

1905.
NEW ZEALAND.

GOVERNMENT ADVANCES TO SETTLERS OFFICE

(REPORT BY THE SUPERINTENDENT OF THE), FOR THE YEAR ENDING 31ST MARCH, 1905.

Presented to both Houses of the General Assembly by Command of His Excellency.

ELEVENTH ANNUAL REPORT AND BALANCE-SHEET.

THE General Board of the office dealt with a large number of applications for loans during the year, and had, up to the 31st March, 1905, authorised 15,349 advances, amounting to £5,042,555. Applicants to the number of 1990 declined the grants offered them, amounting to £868,585, so that the net advances authorised to the 31st March, 1905, numbered 13,359, and amounted to £4,173,970. The securities for the net authorised advances were valued at £9,172,962, and these are in many instances being enhanced by the expenditure in improvements of part of the money borrowed, and the liability reduced by the periodical repayments of principal in the case of instalment loans.

Classified according to provincial districts, the advances authorised are as under :—

Provincial District.	Number of Applications.	Amount of Advances authorised. £
Auckland	3,219	926,383
Taranaki	2,219	868,449
Hawke's Bay	942	262,575
Wellington	3,891	1,277,543
Marlborough	511	184,065
Nelson	210	59,045
Westland	214	48,640
Canterbury	1,210	328,670
Otago	2,933	1,087,185
Totals	15,349	£5,042,555

The total sum raised by the Government for investment on mortgage is £3,200,000. 9,034 mortgagors are indebted to the Department to the extent of £2,754,915 19s. 5d. in respect of principal moneys.

The gross profits for the year ended the 31st March, 1905, were £39,600 4s. 11d., and the cost of management £5,145 10s. 4d., being 0.16 per cent. or three shillings and twopence per hundred pounds on the capital employed. The net profits amounted to £34,454 14s. 7d.

Arrangements have recently been made by the office whereby the whole cost of providing cover indemnifying the Department as mortgagee against claims which may arise under "The Workers' Compensation for Accidents Act, 1900," will be borne by the Department. Hitherto the premiums payable in respect of mortgagee's accident indemnity insurance have been a charge against mortgagors. The concession made cannot be considered otherwise than highly satisfactory to the settlers, and it relieves the office of a large amount of clerical work.

There have been no losses on advances since the inception of the office, and the office has no securities on its hands. The payments of interest and instalments of principal have been well maintained, and continue very satisfactory.

P. HEYES, F.S.A.A., Eng.,
Superintendent.

Advances to Settlers Office, Wellington, 7th June, 1905.

BALANCE-SHEET.

STATEMENT of LIABILITIES and ASSETS at 31st March, 1905.

Dr.	<i>Liabilities.</i>	£	s.	d.		Cr.	<i>Assets.</i>	£	s.	d.
3-per-cent. loan, redeemable 1st April, 1945, "A"	1,500,000	0	0		Investment Account— Advances on mort- gage ..	£4,156,105 0 0 Less repayments ..	1,402,923	5	9
3-per-cent. loan, redeemable 1st April, 1945, "B"	500,000	0	0						
Sundry loans	990,000	0	0				2,753,181	14	3
Advances on account of loans	210,000	0	0		Temporary investments, Bank of New Zealand ..		4,836	17	0
Assurance Fund	125,724	15	6		Sinking Fund investment with Public Trustee ..		193,887	10	5
Suspense Account	3,223	11	10		Assurance Fund investment with Public Trustee ..		125,724	15	6
Accrued interest payable	25	14	4		Mortgage instalments receivable—over- due ..		1,734	5	2
Profit and Loss Account	6,369	19	4		Bills receivable ..		740	11	7
						Interest receivable—overdue ..		7,003	1	0
						Interest receivable—accrued ..		29,392	12	8
						Loan-floatation charges ..		178,466	3	0
						Cash in hand and in bank ..		40,376	10	5
		£3,335,344	1	0				£3,335,344	1	0

STATEMENT of PROFIT AND LOSS ACCOUNT for the Year ended 31st March, 1905.

DR.	£	s.	d.	CR.	£	s.	d.
To Management Expenses Account ..	5,145	10	4	By Balance at 31st March, 1904 ..	6,221	10	0
Balance, net profits to 31st March, 1904 ..	£6,221	10	0	Interest Account, gross profits ..	39,600	4	11
Net profits for the year ended 31st March, 1905	34,454	14	7				
	<u>40,676</u>	<u>4</u>	<u>7</u>				
	£45,821	14	11		£45,821	14	11
Transfer to Assurance Fund Account	34,306	5	3	Balance down, net profits ..	40,676	4	7
Balance, net profits carried forward ..	6,369	19	4				
	<u>£40,676</u>	<u>4</u>	<u>7</u>		<u>£40,676</u>	<u>4</u>	<u>7</u>

STATEMENT of MANAGEMENT EXPENSES ACCOUNT for the Year ended 31st March, 1905.

Dr.	£	s.	d.	Cr.	£	s.	d.
To Audit Department	200	0	0	By Consent fees	17	14	0
Insurance premiums paid by Department	26	3	0	Mortgage forms	120	17	6
Post Office services	800	0	0	Production fees	170	12	6
Printing and stationery	101	1	3	Release fees	185	18	0
Salaries	3,437	5	9	Valuation fees	1,193	0	9
Sundries	269	3	1	Balance of management expenses transferred to Profit and Loss Account ..	5,145	10	4
Valuation Department services ..	2,000	0	0				
	<u>£6,833</u>	<u>13</u>	<u>1</u>		<u>£6,833</u>	<u>13</u>	<u>1</u>

STATEMENT of INTEREST ACCOUNT for the Year ended 31st March, 1905.

[illegible]

ADVANCES TO SETTLERS OFFICE ACCOUNT.

STATEMENT OF RECEIPTS AND EXPENDITURE for the Year ended 31st March, 1905.

Dr.	Receipts.	£	s.	d.	Cr.	Expenditure.	£	s.	d.
To Cash in hand and in bank at 31st March, 1904		14,978	4	11	By Advances on mortgage ..		176,005	0	0
Bills Receivable Account		50	0	0	Assurance Fund investment with Public Trustee		34,306	5	3
Consent fees		17	14	0	Audit Department		200	0	0
Insurance premiums refunded		533	6	5	Insurance premium paid		559	9	5
Interest on Assurance Fund, Public Trustee		3,214	12	6	Interest on deposits		81	6	8
Interest on bank balances		475	3	3	Interest on loans		96,754	10	2
Interest on mortgages		126,303	7	8	Post Office		800	0	0
Interest on Sinking Fund, Public Trustee		5,844	13	4	Printing and stationery		101	1	3
Interest on temporary investments		449	15	8	Release fees, &c., refunded		1	15	6
Mortgages and instalments repaid		218,527	6	4	Salaries		3,437	5	9
Mortgage forms		120	17	6	Sinking Fund investment with Public Trustee		218,527	6	4
Production fees		170	12	6	Sundries		545	11	5
Public Trustee refunds		183,160	0	8	Suspense Account		15,522	8	10
Release fees		187	13	6	Valuation Department		2,000	0	0
Sundries		276	8	4	Valuation fees refunded		244	19	0
Suspense Account		14,321	18	1	Cash in hand and in bank at 31st March, 1905		40,376	10	5
Temporary advance on account of loan		10,000	0	0					
Temporary investment refunded		9,393	15	7					
Valuation fees		1,437	19	9					
		£589,463	10	0			£589,463	10	0

Government Advances to Settlers Office,
3rd May, 1905.P. HEYES, F.S.A.A., Eng., Superintendent.
W. N. HINCHLIFFE, Accountant.

THE SUPERINTENDENT,—Where is the balance-sheet itself under section 50 of "The Government Advances to Settlers Act, 1894?"—J. K. WARBURTON, Controller and Auditor-General, 17/6/05.

THE CONTROLLER AND AUDITOR-GENERAL,—This is the balance-sheet under section 50 of "The Government Advances to Settlers Act, 1894," submitted for audit certificate.—P. HEYES, Superintendent, 21/6/5.

THE SUPERINTENDENT,—Do you really regard these statements or any of them as a balance-sheet?—J. K. WARBURTON, Controller and Auditor-General, 21/6/5.

THE CONTROLLER AND AUDITOR-GENERAL,—Yes, I do regard this as a correct balance-sheet.—P. HEYES, Superintendent, 21/6/05.

J. K. WARBURTON, Controller and Auditor-General.

REPORT OF THE AUDIT OFFICE on the Statements submitted for its Certificate as the Balance-sheet under Section 50 of "The Government Advances to Settlers Act, 1894."

Certified in accordance with the provisions of the Public Revenues Act, subject to the following remarks:—

The statements submitted do not fulfil the requirements of section 50. They do not exhibit a balance-sheet showing the whole receipts and expenditure of the Advances to Settlers Office Account, of the Management Account, and of the Investment Account.

The statement submitted of the receipts and expenditure for the year is correct in showing the whole receipts and expenditure which subsection (1) of section 50 requires the balance-sheet to show of the Advances to Settlers Office Account during the year.

Instead of showing in the Management Account, kept as directed by the Act, the whole receipts and expenditure which subsection (2) requires the balance-sheet to show of that account, such whole receipts and expenditure, less £1,056 9s. 3d. in both the receipts and expenditure, are shown in statements submitted of three accounts not required by the section—namely, a Management Expenses Account, an Interest Account, and a Profit and Loss Account; and the aggregate credit to these accounts exceeds the amount credited to them of the actual receipts of the Management Account by £36,369 19s. 4d., as the result of entries made in respect of all overdue and accrued interest except the amount accrued of interest payable in respect of the loans raised by the Government for the purpose of the Debenture Fund. Of this amount of £36,369 19s. 4d., £6,369 19s. 4d. appears in the Statement of Liabilities and Assets as a liability to Profit and Loss Account, and £30,000 is the amount which was unlawfully applied in 1902 in writing down the loan-flotation charges entered as an asset.

The whole receipts and expenditure which subsection (3) requires the balance-sheet to show of the Investment Account are not shown, nor is there any entry of the balance available for investment of £37,893 10s. 2d., which stood at credit of such account at the close of the year.

In the Statement of Liabilities and Assets, the amount of the liabilities entered in respect of loans exceeds the amount received from the Government or the Colonial Treasurer as the proceeds of such loans by £208,466 3s.; and this deficiency, less £30,000 written off in the Profit and Loss Account, as already explained, is entered under the head of "Assets."

The whole receipts and expenditure of the Advances to Settlers Office Account during the year having been—receipts, £574,485 5s. 1d.; expenditure, £549,086 19s. 7d., to be brought to account in—

	Receipts.	Expenditure.
	£ s. d.	£ s. d.
The Management Account ..	139,032 4 5	139,032 4 5
The Investment Account ..	421,081 2 7	394,532 6 4
The Bills Receivable Account ..	50 0 0	...
The Suspense Account ..	14,321 18 1	15,522 8 10
	£574,485 5 1	£549,086 19 7

A balance-sheet showing *the whole receipts and expenditure* of such accounts would simply be as follows :—

Accounts.	Balances, 31st March, 1904.		Transactions during Year.		Balances, 31st March, 1905.	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.
Advances to Settlers						
Office	14,978 4 11	..	574,485 5 1	549,086 19 7	40,376 10 5	..
Management ..	..	..	139,032 4 5	139,032 4 5	..	..
Investment ..	..	11,344 13 11	394,532 6 4	421,081 2 7	..	37,893 10 2
Bills receivable ..	790 11 7	..	..	50 0 0	740 11 7	..
Suspense .. ..	..	4,424 2 7	15,522 8 10	14,321 18 1	..	3,223 11 10
	15,768 16 6	15,768 16 6	1,123,572 4 8	1,123,572 4 8	41,117 2 0	41,117 2 0

Cash in hand and in bank, £40,376 10s. 5d.

Such a balance-sheet, followed by statements similar to those certified by the Audit Office for the year ended the 31st March, 1904, would fulfil all the requirements of section 50. If the liabilities and assets of the colony are shown, they should be shown, not in the balance-sheet required of the Superintendent by section 50, but in a separate statement.

J. K. WARBURTON,
Controller and Auditor-General.

The following remarks may be added in reply to the strictures made by the Audit Office on the balance-sheet submitted for audit :—

Section 50 referred to provides that “The Superintendent shall, within sixty days after the close of each financial year as aforesaid, prepare and lay before Parliament, if sitting, and if not, within fourteen days after the commencement of the next session, a balance-sheet showing” certain particulars specified in subsections (1) to (5).

I contend that the balance-sheet submitted fully complies with these requirements in the most approved form, and is in accordance with the correct practice of accountancy.

Now the question arises, What is a balance-sheet? What is a balance-sheet for? What is it intended to set forth to those to whom it is to be presented?

It is evident from the comments made by the Audit Office that they have no true conception of what a balance-sheet is, or what it is intended to set forth. The only idea which the Audit Office has of a balance-sheet is that it is a mass of figures brought together so as to form a complete balance of figures, and there it ends. It is quite immaterial that there is no information for any one, except the bare fact that there has been a balance arrived at.

Every accountant and auditor knows that this is merely preliminary to the preparation of a balance-sheet in which it has no more place than the whole mass of figures comprising all the transactions for the year, and which the auditor certifies to be correct. It is what is known to all accountants, if not to the Audit Office, as the trial balance.

The final point reached by the Audit Office in its conception of a balance-sheet is where an accountant's work proper begins in the preparation of a balance-sheet. All authorities agree that a balance-sheet must set out in a concrete form clearly the *results* of all the transactions—viz., the true financial position, and the results of the operations for the year.

The balance-sheet demanded and insisted upon by the Audit Office affords no information whatever as to the true financial position of this office, nor any information as to the results of the operations for the year, nor any indication of what the profits are, cost of management, or profits on interest, and a balance-sheet prepared on the lines required by the Audit Office would be incorrect and misleading.

The balance-sheet submitted sets forth clearly, in a concrete form, all the liabilities and all the assets, and is a complete as well as a true and faithful balance-sheet, setting forth the financial position of the office. It also shows the profits made on interest, the cost of management, and the net profits, which are the results of the year's operations.

The last balance-sheet presented by Mr. Warburton as Superintendent (in the form now demanded) was incorrect and misleading in many items, and such as no auditor would be justified in certifying to as correct. It was not a true statement of the financial position nor of the results, and could not be in the form insisted upon.

For the past three years, owing to the attitude of the Audit Office, the true and faithful balance-sheet of this office, from which alone any information as to the operations of the office has been gleaned by the Press and others, has been presented to Parliament without an audit certificate, which is a most undesirable state of things.

The Controller and Auditor-General further states that £30,000 was written off loan-flotation charges unlawfully. The question of writing off these was submitted to the Solicitor-General, whose opinion was as follows : “As regards the loan-flotation charges, the question seems to me to be a matter more of book-keeping than of law. They are, I think, chargeable to the Management Account, under subsection (1), (a), of section 48, and must be written off or otherwise provided for out of profits, as it cannot be suggested that the Consolidated Fund is to meet them.—FRED. FITCHETT, Solicitor-General.” There can be no doubt, therefore, that the writing-off was lawfully made and essential for the accuracy of the accounts and balance-sheet, notwithstanding the opinion of the Audit Office.

P. HEYES, F.S.A.A., Eng.,
Superintendent.

3rd July, 1905.

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