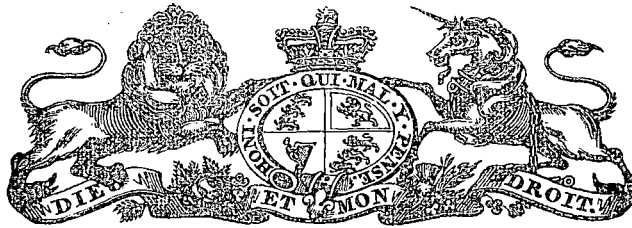


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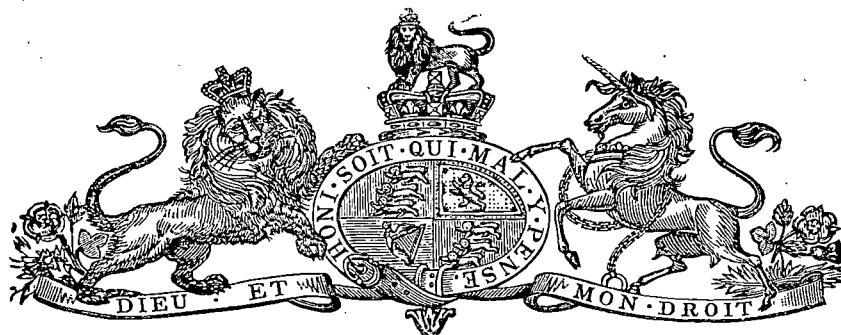
PARLIAMENT OF TASMANIA.

ACCOUNTS OF THE MUNICIPAL COUNCILS OF
HOBART AND LAUNCESTON:

OBSERVATIONS OF THE AUDITOR-GENERAL.

Presented to both Houses of Parliament by His Excellency's Command.

Cost of printing—£2 18s. 3d.



SPECIAL REPORT BY AUDITOR-GENERAL *RE* "AUDIT ACT, 1888."

Audit Department, Hobart, 21st August, 1901.

SIR,

IN the Report of the Royal Commission on the Municipal Government of Hobart and Suburbs, recently presented to Parliament, there are several references to the action of the Auditor-General in his relation to the accounts of the Corporation of Hobart, and it appears necessary that information thereon should be given by me for the guidance of Parliament.

I have the honour, therefore, to ask that the following shall be considered a Special Report under the provisions of Section 27 of "The Audit Act, 1888," 52 Victoria, No. 43:—

System of Accounts—on Cash Receipts and Expenditure Basis.

1. On pages 88 and 121 of the Minutes of Evidence given before the Royal Commission, reference is made to the system of accounts as being a record only of the actual cash receipts and cash expenditure of the year, and to the Auditor-General in 1898, requiring the Corporation to discontinue taking credit for large arrears of rates and other dues remaining uncollected at the end of the year, and to discontinue charging outstanding accounts then unpaid, and establishing the accounts of actual receipts and expenditure. The Royal Commissioners report that they "consider such a system of dealing with public accounts is imperfect and misleading."

It is respectfully pointed out that the National and State's Accounts are kept upon the cash system, and with respect to all local bodies in Tasmania the law requires that this shall be done, provisions to this effect being made in Municipal, Town Board, Road Trust, Marine Board, and other Acts. The provisions of "The Hobart Corporation Act, 1893," 57 Victoria, No. 11, Section 157, are as follows:—"The Council shall cause books to be provided and kept, and true and regular accounts to be entered therein of all sums of money received and paid for on account of the Corporation," &c.

Section 158 reads, "The Council shall, in the first week in the month of January in each year, cause the Accounts of the Corporation, up to and including the thirty-first day of December next preceding, to be balanced, and also cause a full and true statement and account to be drawn out of the amount of all Assessments made and rates levied, and of all contracts entered into, and of all moneys received and expended during the preceding year, and also of all debts then owing by and to the Corporation," &c.

The provisions of Sections 4 and 5 of the Act 59 Victoria No. 46 require the accounts as last mentioned to be forwarded for Audit and publication.

Without venturing to express an opinion upon the recommendations made by the Commissioners, I desire to state that the accounts are kept and presented in the form required by law, and it is clearly my duty to see that the provisions of the Acts are complied with.

Sinking Fund under the Loans Consolidation Act.

2. On pages 89 and 96 of the Evidence a witness makes it appear that Five Shillings per centum upon the Loans under the abovementioned Act were considered sufficient to form a Sinking Fund, the reply to question No. 1987 being, "The Auditor-General says it is ample," but in a later examination corrected himself, and in answer to question No. 2092 stated, the Auditor-General "instructed the Council in his Report, to charge ten shillings per cent."

In reply to question No. 2096, it is made to appear that an Act was passed enforcing payment of Five Shillings per cent., and a quotation from an alleged instruction from the Auditor-General is thus given: "This provision of Five Shillings per cent. is not enough; you must pay ten shillings per cent."

On page 124 of the evidence, another witness, referring to the provision for the Sinking Fund as having been increased from five shillings to ten shillings per cent., quotes the Auditor-General

as saying, "This five shillings per centum is not a sufficient sum to put on one side," and mentions "the fact of his recommending that ten shillings per centum should be fixed on;" and reference is made to the similar provision by the Launceston Corporation.

On page 134 of the evidence another witness is asked, with respect to the provision made for Sinking Funds by the various Municipalities, "It has been a matter left entirely to the Auditor-General?" the witness replying, "I never heard anything about it."

I find a difficulty in commenting upon this evidence, as that dealing with the provision of five shillings, afterwards increased to ten shillings per centum, and the Auditor-General's opinions and instructions thereon, is given under an entire misapprehension. No such remarks were ever made by me, and there was never any such provision as five shillings per centum at all. The facts are, that very shortly after being appointed to my present position in 1895, I brought the question of the condition of the Hobart Corporation Sinking Fund before the notice of the Commissioners of the Fund, of which I was one, and prepared a statement showing that provision was being made for the £150,000 raised under the consolidating Act only, and no provision at all in connection with £50,000 raised under Act 53 Victoria, No. 57, nor for £30,000 raised under Act 47 Victoria, No. 23; and further, that the contribution of £600 for the Sinking Fund for the £150,000 Loan did not comply with the provisions of the Act requiring the setting aside of "such sum of money as shall be sufficient," and would result in a shortage of £56,860 in the year 1930, even if the whole amount of £150,000 was made to mature in that year, and the Fund continuously invested at a rate of not less than four per cent. interest. The estimate made by me for the annual contribution to cover all Loans at that time was £2100 approximately, interest being four per cent. The resolutions recorded in the Appendix to this Report were then passed by the Commissioners, and forwarded to the City Council. The reply appears, also, in the Appendix.

As a result of the action taken, Bill No. 34 of the 1895 Session was prepared, and this was submitted to me by the Honourable the Treasurer through the Honourable the Chief Secretary. The Treasurer's memorandum and my reply thereto appear in the Appendix. The provision of one pound per cent. per annum, there referred to, appears to have been altered, and "The City of Hobart Loans Act, 1895," 59 Victoria, No. 48, was passed by Parliament, relieving the Hobart Council from the obligation imposed by the Consolidation Act, and fixing ten shillings per cent. as contribution to Sinking Fund, namely—five shillings from Water Account, and five shillings from General Account—and applying the provisions of the Act to the whole amount of £230,000 raised. The previous provision of £600 upon £150,000 was equal to eight shillings per cent.

The more recent action for bringing about an amendment of the Act of 59 Vict. No. 48, was taken by me with the view to the correcting of the phraseology of the Act, which made the Sinking Fund contributions to be taken from the General and Water Accounts in equal proportions, instead of in proportion to the amounts raised for general and water purposes respectively. Hence, the reference to the Launceston Act as to the proper expressions to be used. To meet this necessary requirement, "The City of Hobart Loans Act, 1900," 64 Vict., No. 49, was passed, but it by no means meets my views as to the sufficiency or otherwise of the annual contribution, which should now be greater than formerly estimated, owing to the fall in the rate of interest.

As to the question asked whether the provision for Sinking Funds was a matter left entirely to the Auditor-General, I have to say that I have never at any time been consulted on the subject, except as shown by this Report.

Authority for Passing Accounts.

3. On page 144 of the evidence reference is made as to the authority which determines the correctness of accounts before they are passed on to the Auditor-General. It appears necessary to say that all accounts, other than those for wages, are seen not only to bear the certificate or initials of members of Committees, but it is required also that they shall all be stamped "Passed by the Council," and signed by the Mayor.

Wages-sheets are passed upon the usual certificates, supported by signatures, or initials, of members of Committees, and inquiry made as to the authority of the heads of departments to engage labour.

4. I have written at some length, as it appeared necessary to state clearly what were the views of the Auditor-General upon the important questions raised in the Report of the Royal Commissioners, and which views might have been misunderstood from a perusal of that report, and as this is the only opportunity afforded me to correct any erroneous impression which might be caused by a portion of the evidence there recorded.

I have the honour to be,

Sir,

Your most obedient Servant,

J. W. ISRAEL, *Auditor-General.*

APPENDIX.

*Extract from the Minutes of Meeting of the Hobart Corporation Sinking Fund Commissioners.
27th March, 1895.*

The following Resolutions were passed on motions of the Auditor-General, seconded by the Honourable the Treasurer:—

1. That the provisions of Sections 12 and 15 of Act 43 Vict. No. 22, be taken into consideration, and that the Hobart Municipal Council be requested to seek an amendment of the Act in the direction of removing doubts as to the time within which Debentures issued under such Act are to be redeemed, the period of redemption to be so arranged that all such Debentures, including renewals, shall have had a currency of 50 years.
2. That application be made to the Hobart Municipal Council to set apart in the Sinking Fund annually such sums as shall comply with the requirements of Section 15 of the Act (43 Vict. No. 22).
3. That as no provision has yet been made for any payment to the Consolidated Sinking Fund in connection with the £50,000 borrowed under Act 53 Victoria No. 57, the Council to make such annual provision.

Attention was also called by the Auditor-General to the Sinking Fund of one per cent. required for the £30,000 borrowed under Act 47 Victoria No. 23, for which no provision is made.

Approximate amount required for the Sinking Funds, including expenses, say £2100 per annum, at present provided £600.

6th May, 1895. Resolutions submitted by Commissioners of Hobart Corporation Sinking Fund.

REPORT.

The Committee of the whole Council report that they have had under consideration the Resolutions submitted by the Commissioners of the Hobart Corporation Sinking Fund, and recommend, "That the matter be left in the hands of the Finance Committee to consult with the Attorney-General, and report result of interview to the Committee."

(Signed) JOHN WATCHORN, *Chairman.*

Treasury, Hobart, 5th September, 1895.

MEMORANDUM.

SEVERAL Bills are now before Parliament which affect the financial position of both Hobart and Launceston, and the Loans for which Government has guaranteed the interest. Instead of moving for a Committee of enquiry into the financial position of both Corporations, I deem it better to ask for a Report from the Auditor-General, such as I can print for the information of Honourable Members, and as they can have before them, when giving attention to the said Bills. I allude especially to Bills Nos. 3, 5, 6, and 34. Kindly procure said Report for me.

The Sinking Fund provision is of great importance in the Report.

(Signed) P. O. FYSH.

The Honourable the Chief Secretary.

WILL the Auditor-General be good enough to prepare a Report, in accordance with the request of the Honourable the Treasurer.

(Signed) WM. MOORE.
5.9.95.

Extract from Reply to above Letter.

9th September, 1895.

Bill No. 34—"Amendment of Loans Consolidation Act."

Section 3.—The provisions of this Section are necessary for the purpose of removing doubts as to the legal currency of Debentures issued under the Loans Consolidation Act.

Section 4.—This Section provides for the amounts to be set apart to form the Sinking Fund for the redemption of Debentures issued under "The City of Hobart Town Loans Consolidation Act, 1880." The Debentures "issued under the said Act" amount to £150,000, and they will be finally redeemable, after a fifty years' currency, £10,000 in the year 1930, and £50,000 in the year 1938; the one pound per cent. per annum (chargeable ten shillings to Water Account, and ten shillings to General Account) therefore, will require a payment of £1500 per annum, and the investments continuously made must be at the rate of nearly four per cent. per annum to ensure the discharge of the Loan of £100,000 in 1930, and £50,000 in 1938. This, it should be mentioned, takes into account the investment, at the same assumed rate, of the present accumulated fund. There are, however, two other Loans to be dealt with, and both guaranteed by the Government, namely, £50,000 under 53 Victoria, No. 57 for water and streets purposes, and £30,000 under 47 Victoria, No. 23 for water purposes. Act 53 Victoria, No. 57, is made subject to the provisions of the Loans Consolidation Act, but no sinking fund has been provided by the Corporation in connection with this Loan, and it is doubtful whether these debentures would be included in the expression "issued under the said Act" in the section of the Bill now under notice, especially as Section 5 ratifies the past action of the Council.

A Sinking Fund of one per centum should, under the provisions of the Act, have been formed in connection with the £30,000 Loan raised under 47 Victoria, No. 23, but this has not been done.

It now seems necessary that, notwithstanding anything contained in Acts 47 Victoria, No. 23, and 53 Victoria, No. 57, the £30,000 and £50,000 loans respectively should be brought under the operation of the Sinking Fund Clauses of the Loans Consolidation Act, being thus placed in the hands of the sinking Fund Commissioners, and that the provisions of Section 4 of the present Bill (34) be made to apply to the two amounts, £30,000 and £50,000, so as to form the Sinking Fund for the full indebtedness of £230,000 requiring an annual contribution of £2300, which amount, at least, it is now necessary to provide.

An indemnity also is required for the non-provision for the Sinking Fund under 47 Victoria, No. 23 (£30,000 Loan) from the time the Loan was raised—eight years since,—and provision is required to give this Loan a currency of 50 years as it matures in 1902 (15 years' currency), and there appears to be no power of renewal.

J. W. ISRAEL, *Auditor-General*.

Audit Department, Hobart, 23rd August, 1901.

SIR,

If the proceedings of the House of Assembly last night are correctly reported in this morning's *Mercury*, there is still a misconception as to the extent of audit to which the accounts of the Corporations of Hobart and Launceston are submitted.

It is stated that in the Hobart accounts there was no record of Stock; that the City Surveyor told the Royal Commission on Municipal Government that there had never been a Stock list taken during the ten or twelve years he had been there, and it had been complained that the Auditor-General should have allowed that state of things to exist, while in his Report on the Launceston Corporation he praised the way in which the Stores Account was kept; that there was a Stock Account at Launceston; and that it was not obligatory on the Hobart Corporation to keep one.

As these statements, so publicly expressed and so widely published, must convey the impression that the Auditor-General is careless, or negligent in the discharge of his duties, I have the honour to request that I may be allowed to supplement my Report of date the 21st instant, as follows:—

There is no distinction whatever in the method of dealing with the audit of the accounts of the two Corporations, whether as to stores or otherwise, unless, indeed, it be on matters of minor importance. In my Report on the 1897 Accounts, I was able to say, after much urging of the question upon the Hobart Council, that a system of stores accounts had been instituted, and a storekeeper appointed. The Stores Accounts were again referred to in my 1898 Report, where I said, "His Worship has joined in improvements recently made in the direction of obtaining more complete check over the accounting for stores received and issued for various services." On page 71 of my Report for 1899, and again on page 73 of my 1900 Report (the last issued), reference is made to the taking of stock of these stores. The special notice as to Launceston, referred to in Parliament, was made for the purpose of explaining the large amount of time of the officers engaged in inspection work, the stock of electric light and other material being much greater than that of the Hobart stock.

The work of checking the receipts and issues of items of stores on to compilation sheets and into the Stores Books is a matter of daily routine in this department, and the services of one clerk are almost wholly engaged therein, as well as much of the time of the Inspector of Stores at time of stocktaking and verification. The number of items of stock on the ledger at Hobart at last period of stocktaking was between 900 and 1000.

There is no "Stock Account" shown in the balance sheets of the Corporations, either at Hobart or Launceston, as all stores purchased are charged out direct, and not to any Suspense Account. Notwithstanding this, as I have explained, the various stores are seen to be specially recorded as received, issued, and on hand, in proper stock books.

Mr. Milles, the City Surveyor, authorises me to state that his replies to the Royal Commission applied to the placing of values against all items of stock, but this would be a matter of special preparation, and has nothing to do with the correct audit of accounts as hitherto conducted.

I have the honour to be,

Sir,

Your obedient Servant,

J. W. ISRAEL, *Auditor-General*.

The Honourable the Chief Secretary.