

Defence Purchase Division.

For the purpose of co-ordinating purchases of stores for the armed Services and ensuring that such purchases are bought to the best advantage the Treasury Department established a Defence Purchase Division.

Following on the state of emergency which arose towards the close of last year, the Army Department found that it required urgently large quantities of a variety of stores mainly connected with motor transport. Considering that the machinery of the Defence Purchase Division operated too slowly to permit of the stores being purchased in the time available, the Army Department proceeded to make its own purchases which, in some instances, were made without competitive quotation.

Financial Arrangements, Middle East.

The cost of maintaining the 2nd New Zealand Expeditionary Force overseas falls on New Zealand, and in order to simplify accounting procedure it has been agreed between the Imperial and New Zealand Governments that the former should meet all costs of maintenance and charge New Zealand a daily capitation rate. This agreement dates from 1st December, 1940, and, although agreed to in principle, the actual rate or charge has not yet been definitely fixed.

Motor-vehicles Impressment.

Regulation 10 (2), Impressment Emergency Regulations 1939, referring to valuation of motor-vehicles impressed, states, *inter alia*, "In no case shall such assessment of value exceed the price paid by the owner, less a reasonable sum for depreciation." Examination of payment vouchers showed that this regulation had been disregarded in 103 cases and indicated that payments of a total of £1,580 8s. 3d. had been made in excess of the amounts paid by the owners. Explanation of this apparent overpayment was asked for some weeks ago, but is not yet to hand.

In addition to the vehicles bought under the impressment regulations many were purchased for Army needs by negotiation with the owners. In the opinion of the Audit Office purchases in this manner should not have been made, as the safeguard of Regulation 10 (2), previously referred to, was not thereby provided.

Contracts.

In former reports the subject of "cost-plus" contracts has been mentioned, with particular reference to their use in defence construction contracts, and this type of contract is still in operation, although it has defects which have evoked criticism in many places where it has been used. The circumstances in which these contracts find favour include:—

- (a) Where the time element is of great importance :
- (b) Where productive capacity is so limited that every productive unit, efficient or otherwise, must be pressed into service :
- (c) Where lack of production experience makes the accurate estimation of likely costs difficult or impossible.

Amongst its defects are the following:—

- (1) The contractor receives his percentage to cover overhead and profit irrespective of results or cost :
- (2) The more the cost is inflated, the greater the fee received by the contractor :
- (3) Incentives to speed, and to economy in the use of labour and materials are lacking :
- (4) The limitation of profit to a percentage on capital employed offers no reward for special effort ; neither does it penalize inefficiency or negligence.

The "cost-plus" system was applied during the year principally to building operations, shipbuilding and ship-repair, and munitions-manufacture. In respect of ship-repair work and munitions-manufacture, standardized contract forms have been devised, but the Audit Office understands that Departments have not made use of them despite the desirability of ensuring that contractors should know what expenses the Crown is prepared to allow or disallow. There is very considerable diversity in the methods at present adopted for assessing overhead and profit allowances, and it is desirable that they be placed on a uniform basis for each manufacturing group.

In respect of ship-repair, the Audit Office was not given the opportunity it would have wished to check expenditure as it proceeded, and as regards munitions contracts the data on which the Government Costing Officers based the prices agreed upon is not available in suitable form for ready investigation by Audit.