, instead of exclusively in the interests of its clients." Now, what was the state of things under the control of Mr. FitzGerald, who was "principally concerned in the establishment of the institution"? The investment of the capital of estates had, in many cases, been effected under his very eyes by a sort of common contribution of the funds of several estates to the amount of one mortgage. This was probably done in the interests of the estates, to enable the Public Trustee to more readily invest the funds, than a strict adherence to the theory of Mr. FitzGerald would allow. There was reason to fear that such investments were breaches of trust. At any rate, Mr. FitzGerald is right in implying that in those investments the original design was carried out by which "the office was to have no personal interest in the property further than such charges as would cover the cost of management." And the result was, as might have been expected, that the office, through this impersonal consideration "of exclusively the interests of its clients," left many of those clients to realise, in the loss of their capital by bad investments, that exclusive consideration in this respect was not without objection. "No person," as I have already reported, "arranges a trust or makes a will without being principally concerned as to the security of the capital fund, and the larger the amount of the capital fund the more important becomes the question of security and the less that of the rate of interest."

By the Act of 1891 the Legislature provided that the capital funds of estates, like the capital of savings-bank depositors, should be entitled to a common rate of interest, by falling into a common fund of which the investment *concerns only the Public Trust Office and the colony*, and of which the integrity is guaranteed by the colony. After the passing of that Act, the Public Trust Office made good to the estates the capital which they had lost by investment under the arrangement to which Mr. FitzGerald would return, and left to their benefit what the law did not, perhaps, strictly authorise—namely, the investments which had wholly or partially been allotted to such estates at the time. There was thus the consideration of these estates, both in the restoration to them of their capital lost in Mr. FitzGerald's days of control, and in leaving them to the benefit of the investments already allotted to them, whether these investments were breaches of trust or not. There was certainly no sacrifice here, or desire to sacrifice the interests of the estates to a consideration of "the interests of the office as a financial institution." When, however, the investments expire, or have expired, the relative capital must fall into the common fund and bear the common rate of interest. It is difficult to imagine how there can be in the investment of the capital on this principle a conflict of the interest of the estate with the interest of the Public Trust Office. The estate is allowed a guaranteed rate of interest for its funds, *and cannot be concerned in the investment*. What Mr. FitzGerald probably means, if he has any clear direct idea on the subject, is that the small disappearing quantity of earmarked or allotted mortgages, or fractions of such mortgages, have been, in the few cases in which the old allotment exists, occasionally transferred to the common fund before the estates to which the mortgages are allotted require the money, or the mortgages expire, and to the disadvantage of the estates. If he means this, he is stating what, I repeat, is not correct, and what is obviously inconsistent with the consideration already explained to influence the office in the matter of these allotted mortgages. Transfers have, in some cases, taken place before the expiration of the mortgages, but the motive has always been the interest of the estate consistently with the law: in the case, for instance, of the money invested having been required for other more urgent purposes of the estate, or the case of a mortgage in default, where the transfer is necessary to enable the office to pay the guaranteed rate of interest in lieu of the rate which the mortgage has ceased to yield. In this way, an estate to which a mortgage, allotted under the old cumbrous and unsatisfactory methods, can still remain allotted, is credited with the rate of interest provided in the mortgage so long only as this rate is paid by the mortgagor, and with the guaranteed common rate as soon as the mortgage expires or the mortgagor ceases to pay interest. As to the consent of the Board to a transfer, the question appears to me to be rather, whether the allotment can strictly continue at all, especially in cases of the contributory investments.

Mr. FitzGerald has misrepresented the facts in his assertion that "in one case where the money of a client was invested in mortgage at a high rate of interest, the mortgages were arbitrarily transferred to the investments of the common fund, and the client was informed that he would in future receive the statutory rate of 5 per cent. paid by the common fund. The result was that he immediately withdrew his whole estate from the office and had it returned to him in England." Now, the estate in question has not been withdrawn. None of the mortgages in which the funds of that estate were invested have been transferred from the estate. And a loss of capital by that estate under the "exclusively" considerate arrangements of the past was made good. All that happened was that uninvested money belonging to the estate and in my hands, after the Act of 1891 was passed, fell, as was required by the provisions of that Act, into the common fund, to thus yield the rate of 5 per cent. The "client," in some hasty conclusion, and adversely to his own pecuniary interest, proposed to do as Mr. FitzGerald now represents him to have actually done, but was eventually anxious that his fund should remain. "I do not want," he said, "any more remitted

at present, as long as you are allowed to pay 5 per cent." When it is considered in what condition of wreck and confusion the investment of the capital funds of the estates in the Public Trust Office was left by the administration controlled by Mr. FitzGerald, how hope had been almost abandoned of saving the office from destruction, and how extremely embarrassing was the position of the Government, the surprise will be that, notwithstanding the extension granted with confidence and alacrity by the Legislature of the guarantee of the colony to the capital funds, and to a common rate of interest on those funds, I should have succeeded in finding a way out of the surrounding difficulties without some expedient which, exposed by Mr. FitzGerald to a partial light, could only be justified as a choice of evils in a case of great extremity. The Legislature has, by providing for an investment of the capital funds without any concern to the estates from which they arise, effectually prevented the Public Trustee from occupying a conflicting position in respect to investments made after the passing of the Act of 1891. When the provision is, as it is becoming daily, completely applied to all estates, the conflict must obviously be impossible, and, if there is a fault at present in the eyes of the law, it is in the consideration which, in the confidence that the Government and the Legislature desire and will approve of consideration, I am extending to the estates.

In his twelfth and last objection, Mr. FitzGerald pleads for a reversion of the law of 1891, by which he was rendered powerless to insist on the adoption by this office of what are regarded by himself as accounts "of the form and on the principles which have been settled by all scientific accountants to be most likely to secure the stability of a financial institution, and to afford the readiest information as to its proceedings and financial position." He pleads, indeed, that the legislation should be repealed, that the Public Trust Office may fall again under his control, and that everybody but the Audit should be stultified—the Government, the Parliament, and the people. The last state of the Public Trust Office might, in this case, be expected to become worse than the first. I have already shown that Mr. FitzGerald's unfortunate principle that all receipts must come to the Treasury, and all payments be issued from the Treasury, renders impossible the adoption of an efficient arrangement of accounts; and general opinion concurs in the folly of the conclusion that a public department cannot be trusted to make its payments without the impracticable imposition of an audit preceding payment. And, as to the readiness of the Public Trust Office to supply information as to its proceedings and financial position, it will be sufficient for me to ask that my report, to which, in this memorandum, I have so often alluded, may be again carefully perused.

The Controller and Auditor-General has control enough over the Public Trust Office in the authority to audit and to report on the result, and, when this duty is performed in a spirit arising out of a desire to faithfully represent the result, there can be no more fear "of failure, whether from mismanagement or otherwise," than if the dictatorial control which has been removed still existed. The Public Trustee, indeed, would in ordinary course possess, for the control and management of the Public Trust Office, qualifications superior to the qualifications which for that purpose would be possessed by the Controller and Auditor-General; and, this being the case, it will be obvious that the subjection of the superior special qualifications could afford no intelligible security to the taxpayers against "any failure, whether from mismanagement or otherwise." I trust that I may be understood to be speaking here in the abstract; not in egotism or disparagement. The same principle would apply to the Government Insurance Office; though if the authority of the Audit to control the administration were exercised with proper discretion the risk of disaster might not be very great. The difficulty would arise if Mr. Richardson should have an opinion of his own in which Mr. FitzGerald would not concur; in such a case the Commissioner would be left to a choice not satisfactory to the taxpayers, between the evil of Mr. FitzGerald's resentment, and the evil of sacrificing the interests of his department.

The anomalous position to which Mr. FitzGerald objects, of the Public Trust Office standing alone in being relieved from his control, has, as I have explained, been rendered necessary by circumstances; and I would remove this anomaly, not by again subjecting the Public Trust Office to the despotism which insists on raising accounts out of the subordinate position of being the means of economy and safety to business, and sacrificing to arrangements for the receipt and payment of money and to a confusion of superfluous book-keeping every interest of the public, but by so relieving other departments, and affording them the liberty of adopting for their pecuniary transactions methods of account on the principles of the Post Office and Public Trust Office accounts, that the anomaly may become that of a department not relieved from the control. The Treasury should, in my opinion, direct in matters of account where direction from without is necessary.

The audit, which Mr. FitzGerald regards as sufficient, of the accounts of the Public Trust Office is a very light task. But, light as the task is, the Audit is often months in arrear. The Audit officials may not be under any obligation to work like the officials of the Public Trust Office. They exert themselves but little in any but the most unamiable duties. They should be ready to report on a balance-sheet immediately that it has been prepared, and could easily be ready, if the work were regularly and systematically performed, and there were less anxiety to find fault than to prevent it. Such an audit as Mr. FitzGerald thinks enough would, properly performed, not occupy one good working official half the year. There is too much reason to fear that the energies of the officials to whom the task of auditing the Public Trust Office accounts is allotted are misdirected. For faults in the choice of Audit officials, for their incompetence, or for their inexperience, Mr. FitzGerald would be responsible; but both they and he would be held responsible for their gross neglect of duty. I have already referred to the issue which, before I became Public Trustee, was made of stamped paper, without any account of the issue having been kept by the Public Trust Office, or required by the Audit. And that case warranted, I think, the reflection of Mr. FitzGerald, "These matters seem to have been managed with no conception of what is necessary to secure the department from fraud." It would probably have been a relief to the late Public Trustee in more senses than one if the Audit could have diverted to "matters" of such real and grave importance some



of the close attention given to mere formalities. But to those who would bury the wretched past, and inquire what has happened since, I should think it sufficient to give one instance of what has been observed during the short period of my administration—one instance of an equally serious neglect of a “matter” of equal gravity and importance. The fact will speak for itself—and will speak volumes. Two Audit officials have been in the Public Trust Office daily, *without having, during the last seventeen months, once counted the cash.* Of such inexcusable neglect I think that I too may, not inappropriately, lament: “These matters seem to have been managed with no conception of what is necessary to secure the department from fraud.” And if I am asked why I did not, to enable the Government to bring about an amendment in such “matters,” report shortcomings so serious, I answer that the Government could do no more than represent the grievance, in the hope of amendment; and that I was myself hopeless, and that it was in this hopelessness that I made the arrangements which would save the Public Trust Office from disaster, and to which I alluded when, in my last year’s report, I wrote: “The Public Trust Office officials can now therefore observe a course which has been so arranged of *checking the accounts and the administration of the office as to afford internally the comprehensive audit which is necessary to the conduct of the business on its present basis.*”

I cannot conclude, Mr. Ward, without an expression of my regret, not that, throughout my administration of the Public Trust Office, Mr. FitzGerald should, in his attempts to coerce and dictate to me in matters beyond his control, have descended to the small irritating courses of which I have given so many examples, not that the audit of the Public Trust Office should have been conducted in a spirit which would have justified me in the interests of the public service in applying for the protection of the Government, not that I should have to divert to a reply to such a report as Mr. FitzGerald’s, a few hours of the time already insufficient for more important duties, but that your attention should be taken up with the matter. The fault, however, lies no more with me than it would lie with the ablest man living who should be administering the Public Trust Office under the legislation of 1891, by which Mr. FitzGerald’s control was removed.

J. K. WARBURTON,  
Public Trustee.

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