the Public Account available for issue for the purposes of each separate account, fail of their purpose. For example, the total shown in the Ordinary Revenue Account at 31st March, 1930, would seem to indicate that cash issues chargeable against that account could be made to the amount of £1,510,239 8s. 8d., but had such an amount been actually issued it would have overdrawn the Public Account, which is contrary to law. The effect of the present system as contrasted with the system of charging all investments against the appropriate accounts to which the money belongs, is to weaken the control over the issue of public moneys, and render the accounts more difficult to interpret.

The system as now followed has other undesirable features. When a loan is raised in London it is usual to temporarily invest the loan-moneys until actually required, and it has become customary to charge all such investments against the Public Account Cash Balance Investment Account, instead of against the separate accounts to which the loan-moneys belong and to which they have actually been credited. The result is that the interest on the investments, instead of being credited to the accounts which actually earn it and which in some cases are themselves paying the interest on the loan raised, is allocated between all the accounts forming the Publc Account. For example, in the case of the London loan raised during the present year the loan receipts for the month of May amounted to £3,961,000, and during the same month £3,815,000 was temporarily invested in London from these loan receipts. The loan receipts, amounting to £3,961,000, were credited as follows: Public Works Fund, General Purposes Account, £3,241,000; Electric Supply Account, £360,000; and Railways Improvement Authorization Act 1914 Account, £360,000; but the temporary investments of £3,815,000 were not charged against these accounts, but against the Public Account Cash Balance Investment Account. As a result, the three loan accounts showed the loan receipts as a cash balance, though nearly the whole of such cash had been paid out by way of investment, while the interest on such investments, instead of being credited as if earned on the moneys of the three loan accounts, will be allocated to all the accounts forming the Public Account as if earned by the moneys of all these accounts. The effect is to credit part of the interest earned by the moneys of the loan accounts mentioned to other accounts which have not actually earned such interest, and which do not own the money.

Another unsatisfactory feature of the system is the method by which this allocation of interest between the various accounts within the Public Account is made. It is customary to allocate the interest in proportion to the total daily balances of the various accounts *for the month in which the interest is received and the preceding month.* There is thus little relation between the balances used as the basis of the allocation and the balances existing during the period in which the interest was actually earned. It is clear that, if an allocation of such interest is to be made in proportion to balances, the balances during the period in which interest was earned should, from an equitable point of view, form the basis of the apportionment. The following actual example will illustrate the inequity of the present method of apportionment. A fixed deposit of £500,000 was made on the 10th March, 1930, to mature 1st September, 1930. On the basis now being adopted the interest on this investment will be allocated in proportion to the balances *for the period from 1st August to 30th September*, though it is clear that the balances earning the interest are those *for the period from 10th March to 1st September.*

It has been represented to Audit by the Treasury that the adoption of the practice of allocating directly to the accounts lending the money would involve a multiplicity of book entries and would occasion delay. The Audit Office is unable to agree that any delay need ensue. There may be instances, however, when the balances of accounts are very low, in which the allocation would not be considered essential, but these exceptions should not interfere with the adoption of the principle I have set out, wherever practicable. Actually the amount debited to the Public Account Cash Balance Investment Account has at times exceeded £8,000,000, and not infrequently reaches the sum of £6,000,000, and it would clearly not be impracticable to debit a large proportion of such amounts against the appropriate accounts to which the moneys belong, and to which they have already been actually credited by the Treasury.

The interest received on cash balance investments is credited to "Deposits Account—Interest on Cash Balance Investments Account," and is allocated therefrom to every one of the various separate accounts, instead of to certain of the separate accounts only. No record of the amounts of interest so allocated appears in the Public Accounts for 1929–30, and I therefore append a statement showing the details. In future it is proposed to show such amounts, I understand.