

In previous reports the disadvantages of cost-plus contracts have been referred to at some length, and although I am assured that munitions contracts are now placed, where possible, on a competitive basis, this has not infrequently been found to be impracticable, and the cost-plus system has again been applied to a considerable extent. Contracts have also been let on sole tender. In connection with cost-plus contracts, the Ministry's cost accountants make an examination of the contractors' accounts; and the check on sole-tender contracts is a comparison of the tender price with an itemized cost statement prepared by the Ministry's technical officers, but the accuracy of such a statement should be later supported by reference to the contractor's profit and loss account. Although such reference has not been applied to any extent, there have been some investigations which, in respect of two cases, resulted in refunds of some £20,000 being obtained.

The staff attached to the Audit Department available for examination of contractors' accounts has been very limited, being confined almost wholly to one officer. His inquiries have tended to support the reasonableness of contract prices, except in one case which is being referred to the Treasury with a view to securing a suitable reduction.

Although there has been no actual refusal by a contractor to submit accounts for scrutiny, some firms have shown reluctance to do so, and the Audit Office suggests that, apart from any stipulation made in any contract, clear statutory general authority should be provided to allow of any desired examinations by Government officers.

(i) Defence Purchase Division

It was mentioned in my last report that the Army had taken the purchase of mechanical transport stores into its own hands, instead of making such purchases through the Defence Purchase Division. The position to-day is that, whilst use of the Defence Purchase Division is being made, Army still has its own buyers directly purchasing in the market. Thus a main purpose of the Division, the co-ordination of the purchase of stores, is not fulfilled.

(j) Motor-vehicle Impressment

Attention was drawn last year to overpayments aggregating £1,580 8s. 3d. to 103 owners of vehicles, and this matter has not yet been put in order by legislation validating the overpayments, or by recovery of the amounts overpaid.

The Army has released for sale to the general public a large number of trucks of varied makes and types which had been impressed. In this connection the Audit Office has represented to the Army Department that careful attention will require to be given to the disposal of spare parts and accessories held for these vehicles and for vehicles which are being written off charge as unserviceable, and that it will be necessary to ensure that those of a type no longer required by Army or surplus to requirements are disposed of without delay.

An arrangement has been made for the sales of trucks referred to in the previous paragraph hereof to be made through dealers at a liberal rate of commission, and the Audit Office has represented to the Honourable the Minister of Finance that Impressment Officers might themselves effect disposal and so save this considerable charge.

(k) Aviation Fuel

This commodity is handled on behalf of the Air Department under contract by two oil companies, and in terms of the contract the companies are paid a fixed price per gallon to cover wharfage, handling and storage costs, loss by evaporation, and profit. The price per gallon was based on an estimated turnover which experience has proved to be wide of the mark. It is probable that the estimate will be doubled, and as this should greatly reduce the companies' costs per gallon the Audit Office has pointed out the necessity for a review of the contract terms, and this is being undertaken. As the sum to be paid to the companies if the present rate of turnover is maintained will be in the vicinity of £250,000, the need for exact costing will be appreciated.

(l) Contracts

Building Contracts.—Much the greater part of building constructional works for defence purposes is now being effected on the "master schedule" basis introduced into this sphere of activities by the Commissioner of Defence Construction, as referred to in my last year's report. Competitive quotations are not obtained, but contracts are arranged upon schedules of quantities priced according to schedules