

or for a period, and in such cases a loan is arranged between such accounts, either by way of temporary advance under section 40 of the Public Revenues Act, 1926, or by the sale or issue of Government securities by the borrowing account to the lending account. A uniform rate of interest on temporary advances under section 40 has been fixed by the Treasury at 4 per cent., but it has been noticed that the actual rate fixed is far from uniform in the case of loans between Government accounts in New Zealand for which securities are issued, even in the case of loans issued at the same time and under similar circumstances.

This matter has assumed an entirely different aspect since the advent of the departmental Revenue Accounts and Balance-sheets, in so much that it is possible, by differentiating between accounts in fixing the rate of interest, to so alter the results disclosed in the departmental accounts as to impair the value of the comparison between one account and another. A simple example will serve to illustrate this. If we take two different accounts representing different commercial undertakings, each with a loan capital of £1,000,000, and suppose that each of these undertakings actually produces a net return of, say, $4\frac{1}{2}$ per cent. on its capital, it is clear that the two undertakings as compared the one with the other are on an even footing. But if we suppose that they have both obtained their capital from other Government accounts, in the one case being charged 4 per cent. interest and in the other case 5 per cent., it is clear that the Revenue Account of the one will show an annual profit of £5,000 while the Revenue Account of the other will show an annual loss of £5,000, despite the fact that the undertakings are in reality equally successful.

The above case is a purely supposititious one given to illustrate the principle, but actual examples of somewhat similar cases have come under the notice of Audit. For example, securities under the same Act have been issued on the same day to different accounts, some bearing interest at 4 per cent., others at $4\frac{1}{2}$ per cent. In another case an account invested in securities of another account on the 1st February at 4 per cent. and on the 1st March at $4\frac{1}{2}$ per cent., though between these dates the current rate offered by the Government on loans had been reduced from $5\frac{1}{4}$ per cent. to $5\frac{1}{8}$ per cent.

Another phase of the same matter is the fixing of the rate of interest at a rate considerably below the current market rate. At a time when the Government is offering $5\frac{1}{4}$ per cent. for loans it seems hardly equitable to allow another Government account only 4 per cent. or $4\frac{1}{2}$ per cent., especially if, as sometimes happens, the lending account has recently borrowed the money at the current market rate. In one case an account which was borrowing from the public at $5\frac{1}{4}$ per cent. borrowed moneys on the same security from another Government account but allowed 4 per cent. only.

It appears that if departmental and trading accounts are advanced moneys from other Government accounts at non-uniform rates during the same period, or at rates bearing no fixed relation to the current rate then being offered for investments in Government securities, the profits or losses of those accounts will be artificially affected, so that the published Revenue Accounts and Balance-sheets will not correctly record the actual financial result of the respective enterprises. Further, if moneys are advanced by one account to another at rates considerably below the current rate on Government loans, the effect will be that part of the interest *earned* by the moneys of the lending account will be credited in the Profit and Loss Account of the borrowing account, and this will be tantamount to granting a subsidy by the lending to the borrowing account although such subsidy would not be disclosed in the accounts.

It appears to the Audit Office that the rate of interest to be charged on loans between Government Departments should be uniform, and should have some relation to the current rate offered to the public on Government loans. It is a matter of considerable importance as affecting the accuracy of the published departmental accounts and balance-sheets.

To give a general idea of the position I append a statement showing the rates of interest on sums borrowed and for which securities were issued by the Treasury in New Zealand during the year 1928-29 :—

Statement showing Rates of Interest on Sums borrowed in New Zealand during the Year 1928-29.
(New loans, including issues in redemption and renewal.)

Rate per Cent.	Amount borrowed from					Total.
	Public, including Public Trust.	Post Office.	State Advances.	State Fire and Accident.	Accounts within the Public Account.	
	£	£	£	£	£	£
$3\frac{1}{2}$	..	230,000	..	..	..	230,000
4	..	11,556,070	..	..	1,984,555	13,540,625
$4\frac{1}{2}$	..	2,869,785	150,000	..	544,995	3,564,780
5	..	256,020	..	..	20,270	276,290
$5\frac{1}{8}$	673,690	..	..	..	..	673,690
$5\frac{1}{4}$	2,297,990	318,970*	..	90,000	5,900	2,712,860
$5\frac{1}{2}$	..	7,200*	..	..	2,500	9,700
	2,971,680	15,238,045	150,000	90,000	2,558,220	21,007,945

* Represents issues to *public* of Post Office investment certificates.