

each. A commercial project is undertaken with a view of gain, and no capital would be embarked unless the undertaking offered a reasonable prospect of profit. In the case of Government concerns the primary object is the promotion of progress and prosperity of the country; and although it is desirable that such concerns should, as far as is possible, be managed by good management and economical administration, be at least self-supporting, the real test of success or otherwise should be expressed rather by the amount of the economic advantage derived than in pounds shillings and pence. Especially is this the case with the Railway Department Balance-sheet, which may show a loss as measured by the excess of expenditure over revenue, but if judged from the point of view of the advancement of settlement and the economic welfare of the Dominion the balance would probably be quite on the other side.

A proposal for a co-operative buying scheme for Hospital Boards led to representations being made by the Boards to the Treasury with a view of ascertaining whether the Treasury would assist the Boards in making payment for overseas purchases. The Audit Office expressed the opinion that, whilst there did not appear to be any serious objection to the machinery of the Public Account being used for the purpose of purchasing hospital supplies, it was advisable that legislative authority should be obtained for such services. It also suggested that the required cash should be first lodged by the Boards to the Public Account, and that a charge sufficient to cover the cost of services rendered by officers of the High Commissioner's Office should be made.

LOCAL AUTHORITIES.

In my last year's report I commented on the fact that, owing largely to insufficiency of staff in past years, the work of auditing local authorities' accounts had been allowed to fall into arrear. I am pleased to be able to report that the inspectional staff has now been increased, and that the arrears have been very considerably reduced. As soon as the work has been brought quite up to date, there should be no difficulty in keeping it so, provided the accounts are submitted for audit promptly by the local bodies. In many instances, however, delays in audit of local authorities' accounts are due entirely to the fact that balance-sheets are not ready for examination at a reasonable date.

Local-authority accounts are annually increasing in size and numbers, and to-day the audit work in connection with this branch alone has assumed considerable proportions, as will be seen from the following figures: Borough Councils audited, 120; County Councils, 126; Electric-power Boards, 45; Hospital Boards, 50; Town Boards, 73; Harbour Boards, 41; River Boards, 46; Drainage Boards, 68; Road Boards, 46; educational bodies, 78; Fire Boards, 51; Rabbit Boards, 50; Cemetery Boards, 338; Domain Boards, 735; various, 99: total, 1,966.

The varying provisions of law governing the payment of travelling-expenses to members of local authorities is a matter which has previously been commented upon by me, and Audit continues to experience considerable difficulty in maintaining observance of the various statutes in this respect. Separate provisions regarding travelling are contained in the several Acts of Parliament governing local authorities, and breaches of these provisions, either through ignorance or carelessness, or open disregard of the law, are constantly occurring, and lead to interminable correspondence between Audit and local bodies. It has been suggested that legislation should be introduced, providing for uniformity of treatment of members of all local bodies as regards travelling-allowances.

Another matter to which I again desire to call attention, is the statutory provisions governing the disqualification of members of local authorities; and in this respect also the various governing statutes provide each for its own condition of disqualification. A member of one local authority may, under certain conditions, be disqualified, whilst, under exactly similar circumstances, a member of another local body would retain his seat. In the case of some local authorities a disqualified member may seek re-election immediately, whilst in the case of one other a member disqualified for an identical breach of law is debarred from re-election for a period of three years.

Audit finds some difficulty in administering those sections in the Municipal Corporations Act, 1920, which deal with trading accounts—viz., sections 110 to 125—and suggests that early consideration should be given to their revision. The sections as at present enacted render it impossible for Audit to compel a true statement of profit and loss to be prepared, as there is no obligation on the part of local authorities to provide for adequate depreciation of the plant and machinery used in the undertaking. In many cases also, the period of the currency of the loans out of which the assets are created is greatly in excess of the estimated life of such assets, and the amounts set aside to provide for the repayment of the loans at maturity date are in many cases totally inadequate for such purpose. For these reasons provision for depreciation should be made mandatory, otherwise new loans will require to be raised for replacing the plant or machinery during the life of the original loans, and the burden of debt will thereby be increased unaccompanied by any corresponding increase in the earning-capacity of the undertaking. Audit realizes, however, that to make it compulsory to annually charge full and proper depreciation, as well as to set aside a sufficient sinking fund to repay the loan at maturity, in addition to the annually recurring expenditure on repairs, &c., would entail a heavy burden in the case of the less successful undertakings, and therefore suggests that legislation should also provide that from the amount required for depreciation a local authority may, if it thinks fit, deduct the amount of sinking fund set aside for repayment of such parts of the relative loans as have been expended in the purchase of the depreciable assets.

During the year defalcations on the part of local-body officials amounted to seven in number and these were in every instance dealt with by criminal action.

The following is a list of breaches of statute by local-body members and officers which have been dealt with by the Audit Office during the year, and in all cases adjustments have been required or