

*(n) Contracts : General*

Reports from Great Britain, United States of America, and Canada show that many war contracts in those countries to which the State has been a party have been investigated to ensure that contractors have not received more than a reasonable profit. When unduly high profits have been disclosed, refunds have been negotiated.

The Audit Office has, so far as staff was available for the purpose, inquired into profits made on war contracts in this Dominion, and has also examined reports on the same subject made available by other Departments.

A figure of 6 per cent. return on capital, after deducting income-tax at basic rates, has been given by the Minister of Finance as a profit guide to Departments concerned in the negotiation of war contracts. In some cases noticed by this Office this rate has been far exceeded, and in others profits earned have been in excess of the rate fixed by the terms of the contract. In only a few cases, however, has an endeavour been made to effect re-negotiation.

Authority was given in section 2 of the Finance Act (No. 3), 1943, for the Treasury or Audit Office to investigate Government contracts, and to require information concerning them. In one case the Audit Office had reason to believe that the information to which its representative was entitled was not forthcoming, and an effort, which was unsuccessful, was made by way of Court proceedings to apply the penal provisions of the statute. This action was taken only after the most careful consideration of the relative circumstances and in agreement with the opinion of the Crown Law Office. In no other case has the Audit Office had to complain of the attitude of a contractor when information was asked of him.

When the Audit Office is of opinion that contracts negotiated by Government Departments have returned the contractor too high a rate of profit, it is itself able to take no action beyond placing its views before the Department concerned and before the Treasury as the central controlling financial Department. In this connection I am constrained to comment that the Treasury itself was concerned in the negotiations of certain contracts, and was thus placed in the position where it may not have been able to consider any Audit submissions concerning those contracts with the same detachment as it otherwise would.

*Building Contracts.*—In my last report mention was made of the desirability of testing the fairness of prices paid under master-schedule contracts by reference to the actual profits earned by contractors as shown by their own records. Accordingly, arrangements were made with the Public Works Department that it should examine contractors' accounts, and, in all, the results of over eighty contracts of a total value of well over £1,000,000 were obtained. The investigations showed that contractors were earning profits far beyond the 5 per cent. on profit-bearing costs contemplated by the master schedule, and representations were made to the Department that it should endeavour to recover from contractors sums considered to be in excess of fair and reasonable profits. In December last departmental representatives met a committee of the Federated Builders' Association of Employers and agreement was reached with the committee for re-negotiation of contracts on a voluntary basis. After some delay a Contracts Adjustment Committee was set up to review the accounts of those contractors who were agreeable to adjustment, but to date no determination in respect of any contract has been made by the Committee. In fact, the latest information to reach the Audit Office is that the Federated Builders' Association has withdrawn its member from the Committee and has suggested that the Committee be disbanded. The total value of contracts let under the master-schedule system is estimated by the Public Works Department to be in excess of £15,000,000, and the totals of the contracts let to individual contractors vary from less than £1,000 to £1,500,000.

*Munition Contracts.*—Fixed-price contracts let by the Munitions Controller contain a clause giving him the right to examine the books, accounts, and records of the contractors, and, in the event of the examination disclosing that the profits earned are unreasonably high, providing for such reduction of the contract price as the Minister of Supply and Munitions may determine. In the exercise of this right the accounts of several contractors have been examined by the Ministry and a number of refunds of considerable amount arranged.