

provided that the cheques should be drawn on the relative Disbursement Account, that a schedule of such cheques should accompany the bank order, and that the bank was authorized to pay only the cheques covered by such schedule and bank order, the position would appear to be adequately safeguarded as regards control of expenditure, without impairing the convenience of the system of payment through Disbursement Accounts.

Native Land Settlement Account.

In view of the remarks of the National Expenditure Commission on Native Affairs I feel it incumbent on me to mention that from time to time I have made representations to the Treasury concerning the unsatisfactory position with regard to the methods employed in accounting for expenditure from the Native Land Settlement Account. I have also drawn attention to the difficulties experienced by the Audit Office in satisfying itself as to the accuracy of certain expenditure charged to the votes. The checking of expenditure involved in the purchase of stock for the various development schemes has been particularly troublesome, and numerous questions have been raised by Audit as to the steps taken by the Department to ensure that the moneys have been properly expended. It has also been necessary for me to make representations that, owing to the absence of details concerning the conditions of purchase, the Audit Office has found it impossible to make a satisfactory audit of much of this expenditure. In this connection I desire to direct attention to the Balance-sheet for the year ended March, 1931, which shows that losses in this account amounting to £1,167,003 18s. have been incurred. In addition to this amount, capital losses have also been incurred which are not readily ascertainable. An examination of the successive annual Balance-sheets of the Department suggests that something should be done to prevent the drift and the steadily increasing losses.

High Commissioner's Office—Irregularities.

In presenting this report I should be failing in my duty if I did not refer to the recent disclosures involving the misappropriation of public moneys by an officer of the High Commissioner's Department and an officer of the Audit Department stationed in London.

It appears from details received to date that the misappropriations were entirely effected by the manipulation of an account in London known as the "Finance Officer's Imprest Account." The existence of this account became known to the Audit Office in New Zealand in the year 1928 as a result of action taken by Audit in connection with certain payments which are referred to on pages xvi and xvii of this report, and also in previous years' reports.

The Audit Office was of opinion that there were several undesirable features in connection with the manner in which the Finance Officer's Imprest Account was being kept in London, which were as follows: Transactions were passed through the account without being recorded in the official Foreign Imprest Account which the High Commissioner was required by the Public Revenues Act to keep for recording *all* imprest transactions in London; transactions were passed through the account without being recorded in the statement of the account forwarded to the Treasury in New Zealand; moneys were paid into the account other than by way of imprest, which moneys by law should have been paid direct to the New Zealand Public Account in London under section 76 of the Public Revenues Act, 1926. The safeguards imposed by this latter section have, I may say, since been to a great extent removed by the enactment of section 13 of the Finance Act, 1930 (No. 2). Audit objection to this weakening of control was mentioned in my report for last year on page xiv.

The Audit objections to the "Finance Officer's Imprest Account" were brought under the notice of the Secretary to the Treasury by memorandum dated the 16th September, 1929, and it was suggested to the Treasury that all the transactions of this account should be passed through the Foreign Imprest Account, London. The detail would then have passed into the Public Accounts of the Dominion and would have been subject to appropriation audit in Wellington. It was also represented to the Treasury that no receipts should be paid into the account, as the Public Revenues Act requires that all such receipts are to be paid into the Public Account, London; further, it was stated that the practice of making payments on non-government services from the account and of paying the recoveries direct to the Finance Officer's Account instead of to the New Zealand Public Account in London should cease, and that all transactions should in future be included in the statements forwarded to New Zealand. It was further pointed out that a statement of the bank balance of this account should be included in the monthly statement of bank balances forwarded to New Zealand.

The Minister of Finance accepted the Audit recommendations and instructed the High Commissioner to arrange to act accordingly. It now appears, however, that the instructions of the Minister were not acted upon by the Finance Officer in London, and presumably did not reach the High Commissioner. Had these instructions been carried out, it would almost certainly have led to the discovery of the defalcations, as the vouchers for all payments made in London would then, in the ordinary course, have come before the Audit Office in New Zealand for review, and it would have been impossible for the officers in London to have concealed any unauthorized withdrawals from the account, except by the wholesale and continued forgery of documents to support such payments, or falsification of the statement of bank balances.

I am also advised that instructions which were issued to the Audit Officer by the Controller and Auditor-General were not communicated to the Assistant Audit Officer in London, and that he was consequently unaware of such instructions until recently.

The defalcations were effected partly by the officers obtaining imprests from the Finance Officer's Imprest Account, without accounting for the expenditure of such imprests, but were for the most part effected by the officers obtaining advances against salary from the same account, and also drawing