"Cost-plus" contracts appear to be unavoidable in some classes of ship-repair work, as distinct from shipbuilding, but the Audit Office has not had the staff necessary to verify actual costs. In this class of contract the Navy Office and the Marine Department are expected to exercise close supervision, particularly as regards the time entered as the basis of the claim in respect of direct wages, and departmental officers enface appropriate certificates on the claims submitted for payment. The Audit Office has been able to do little more than try to ensure that Departments realize fully their responsibilities in the matter.

Advances to Freezing Companies.—Advances in connection with the erection of emergency cool-storage facilities have again been the subject of Audit examination as occasion arose, and the special construction accounts of those canning companies which have received advances from the Government to enable them to build new canneries or to extend existing buildings and plant have also been investigated.

Transports.—Examination of claims for the hire of transports revealed a number of inconsistencies in the method of computing charges, and it was found that although the terms of hire had been agreed upon by correspondence, they had not been reduced to a formal charter. The Audit Office drew the attention of the Marine Department to the desirability of a charter setting out the precise terms of hire, and action in this direction, although not yet complete, is under way.

Earth-moving Plant.—In connection with the defence construction programme, the Public Works Department arranged with certain companies and individuals to operate earth-moving plant. The agreed hourly rates appeared, upon examination of contractors' claims by the Audit Office, to be over-generous, and it suggested to the Public Works Department that actual operating costs should be ascertained by reference to the accounts of selected contractors. The suggestion was adopted, and resulted in a considerable reduction in the rates payable. The Department was of opinion that payments already made should stand, but the saving of public moneys consequent upon the reduction will still be substantial.

Army Huts.—A very large contract for the construction of some 8,500 Army huts had been arranged at a fixed price per hut, but information obtained by the Audit Office indicated that such price was excessive. Treasury and Audit then made an investigation, with the result that a saving of some £30,000 was effected.

Reconciliation between the number of huts and other temporary buildings paid for and the number on ledger charge has not been effected by the Army Department. This should be made to ensure that all these structures are on charge, and to allow of their being traced to their use and ultimate disposal.

Oral Contracts.—There have been a few instances during the year of urgent defence construction works being carried out on oral instructions without pre-arranged basis of remuneration, or definite limit on the extent of the work to be done, and without making provision for inspection of the work as it proceeded. Such circumstances are liable to encourage extravagant claims, to lead to unnecessary work being carried out, and to render difficult the production of satisfactory certificates as to what actually was done.

(*m*) Army Stores

Ordnance Depots.—A vast quantity of stores has passed through ordnance depots during the year, and the capacity of storage accommodation has been taxed to the utmost. The unsatisfactory position in regard to stores accounting at ordnance depots mentioned in my last report still exists. Stores transactions have been ledgered, but in numerous instances ledger balances bear little relation to actual stocks. With reference to the main depot, the Audit Office on 31st December, 1941, wrote to the Army Department as follows: "No complete stock-taking has been made at the depot for some years, and apparently no stocktaking during the war period is contemplated. The results of the Inspector's stock tests show that the accounts are in a far from satisfactory state, and it would seem essential, therefore, that the number of permanent stocktakers be increased to provide that all lines are checked at least once during the year instead of once in three years, as required by 'Instructions relating to Accounting for Stores.'"

The Army Department's reply, dated 27th April, 1942, reads: "It is intended to institute a system of continuous and progressive stocktaking in all ordnance depots as soon as suitable personnel can be obtained to undertake this work. The change-over of the staff from a civil to a military basis should facilitate this. A recommendation was made some months ago that suitable men should be released from other Government Departments for this work, but the men were not forthcoming."