Shipbuilding Contracts.—The construction of vessels in State-owned and private shipyards has continued at a high level during the past year, a prominent feature being the number of types constructed.

The Audit Office has maintained a reasonably close check on current payments, and has supplemented this check in selected instances by an examination of contractors' accounts. Where contractors appear to have earned high profits the circumstances have been reported to Treasury, but in no case has this resulted in any cash recovery to the State.

In my last report I advised that the Controller of Shipbuilding intended to retain the target price type of contract in respect of ship-construction, but contracts let since that date have actually been (*a*) firm price contracts, or (*b*) cost plus a percentage, or (*c*) cost plus a fixed price.

As the production or turnover of shipbuilding contractors has expanded, a percentage to cover actual overhead expenses, based on a previous year's accounts, has usually resulted in the contractor receiving a " profit " on such expenses, but this profit has been the reflection of a larger turnover rather than an indication of increased efficiency. In response to Audit representations, Treasury therefore has agreed that, where possible, contractors' overhead expenses will be reimbursed on the basis of actual cost rather than on a percentage of wages cost.

Ship Repairs.—During the year this work has mainly been carried out at schedule rates approved by the Price Tribunal, and the Audit Office has accepted certificates to payment vouchers based upon reports by departmental recorders and engineers.

As from 1st January, 1944, a new organization, the Ship Repairs Costing Service, operating under the Controller of Shipbuilding, is responsible for certifying ship-repair claims payable by the New Zealand Government, including claims met as reverse lend-lease payments.

Cost-plus Contracts.—In addition to cost-plus contracts let by the Shipbuilding Division of the Marine Department, this type of contract has been employed by other Departments, including the Munitions Controller's Office and the Public Works Department.

The Audit Office has, as far as practicable, satisfied itself either from departmental certificates or from its own investigations that claims in respect of wages and materials on which recoupment is made and on which the " plus " item is calculated agree with contractors' records.

(*o*) Army Buildings

Reference was made in last year's report to the desirability of keeping a close record of possession, use, and ultimate disposal of huts and buildings erected for the Army Department. In this connection the buildings scheduled below are stated by the Public Works Department to have been erected on behalf of Army and United States Forces up to February, 1944 :—

Stores	717
Hospitals	34
Other buildings	8,972
Huts	26,770
Tent decks	7,462

The Army Department has endeavoured to keep a record of all buildings and huts occupied by Army personnel, but at the time Audit made an inquiry it had not attempted to reconcile the numbers of which records were held with the numbers for which payment had been made to the Public Works Department. As large numbers of buildings and huts have been transferred from their original sites or sold, it is extremely doubtful whether reconciliation is now possible.

The Audit inquiry into the position elicited the information that, although the Public Works Department had charged the Army Department with the cost of all huts, many had been retained by the former Department for the use of its own employees and for men employed by contractors on defence works and other essential undertakings. These huts had not been taken on ledger charge by either Department.