

Discharged Soldiers Settlement Account, £2,086 9s. 5d. from the Land for Settlements Account, and £21,211 13s. 6d. of sinking-fund moneys from the Public Debt Repayment Account.

This amendment of the law could not, however, be held to settle the difference in the views of the Treasury and Audit as to the correct sum to be entered in the Public Accounts of this Dominion as having been paid for the redemptions in Sydney—£261,900 or £224,259 6s. 7d. referred to above. As the Controller and Auditor-General could not see his way to agree to the inclusion of the larger sum, it was arranged that the lesser amount should be shown to accord with Audit view, leaving it open to the Treasury by means of a Treasury note to place its views on record on the accounts. It is necessary for me to thus explain the reason for the placing of the Treasury footnote on the year's accounts as published.

Hawke's Bay Earthquake Act, 1931.

Sections 38 and 39 of the above Act authorized expenditure to be made from the Reserve Fund Account for the purpose of granting assistance to persons who suffered loss or damage by reason of the Hawke's Bay earthquake, and for the purpose of granting loans to local authorities through the State Advances Office pursuant to the Act.

Section 39 authorized the realization of Reserve Fund securities held in London to provide the funds necessary to meet such expenditure. Section 40 authorized expenditure to be made from the Public Account in anticipation of the realization of such securities, to be charged against the Reserve Fund Account.

The authority under section 40 was exercised before the Reserve Fund securities were realized, and the expenditure was charged against the Reserve Fund Account though that account had no moneys available to meet such expenditure, and, as a result, the Reserve Fund Account at one stage became overdrawn to the extent of about £170,000. The following undesirable results arose as a result of this :—

- (1) Moneys of other accounts within the Public Account, which had been raised by Parliament for other specific purposes, were temporarily used for the purpose of the Reserve Fund Account—that is, for earthquake relief.
- (2) The Reserve Fund continued to be credited with interest on the investment of the whole of its moneys, while at the same time the account was shown as overdrawn in the books—that is, the earnings of moneys belonging to other accounts were credited as earnings of the Reserve Fund Account.
- (3) The cash balances of other accounts within the Public Account were inflated—that is, they showed a greater amount than the actual cash balance available, owing to the fact that part of the cash in the Public Account making up their balances had been expended without such expenditure being entered against them.
- (4) The system of parliamentary control of expenditure was rendered ineffective, as it was made impossible for the Controller and Auditor-General to satisfy himself, as required by section 55 (3) of the Public Revenues Act, 1926, that there was a sufficient balance in the Public Account to the credit of the respective accounts to meet other charges named in the requisitions and bank orders when submitted for his counter-signature.

The general effect was to render the various cash accounts, and also the departmental revenue accounts published in B.—1 [Part IV], incorrect and misleading. In the opinion of the Audit Office, there was no necessity to exercise the authority in the manner adopted, for the Reserve Fund securities could readily have been sold to other accounts within the Public Account pending final realization, thus providing the necessary cash in the Reserve Fund Account, and avoiding the serious interference with the system of control and with the accuracy of the various accounts which arose as a result of the method adopted.

Audit of Expenditure from the Unemployment Fund.

Section 5 (2) of the Unemployment Act, 1930, provides that no moneys shall be payable out of the fund except by direction of the Minister of Finance, acting on the recommendation of the Unemployment Board.

Owing to the many and various methods adopted of providing relief for unemployment, and the continual changes in such methods to meet altered conditions, it has been a matter of some difficulty for the Audit Office to assure itself that the expenditure from the fund was approved in terms of the Act. I am satisfied, however, that all the expenditure has been made substantially in accordance with the approvals of the Board and the Minister, though in some cases the approval of the Minister was not obtained until after the expenditure had been made.

The method of authorizing expenditure has recently been altered in such manner as to give the Board a greater discretion as to the application of the moneys from the fund, the control of the Minister of Finance being now chiefly directed to ensuring that the total expenditure does not exceed the amount authorized by him from time to time. Steps are being taken with a view to introducing a different system of recording the authorities of the Board for making expenditure, and the checking of the expenditure vouchers against such authorities will be more easily carried out by Audit. I may add that the checking of this expenditure has considerably increased the work of the Audit Office.

Method of utilizing Public Balances.

Under clause 16 of the agreement between the Government and the Bank of New Zealand (see B.—15A, 1914) the bank is required to allow interest *on the total daily balances of all Government accounts* at Wellington (exclusive of accounts for funds appropriated for disbursement) at the rate of 2 per cent. up to £400,000, and at the rate of 1 per cent. from £400,000 to £1,800,000, no interest being