To obviate the possibility of overdrawing the Warrant in this manner it has now been arranged that separate Warrants shall be obtained for issues from the London and Wellington Branches of the Public Account respectively, and it will be impossible in future to issue moneys not covered by the Governor-General's Warrant without the knowledge of the Audit Office. The new system has been found to work smoothly.

An amendment to form (3) in the First Schedule to the Public Revenues Act, 1926, appears to be necessary to give authority for the issue of separate Warrants for the Public Account in New Zealand and the New Zealand Public Account in London, and the Treasury has expressed its intention to promote such amendment.

Working Railways Account.

Interest on Capital.—Section 38 (1) (*a*) of the Government Railways Act, 1926, provides that there shall from time to time be paid out of the Working Railways Account into the Consolidated Fund interest on the total amount of capital moneys expended in respect of the railways. By Regulation No. 7 (*New Zealand Gazette*, 1926, Vol. 1, page 537) provision is made under which such interest is to be paid monthly. It was ascertained by Audit that such interest was not being paid monthly as provided by the regulation, portion of the amounts due being in some cases held over for several months. The attention of the Treasury was drawn to the matter, and it was pointed out in reply that it seemed inequitable that the payment of interest should be made monthly by the Railways Department while the payment from the Consolidated Fund to the Working Railways Account, under section 37 (1) (*b*) of the Act, in respect of losses on branch lines, was to be made only at six-monthly intervals under Regulation 16. The matter was referred to the Crown Law Office, which held that the one payment could not legally be set off against the other. Further regulations were therefore made by an Order in Council dated 30th March, 1927, enabling the payments from the Consolidated Fund under section 37 (1) (*b*) of the Act to be made monthly, as a set-off against the payment of interest.

Government Railways Superannuation Fund.—Section 114 of the Government Railways Act, 1926, provides for increased benefits for widows and children of deceased contributors to the above fund, and states that there shall, without further appropriation than this section, be paid out of the Consolidated Fund to the Superannuation Fund an amount sufficient to provide for the payments to be made pursuant to this section. Provision is also made by item No. 1 under the Working Railways vote for these payments to be made out of the Working Railways Account. As there are two separate provisions for the same payments to be made from different accounts the intention is not clear, but the only way of complying with the law would apparently be to pay in the first place from the Consolidated Fund, and to recoup that fund by a charge against the Working Railways vote. No payment has, however, been made out of the Consolidated Fund as required by section 114, the payments having all been made out of the Working Railways Account.

It is understood that an amendment of the law is to be considered with a view of making the matter clear. Should it be decided to amend section 114 to enable the charge to be made against the Working Railways Account instead of the Consolidated Fund, it would seem advisable to similarly amend section 119 (*b*) of the Government Railways Act, 1926, to enable the deficiency therein mentioned to be met out of the Working Railways Account.

Education Endowments.

Education Reserves Amendment Act, 1914.—During the year it was noticed by the Audit Office that capital moneys belonging to education endowments amounting to £7,850 12s. 10d. were lying uninvested. These moneys were the proceeds of sales of education-endowment lands under section 3 of the Education Reserves Amendment Act, 1914, and under that section are required to be invested in other lands to be held for the same educational purposes as the land sold. The Education Department proposes to introduce legislation to enable such moneys to be temporarily invested, so that interest may be earned on the capital sum pending final disposal in the manner contemplated by the Act.

Education Reserves Amendment Act, 1924, Section 4.—Subsection (3) of section 4 of the Education Reserves Amendment Act, 1924, provides that the revenues from secondary-education endowments in each provincial district shall be paid by quarterly instalments to the governing bodies of secondary schools in that district, " in proportion to the number of pupils in average attendance at the several secondary schools, exclusive of the pupils in any lower department." The phrase " average attendance " is not defined in the Act, but was defined by an Order in Council (*New Zealand Gazette*, 1911, Vol. II, page 2908) as the average attendance for the year ending 31st December preceding. During the year this Order in Council came under the review of the Crown Law Office in connection with a case referred by the Education Department regarding the establishment of new secondary schools, and was held to be *ultra vires*, it being stated that legally the quarterly payments should be based on the average attendance for the quarter in respect of which the payment is made.

It follows from this ruling that the payments of secondary-education revenues to the secondary schools have since the year 1911 not been made strictly in the manner required by law. As there are difficulties in the way of paying over the revenues in the manner required by the Act, it is proposed to seek an amendment of the law. In anticipation of such amendment the Audit Office has passed the payments to secondary schools during the year on a basis as near as practicable to that required by the present Act.