

1943  
NEW ZEALAND

# PUBLIC ACCOUNTS COMMITTEE

## OF THE

## HOUSE OF REPRESENTATIVES

REPORT ON THE WAR EXPENSES ACCOUNT AND ON THE ANNUAL REPORT OF THE CONTROLLER AND AUDITOR-GENERAL (B.-1 [Pt. II]) SUBMITTED TO THE COMMITTEE BY THE MINISTER OF FINANCE

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

*Memorandum for the Chairman, Public Accounts Committee, Wellington.*

Office of the Minister of Finance, Wellington, New Zealand, 23rd June, 1943.

Forwarded herewith for the information of yourself and other members of the Public Accounts Committee are copies of the War Expenses Account in detail, since its inception in September, 1939, up to 31st March, 1943.

W. NASH, Minister of Finance.

*Memorandum for the Chairman, Public Accounts Committee, Wellington.*

Office of the Minister of Finance, Wellington, New Zealand, 9th August, 1943.

In accord with your memorandum of the 5th instant I am referring to you the report of the Controller and Auditor-General (B.-1 [Pt. II]) for consideration of the Public Accounts Committee.

I note that the Committee will meet in Room No. 61 at 10 a.m. on Wednesday, the 11th instant.

Notification has already been made to the Auditor-General and other necessary officers to be in attendance at the time mentioned.

W. NASH, Minister of Finance.

*Memorandum for the Hon. the Minister of Finance, Wellington.*

Wellington, 25th August, 1943.

I have the honour to forward herewith the report of the Public Accounts Committee, to which were referred for consideration the War Expenses Account and the report of the Controller and Auditor-General (B.-1 [Pt. II]).

J. ROBERTSON, Chairman.

## PUBLIC ACCOUNTS COMMITTEE

THE Public Accounts Committee has considered the War Expenses Account, and also the report of the Controller and Auditor-General, and particularly his comments on war expenditure, as submitted by you to the Committee.

The following gentlemen appeared before the Committee and were of great assistance:—

Mr. C. G. Collins (Auditor-General).  
Mr. E. Pearce (Audit Department).  
Dr. A. R. F. Mackay (Treasury).  
Brigadier Avery (Quartermaster-General, Army).  
Mr. F. B. Dwyer (Army Secretary).  
Air Commodore Hewlett (Air Force).  
Group Captain Denton (Air Force).  
Mr. G. A. Barrow (Secretary, Air Department).  
Mr. J. Fletcher (Commissioner of Defence Construction).  
Mr. N. E. Hutchings (Public Works Department).  
Mr. W. C. Smith (Chief Executive Officer, Ship Building Division, Marine Department).  
Mr. G. H. Jackson (Director of Production).  
Mr. S. J. Collins (Supply).

The Committee recognizes that the annual report of the Controller and Auditor-General provides an exceedingly valuable and useful check on any tendency there might be to slackness in accountancy methods and against waste or loss in Government Departments. The Committee considers that his comments on the lack of proper accountancy methods, pertaining to stores and equipment in units of the active services, were justified, although it was made clear that in the emergency conditions obtaining last year, involving a sudden and enormous expansion of our Forces in New Zealand and in the Pacific, it was not possible to obtain or to organize the qualified personnel necessary for efficient checking of stores, and, in cases where the Air Force was operating in forward areas, the general conditions made effective checking impossible. The lack of such checking was freely admitted by the representatives of the Armed Forces present and its dangers were recognized. Measures had already been taken to give effect to the Auditor-General's requirements, and last year's experiences should not be repeated.

Each branch of the Armed Forces, however, emphasized the difficulties they experienced in securing the necessary competent personnel in the Quartermaster's department to enable a proper accounting of stores and equipment to be carried out. The Committee recommends that the necessary steps should be taken by the military authorities to remedy this state of affairs.

Evidence placed before the Committee showed that the comments of the Auditor-General may in some instances be capable of serious misinterpretation. This was readily admitted by the Auditor-General, who, however, emphasized that it was his duty to direct attention to what appeared to be irregularities in accounting methods and to maintain a proper check on the methods of providing various types of stores and equipment and in the carrying-out of defence-construction contracts. The Committee is in complete agreement with this view.

The evidence tendered by witnesses brought out information relative to the practice followed by Audit in connection with store shortages, surpluses, and other matters which must be considered along with the comments of the Auditor-General. For instance:—

- (1) It was found that stores written off as "irrecoverable" and presented in the accounts as shortages are sometimes recovered later, but are not set out against the shortages. The Committee recommends that any surpluses found in stores should be shown in the same way as are shortages.
- (2) It was found that the saving of £30,000 in the purchase of Army huts referred to on page XVIII was due to the increase in the numbers ordered, and that the original contract provided for review after 2,000 had been supplied, as against the final contracts for 8,500, and that the readjustment of price was made in co-operation with the Commissioner of Defence Construction, Treasury, and Audit.
- (3) The reference on page XVII to timber-supplies is liable to misinterpretation in that the percentage of profit and overhead in all these contracts was based on the supply of materials by the contractor and the receipt by him of the percentage on the full amount. If this percentage on the materials was not paid, it would be necessary to increase the percentage rate on labour to ensure even the recovery of costs by the contractor.  
The only possible saving to the contractor by the supply of timber direct by the State was the time saved in purchasing the timber and the interest on the sum that he would have been out of pocket between the payment of his account to the timber-supplier, and recovery from the State.
- (4) It was proved to our satisfaction that, owing to emergency conditions, it was essential for the State to be the contracting party for the purchase of the timber and supply to the contractor.

The evidence supported the contention that the expedition of these supplies not only saved costs in connection with the contracts, but also enabled the works to be completed much more quickly during a dangerous emergency period than they could have been had the contractors been required to obtain their timber from individual suppliers.

The reference in the third paragraph on page XIX to deficiencies in the quality of sole leather supplied to two military camps was found to be justified.

In mitigation it was pointed out that there was a serious shortage of leather-supplies at the time and the difficulty of supplying 8,000 pairs of soles to the Army each week under those conditions had led to some hundreds of pairs of defective soles being sent to the stores in the two camps in question. In one instance a refund was made by the merchant concerned, and in the other case the defective soles were returned. The footwear (boots and shoes) supplied to the Forces, it was agreed, was uniformly of a high standard, and the defects referred to were confined to the leather supplied for resoling purposes. There was no evidence that defective soles had gone overseas, and no complaints had been received from overseas.

The reference to overpayments in the paragraph on page XVI headed "Motor-vehicle Impressment" was found to be somewhat misleading. The "overpayment" referred to, it is clear, is only overpayment in a purely legal sense, and was not an overpayment in any real sense. Evidence did not support the suggestion in the same section of the "report" that savings would be effected by placing the disposal of vehicles in the hands of the Impressment Officers. The Committee recommends that, as far as possible, in disposing of vehicles, preferential treatment should be given to purchasers whose vehicles had previously been impressed.

The Committee is satisfied from the evidence of the Auditor-General that there was no suggestion of malfeasance intended in any of his comments, and this was supported by the evidence tendered. It was made abundantly clear by the Auditor-General that practically all his comments were aimed at loose book-keeping methods rather than at actual deficiencies.

The Committee places on record its appreciation of the frank and ready manner in which all the witnesses supplied information and gave evidence.

The Committee, affirming the imperative need for a permanent continuous close check on the expenditure of all public funds, feels that the inquiry has served a useful purpose inasmuch as it has—

- (1) Placed in proper perspective the comments of the Auditor-General in their relationship to the facts as disclosed in the evidence; and
- (2) Revealed the gigantic nature of the war requirements of the Dominion and the many new problems which have had to be faced up to and the general success which has been attained. It has also made it clear that in many cases what appeared to be irregularities have been a result of the abnormal conditions pertaining.

An inquiry such as this may also have a beneficial effect in the direction of checking any tendency to carelessness or misconduct on the part of private contractors or others concerned in providing defence requirements.

- (3) After full investigation of the position the Committee recommends that the fullest investigation of the experience and qualifications of all men and women should be made immediately after enrolment by qualified persons with a view to ensuring that the benefit of their experience and ability shall be available in the branch of the Services—particularly in the Stores and Accountancy Branches—where this experience and ability can be most profitably used.
- (4) It is a matter of concern to the Committee that the Controller and Auditor-General has found it necessary to report that, because of the calls of the Armed Forces on the staff of the Audit Department, he is no longer able to carry out the whole of his statutory duties. The Committee realizes that reduction of staff occurring at the same time as a greatly increased rate of expenditure must have presented grave difficulties to the complete performance of audit duties and, being of the opinion that close control by the Audit Office of the expenditure of public moneys must be maintained, recommends that steps be taken as soon as possible to provide the Audit Department with additional officers.

The Committee desires to express its appreciation of the Auditor-General's report, the Auditor-General's high sense of duty, and in particular the manner in which he and his officer assisted the Committee in its examination of the evidence.

J. ROBERTSON, Chairman.

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