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THE
PRINCIPLES & PRACTICE
OF THE
SYSTEM OF CONTROL
OVER
PARLIAMENTARY GRANTS

THE
PRINCIPLES & PRACTICE OF
THE SYSTEM OF CONTROL OVER
PARLIAMENTARY
GRANTS

BY
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Chief Paymaster, War Office

WITH A FOREWORD BY
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Assistant Financial Secretary, War Office

By Special Appointment



to His Majesty the King

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To
The Right Honourable
DAVID LLOYD GEORGE
P.C. D.C.L. LL.D.
*Prime Minister of Great Britain
and Ireland
First Lord of the Treasury*

THIS BOOK
IS
DEDICATED
BY PERMISSION

FOREWORD

RED tape is a rhetorical name given to fixed routine by critics who fail to see its utility. Frequently the routine is useful and the failure is due to narrowness of the critic's field of vision. Sometimes the utility does not exist and the routine is pernicious. The mere use of the name proves nothing.

There are some who confidently assert that pernicious red tape is deliberately manufactured by hide-bound officials, of sheer naughtiness. Others, more charitably, opine that it is produced unwittingly by multitudes of industrious workers, each blindly making his own little addition until, like a coral reef, the mass becomes a barrier within which reigns deep peace, whatever currents or waves of activity may beat upon it from without. But, in fact, all red tape is in its origin designed to serve some useful purpose. This book exhibits it in the making and shows it as the product, not so much of nameless officials as of Statesmen, Parliamentary Committees, and other august bodies who in the course of many years have laid down with full deliberation the main lines of the system on which the public expenditure of the country is controlled.

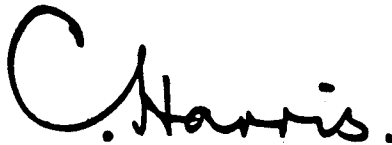
System or routine, like drill in an army, is a substitute for conscious action. The best way of doing anything having been once for all thought out and reduced to a routine, the directing mind thereafter effects its aims through the mechanical action of subordinates, each performing his prescribed movement without needing to comprehend the general plan. And therein lies the danger; for such a routine is apt to petrify and outlast its day, so passing into the pernicious variety of red tape. As one to whose lot it has fallen to disburse and account for a larger aggregate of public money than perhaps anyone who has hitherto existed, I have been led to

appreciate to the full how narrow is the path between deficiency and excess of routine, between financial disorder and futile formality. Any department that would keep this happy mean should have among its members a sufficient number who grasp the scheme as a whole, and will see from time to time how far any part of its routine has become meaningless or requires modification to meet new conditions. But no adequate presentation of the system of control of expenditure has hitherto been readily available ; and for this reason I cordially welcome the appearance of Colonel Durell's book, which is admirably adapted to the needs of the financial official, of whatever grade, who aspires to be more than a lifeless cog in the vast machine of our administration.

To the student of public affairs, also, this codification of the whole subject, with its systematic citation of original authorities on every point, should constitute an invaluable work of reference.

And finally, if there be any who, looking at the present achievements of Parliament in the field of control of expenditure, are tempted to conclude impatiently that the whole scheme is outworn and requires radical reconstruction, they above all others should study this book. For the system, whatever its present measure of success, was constructed by great administrators to meet real needs ; and he only is competent to rebuild who knows the strength as well as the weakness of the existing structure.

WAR OFFICE :
April 1917.

A handwritten signature in black ink, consisting of a large, stylized initial 'C' followed by the name 'Harris' in a cursive script.

PREFACE

NO science ever attains perfection. No system ever arrives at finality. The progress of civilisation, the development of human intellect, the increase of knowledge and experience, the growth of national life—all tend to render obsolete those sciences and established systems which yesterday may have been thought to be perfect. It is necessarily and naturally so. Changed conditions demand new methods, revision of existing ones. Necessity stimulates inventions.

In the pursuit of efficiency there can be no stagnation. 'Things left to take care of themselves inevitably decay.'¹ Progress is essential as well as permanence; and progress is only possible if it is realised that methods and practices, which however good in themselves are no longer suitable to contemporary conditions, must be amended. Ancient practices, thought by our ancestors to be absolutely necessary, may have to be abolished, and alterations suggested which are opposed to the opinion of past ages, if such practices are no longer applicable to present conditions and if such alterations are peremptorily demanded by a due regard to the public interest.² Principles, on the other hand, if sound, remain unchanged. They are not affected by such considerations. They constitute the solid foundation on which systems are built up. The waiving of an established principle in order to secure an improvement in system requires very strong justification, and should only be resorted to if the aim in view is essential and can be achieved by no other means.

In the development of sciences and systems the rate of progress will vary from time to time, according to the

¹ *Rep. Govt.*, p. 22.

² *Commissioners of Public Accounts, 1831. P.P. x. p. 23.*

prevailing atmosphere of the times. It may be slow and apparently stagnant for long periods. At other times it will make rapid headway as a result of revival of interest in the subject, increased activity, or important discoveries.

So it has been in the science of public finance, of which public accounting constitutes such an important part. From the most elementary and primitive stage, suited to primitive peoples and early epochs of civilisation, it has gradually developed into the intricate and comprehensive science needed by modern civilisation and economics. 'Political evolution,' says Bastable, 'is not a direct movement towards a definite goal; it is rather a series of efforts following the line of least resistance at any given time.' The same may be said of a system of public finance, which is inevitably bound up and develops with the political evolution of the state.

The subject matter of this work deals with but one branch of the system of public finance. The reader who wishes to obtain a general grasp of the whole system cannot do better than study 'The Financial System of the United Kingdom,' by Mr. Henry Higgs, C.B., and Mr. Hilton Young's work on 'National Finance.' The portion of the subject which is more particularly elaborated in the following pages is one which merits careful study if the nature and working of public economy is to be thoroughly grasped; for in dealing with the science of finance it is not sufficient to merely consider public revenue and expenditure with the relation that exists between them. Problems of administration and control form an integral part of that science.¹ The principles of parliamentary control over grants, the agencies by which such control is effected, and the working practice of the system are therefore important not only in themselves, but also as a vital section of the whole science of public finance under the English constitution. The successful development of financial control to the pitch it has now reached is largely due to the peculiarly flexible nature of the laws of the constitution, which make it capable of being adjusted to new conditions. This power of adaptability has obviated the necessity for revolution, and the result has therefore been achieved without sacrificing the landmarks of the constitution. The problem of English constitutional history,

¹ Bastable, *Pub. Fin.*, VI. i. § 1.

in the words of Sidney Low,¹ has been that of reconciling the theory with the facts, and of adapting the apparatus to its purpose without absolutely taking it to pieces and reconstructing it on other lines. The working efficiency of the system is a measure of the practical, though often unconscious, skill with which the process has been performed.

The growth of the system of parliamentary control over the grants, which is mainly secured by public accounting and audit, was much slower in arriving at maturity than other branches of public finance, as a result in the main of two causes: Firstly, the natural disinclination on the part of those entrusted with public money to have their actions controlled, and, secondly, the failure of Parliament to appreciate the principles on which public accounting should be based, publicity and responsibility. So long as the second cause remained, there was no motive power for removing the first.

It was not until the middle of the nineteenth century that the real awakening came. Practically by a single stroke the old system was then overthrown, and there was established in its place one which, though neither perfect nor complete, was so solidly founded that it has been able to be developed and improved since that time without any alteration of the sound principles on which it was built.

The Exchequer and Audit Act of 1866, which brought this change about, has been described as the charter of our financial system,² and was regarded by the Public Accounts Committee as 'marking the commencement of a new era in our financial history.'³ Unpopular at first because it imposed restraint in place of unfettered irresponsibility, it soon proved its value not only to Parliament, but also to those who were brought under control, and is now universally recognised as supplying the best foundation which could have been devised for the English constitutional system.

With the experience of fifty years' working of the act to draw upon, the present is a fitting time for a review of the system, and for presenting a summary of the various decisions, interpretations, and amendments which practice or changing conditions have shown to be necessary. A similar review

¹ *Governance of England*, p. 5.

² C.N.E., 1903, Ev. 1206.

³ I R. 1870, 2.

in a summarised form of the history and subsequent developments of financial procedure under the act was recently presented to the Public Accounts Committee in a valuable memorandum prepared by the Comptroller and Auditor General,¹ and may be usefully referred to by the reader.

Though the Exchequer and Audit Act provides the foundation and starting-point for our present system, the working out of the system to a satisfactory conclusion has depended as much upon the administration and interpretation of the act as upon the act itself. Machinery has no action of itself. Its usefulness is in proportion to the merits of the contrivances adopted for bringing it into play. Unless these contrivances are efficient the potential power of the machine, however great, would be wasted and of no effect.² In the act Parliament furnished the machine. Its administrators have driven it and developed its powers.

In the following pages an endeavour has been made to supply a consecutive and harmonious exposition of the system by collating under convenient headings the accepted interpretations which have been placed upon the act, the decisions and regulations of the Treasury which bear upon the system, and the financial principles generally which have been accepted as binding, after discussion before the Public Accounts Committee. To the administrators who have studied the system there will consequently be little if anything in the work that is not already known to them; but the hope is entertained that the arrangement will provide the information in a form more convenient for reference. To that wider circle which may be acquainted with only a portion of the system, it is hoped that the work may be useful in providing a source of information which will enable a comprehensive grasp of the whole to be more easily obtained than is at present available, while at the same time suggesting the sources which will provide detailed information on any particular point. Though it may be only a comparatively small circle in each public department which is concerned with the higher and more complicated branches of accounting and finance, yet the work of all who are cogs in the wheel is governed by the same underlying principles. A knowledge of the whole system

¹ Cd. 8337, 1916.

² Cp. Mill, *Rep. Govt.*, p. 31.

and of those principles cannot therefore but be of general value and tend to an increase in the efficiency of the work of the public service. Such a knowledge not only leads to more intelligent execution of subordinate work by explaining the reason for methods which are otherwise accepted as purely arbitrary, but also enables the subordinate to make the fullest possible use of opportunities which would otherwise be missed. The wider the knowledge of the general system and its principles, and the relative position of each portion of the work to the whole, the greater the benefit to the public, as well as to the individual of whatever rank or status.

In the compilation of a work of this description it has frequently been difficult to determine the limits to be placed upon the discussion of different points ; to agree as to what information, valuable in itself, may be excluded without detracting from the general usefulness of the work ; to decide upon the features which demand elaboration.

The object aimed at has been to provide a work of sufficient scope to enable a comprehensive view of the whole subject to be obtained, without overloading it with details of purely local, departmental, or technical matters which are of interest to those immediately concerned, but do not bear upon or influence the main system, or illustrate general principles.

In following out this plan, it is only too probable that some useful matter may have been omitted, or some subjects touched upon too briefly or not at all, which might with advantage have been included or enlarged upon. Even if this be so, the work should still to some extent fulfil the purpose for which it has been compiled. Again, too, some difficulty has been experienced in the arrangement of the matter. It will be found that points are occasionally dealt with at length in the chapter in which they originate, though portions of the subject might equally appropriately have been transferred to another chapter where the same subject is referred to, and necessarily so in connection with the subject matter of that chapter. Though this has resulted in a certain amount of repetition, it possesses the advantage of eliminating too many cross-references.

My best thanks are due to Mr. M. S. Kelly of the Exchequer and Audit Department, who, at a time of great pressure of

work, has readily afforded me valuable assistance in pointing out obscurities and correcting errors in the original manuscript, thus adding to the usefulness of the completed work. To Mr. H. J. Edwards, I.S.O., of the War Office, I also owe a deep debt of gratitude for his kindly encouragement and readiness at all times with information or explanation during the years over which the compilation of the work has been spread. Nor can I let this opportunity pass without tendering my thanks to others who have from time to time placed their knowledge and experience at my disposal, nor without placing on record my appreciation of the courtesy and willingness to assist the inquirer which I have experienced in the Reading Room of the British Museum, the Advocates' Library at Edinburgh, and the War Office Library.

If this book helps to fill up a niche in the literature of the English financial system and achieves its objects of furnishing a work of reference for the administrator, a handy source of information for the student, and further leads to a more extensive study of the subject among that large class of public servants who are only immediately concerned with one particular, and perhaps subordinate, link in the system, its compilation will be fully justified.



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ABBREVIATIONS

USED IN THE MARGINAL REFERENCES.

NOTE.—Where the pages of parliamentary papers are quoted, the reference is to the paging of the volumes as arranged for the House of Commons, except in the case of appendices to the reports of the Public Accounts Committee.

H.C. (384)	Paper printed by order of the House of Commons. Sessional number (384)
C.	Paper presented to Parliament by Command up to 1899.
Cd.	Paper presented to Parliament by Command from 1900 onwards.
C.J.	Commons Journal.
Hans. (3 s., ccxvi. 1498)	Hansard Parliamentary Reports. (3rd series, vol. ccxvi. column 1498.)
Parl. Deb.	Parliamentary Debates. Authorised edition, commencing with 4th series, 1892.
P.P.	Parliamentary Papers as bound in volumes for the House of Commons.
T.L.	Treasury Letter.
T.M.	Treasury Minute.
S.O.	Standing Order of House of Commons.
(3) R. (1889) (4)	(Third) Report of the Public Accounts Committee of (1889), (para. 4). For references to Parliamentary Papers see following table.
(3) R. 1889 (4) T.M.	Treasury Minute on the same.
R.E.C. (1912)	Report of the Estimates Committee of (1912).
Ev. (999)	Reply to question (999) of the evidence taken before a committee and printed with the report.
Adm. Exp.	Report of Select Committee on the Admiralty (Expenditure and Liabilities). H.C. 311, 1884/5, P.P. vol. vii.

- A. & N. Est. Com. Report of Select Committee on Army and Navy Estimates, 1887. H.C. 216, 223, 232, 239, 259/1887, P.P. vol. viii.
- A. Est. Com. Report of Select Committee on Army Estimates, 1888. H.C. 120, 212, 225, 269, 295/1888, P.P. vols. viii. and ix.
- C. & A.G. Memo. Memorandum by the Comptroller and Auditor General. Fifty years of the Exchequer and Audit Departments Act, 1916, Cd. 8337; also printed as App. to 2 R. 1916.
- C.N.E. Report of the Committee on National Expenditure. Vol. i. Evidence and Appendices, H.C. 387, P.P. vol. vii. 1902. Vol. ii. Report and Evidence H.C. 242, P.P. vol. vii. 1903.
- C.P.M. (1856 or 1857) Report of the Committee on Public Moneys of 1856, H.C. 375, P.P. vol. xv. 1856; and of 1857, H.C. 279, P.P. vol. ix. Session 2, 1857, p. 495. Treasury Minute on same, H.C. 94/1858, P.P. vol. xxxiv.
- E. & A. Act Exchequer and Audit Departments Act 1866.
- Est. Pro. Report of Select Committee on Estimates Procedure, 1888. H.C. 281/1888, P.P. vol. xii.
- Manuf. Dept. Report of Committee on Organisation and Administration of the Manufacturing Departments of the Army. C. 5116/1887.
- N. Est. Com. Report of Select Committee on Navy Estimates, 1888. H.C. 142, 213, 304, 328/1888, P.P. vols. xii. and xiii.
- Pub. Inc. Report on Public Income and Expenditure, Appendix 13. H.C. 366 I., 1868-69, P.P. vol. xxxv. p. 810 *et seq.*
- R.D. Est. Com. Report of Select Committee on Revenue Departments Estimates, 1888. H.C. 272/1888, P.P. vol. xviii.
- R.C. Civ. Estab. Report of Royal Commission on Civil Establishments, 1887 and 1888. 1st Report, C. 5226; 2nd Report, C. 5545.
- R.C.S.A. War Report of the Royal Commission on the South African War, 1903. Cd. 1789.
- S.A. War Stores Report of the Royal Commission on South African War Stores, 1906. Cd. 3127.

ABBREVIATIONS

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- W.O. Org. Report of the Committee on War Office Organisation (Clinton Dawkins Committee), 1901. Cd. 580.
- W.O. Reconst. Report of the War Office Reconstitution Committee (Esher Committee), 1904. Cd. 1932, 1968, 1968-1, 2002.
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1861. 1	329		1872. 1	104	} vii. 1872
2	367		2	198	
3	418	} xi. 1861	1873. 1	110	} vii. 1873
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4	277		2	207	
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3	325		2	240	
1894. I	34		3	248	
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1895. I	103		3	343	
2	284	4	352		
3	339	vii. 1895	1907. I	205	v. 1907
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1895. Sess. 2	441	viii. 1896	1908. I	166	vi. 1908
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2	271		3	253	
3	297	viii. 1897	1909. I	58	vi. 1909
1897. I	122		2	125	
2	166		3	126	
3	274		4	158	
4	314	viii. 1898	5	284	
1898. I	105				
2	261				

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Report.	H. of C. sessional number.	P.P. volume and year.	Report.	H. of C. sessional number.	P.P. volume and year.
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2	125		2		
3	144				
1911. 1	65	vi. 1911	Handbooks to		
2	110		Reports—		
3	157				
1912. 1	57	vi. 1912	1857-1887	86	lxxix. 1888
2	119		1888-1892	109	lxx. 1893-4
3	156		1893-1900	81	lviii. 1900
1913. 1	28		1901-1907	382	lxxxvii. 1908
2	179	xiii. 1913	Epitome of		
1914	249	x. 1914	Reports—		
1915. 1	270	iv. 1915	1857-1910	36	xliv. 1911
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REPORTS OF ESTIMATES COMMITTEE

Report.	H. of C. sessional number.	P.P. volume and year.
1912	277	vii. 1912
1913	231	vi. 1913
1914	429	vii. 1914

Note.—The treasury minutes on the reports of the committees are usually handed in by the representative of the Treasury to the committee of the following year, and have been printed as an appendix to the parliamentary paper containing the reports of that year since 1876, except in 1888, when the minute on the 1887 report appears in H.C. 86/1888, and in 1909 when the minute on the 3rd report of that year was printed as appendix 16 to the 1909 reports. Prior to 1876 the minutes were not systematically printed, but the following are to be found as shown :—

Minute on 1st report	1861	in H.C.	220/1862
" 2nd	1862	" "	52/1863
" "	1862 (50)	" "	110/1863
" "	1864	" "	413/1865
" "	1868	" "	18/1877
" 1st	1871	" "	294/1871
" 2nd	1872	" "	88/1888
" 2nd	1873	" "	242/1874
" "	1874	" "	107/1875

THE PRINCIPLES AND PRACTICE OF THE SYSTEM OF CONTROL OVER PARLIAMENTARY GRANTS

CHAPTER I

THE HOUSE OF COMMONS

- I. THE ENGLISH FINANCIAL SYSTEM: Constitutional Aspect—Financial Aspect.
- II. PARLIAMENTARY PROCEDURE: Control over the Course of Expenditure—Control over Results—Control over Proposals: Procedure in Proposing, Granting, and Rendering Available Supplies—Demands of the Crown—Committee of Supply—Functions of the Committee of Supply—Functions of the Committee of Ways and Means—Consolidated Fund Bills—Course of the Exchequer—Votes on Account—Appropriation Act—Treatment of Departmental Receipts.
- III. NATURE OF GRANTS: Consolidated Fund Charges—Annual Estimates—Supplementary Estimates—Excess Votes—Exceptional Grants—Votes of Credit.
- IV. AVAILABILITY OF CASH: Departmental Receipts—Treasury Chest Fund—Civil Contingencies Fund—Deposit Funds—Ordnance Factories Supplies Suspense Account—Unexpended Balances on Votes of Credit.
- V. DOMESTIC CONSIDERATIONS AFFECTING PARLIAMENTARY CONTROL: Relations between the House of Commons and the Cabinet—Scope of Debate in Committee of Supply

I. THE ENGLISH FINANCIAL SYSTEM

ALL state action costs money, directly or indirectly, and questions of finance must sooner or later affect all public policy and business as weighty, if not determining, factors. 'Expense governs everything.' Finance may therefore be said with truth to be the foundation of government, in the sense that ways and means must be found for everything which a government desires to do. A good system of finance and good government are interdependent. The system of public finance adopted by a nation is largely dependent upon the form of that nation's government, but it is also affected

N. Est.
Com.,
1888,
4 R. p. v.
C.N.E.
Ev. 357

by national characteristics and constitutional development. Systems which are based on entirely different principles and methods of procedure may each be satisfactory, if worked efficiently, and if suited to the peculiar needs of the nations which employ them. The fact, however, of a system being suitable in one case is no guarantee of its being equally adaptable under different conditions and in dissimilar circumstances. Political machinery, Mill observes, does not act of itself, but has to be worked by men, and even by ordinary men. It needs therefore their active participation, and must be adjusted to the capacities and qualities of such men as are available. However ideal a system may be, it will not achieve its ends unless it is at the same time suitable to the environment in which it is worked. Every nation must work out and develop a system for itself based on practical experience, foregoing theoretical advantages or incorporating theoretical drawbacks when such modifications are required by the general political scheme. The English system, 'as laid down by Mr. Gladstone over forty years ago, is not indeed perfect, but yet sufficient, and, on the whole, better fitted to its ends and purposes than that of any other country.' The question having been settled as to the general and fundamental lines of the system which is best adapted to the environment in which it is to be worked, the settlement of the details, on which its efficacy will mainly depend, is of equal importance. 'Men of exceptional ability can obtain fair results from a bad system; but under a good system personal shortcomings produce the minimum of disadvantages, and they are, moreover, easily detected. It is of the essence of a bad system that mediocrity or worse is effectively shielded.' A system based on sound principles is of little practical effect if the advantages of those principles are rendered nugatory by inadequate development or inefficient administration.

The bedrock on which the English system is built is the principle of the maintenance by Parliament of control over the grants which it makes. This can only be properly and intelligently discussed if the general principles of the whole system are understood. A preliminary consideration of the English financial system generally is therefore advisable, before dealing with the more restricted subject of control and accounting. This may be conveniently dealt with under two aspects, the constitutional and the financial.

Rep.
Gov.,
P. 4

Bowles,
Nat. Fin.
in 1908,
Pref. 9

W.O.
Reconst.,
Pt. I.
§ ii.
para. 23

Constitutional Aspect

'It is one of the old standing principles of our constitution that the House of Commons should control the finances of the country. That is the right, privilege, and duty of the House. It has been achieved by means of struggles lasting through centuries, beginning from the fourteenth century down to the seventeenth century, when it was fully confirmed, and since then it has never been practically disputed.' 'Ut quod omnes tangit, ab omnibus approbetur.' The quotation by Edward I of this legal maxim transmuted it into a great and constitutional principle. In other words, the cardinal principle on which the whole of our financial system is based is that of parliamentary control, and by this is understood not the control of Parliament in its constitutional sense as composed of Sovereign, Lords, and Commons, but control by the Commons alone. 'Upon this fundamental principle, laid down at the very outset of English parliamentary history and secured by three hundred years of mingled conflict with the Crown and peaceful growth, is grounded the whole law of finance and, consequently, the whole British constitution.'

Parl.
Deb.,
5 s., xxii.
2116

Justin-
ian Code,
V. 59. 5

Redlich,
H. of C.,
iii. 114

The most ancient, as well as the most valued, prerogative of the House of Commons is the right of supreme control over taxation, to which the right to control issues is a natural corollary. The prohibition of raising taxes without parliamentary authority would be nugatory if the proceeds, even of legal taxes, could be expended at the will of the sovereign. The right, therefore, of appropriation was a logical consequence of the right of levying supplies. 'The chain of historical evidence undeniably proves that a previous and stringent appropriation; often minute and specific, has formed an essential part of the British constitution.' Though the practice of appropriating supplies, in a general sense, is of early origin,¹ that of appropriating them to the specific purposes for which they were granted did not become an established

Todd,
Parl.
Gov.,
ii. 196
Cp. Hatsell, p. 68

C.P.M.
1857,
App. 3,
p. 568
Cp.
Hallam,
Const.
Hist.,
ii. 356

¹ The earliest instance of the practice of appropriation is stated by Hallam to be 18 Edw. 3, Stat. 2, c. 1.; while Hatsell also quotes instances in the two succeeding reigns, but points out that the idea in these early cases was conceived rather as a restriction upon those who had the management of the public revenue, whereas at the Revolution appropriation was made part of that system of government, which was then established for the better securing the rights, liberties, and privileges of the people of this country.'

Hallam,
Const.
Hist.,
iii. 28,
footnote
Hatsell,
pp. 102
& 202

May,
Const.
Hist.,
ii. 99
Todd,
Parl.
Gov.,
i. 45
Hatsell,
p. 206

usage until the Revolution, when the principle that 'the grant of supply, and the control of public expenditure in conformity therewith, belongs inalienably to Parliament, and pre-eminently to the House of Commons' was formally incorporated amongst the maxims of the constitution, and in the early days provision was made for severe penalties for diversion or misapplication. The control over public expenditure which resulted therefrom has, more than any other cause, vested in the Commons the supreme power of the state. 'It is, indeed, ultimately to the power of the purse, to its power to bring the whole executive machinery of the country to a standstill, that the House of Commons owes its control over the executive. That is the fountain and origin of its historical victories over the other organs of the state; and since that power was recognised and confirmed towards the end of the seventeenth century, the House of Commons has remained, whether reformed or unreformed, whether corrupt or incorrupt, the chief arbiter of the national destinies.' Much of the efficiency of the House has indeed passed to other agents, but 'the show of power is with it; nor has it abated its pretensions, or diminished by one jot the assertion of its nominal authority.' The drastic step of refusing supplies is, however, one which has never been applied. A sword of Damocles, of which the blade is eaten away with rust, it remains suspended in the armoury of the constitution—an object of historical and picturesque interest alone.

May,
Const.
Hist.,
1912 ed.,
vol. iii.
p. 350

Gov. of
Eng.,
p. 58

Hallam,
Const.
Hist.,
ii. 356-
360

The power of appropriation drew with it the necessity for estimates being regularly laid before the House of Commons, and, by exposing the management of the public revenues, has given the House not only a real and effective control over an essential branch of the executive administration, but in some measure made Parliament a partaker in it, Appropriation alone is, however, of little avail if no provision is made for securing compliance with it. The right of appropriation must be accompanied by the right of Parliament to satisfy itself as to the expenditure of the money on the services for which it has been voted. But it may 'claim a more extensive function, as naturally derived from the power of opening and closing the public purse—that of investigating

Idem,
356

the wisdom, faithfulness, and economy with which the grants had been expended.' The right to control and examine expenditure, though of later growth, is a vital part of the system therefore. The extent to which these claims have been exercised has been dependent on constitutional development, and has consequently varied at different periods of history according as the House of Commons was weak or strong, indifferent or critical. The principle of voluntary grants was indeed definitely established in the fourteenth century, as also the right of inquisition into the application of the funds so provided;¹ but during the following two centuries Parliament lost its control. It was not until the fall of the Stuart dynasty that it finally and completely established its sole right to control grants. The right to control expenditure was more difficult to establish in practice, so long as the executive which was responsible for the expenditure was independent of the House of Commons. As soon, however, as the executive became dependent upon the legislature, the details of financial management were brought before the lower House. This was the inevitable result of the establishment of cabinet government. But, not only does this form of government bring the administration of finance under the control of the House of Commons: it achieves far more. It ensures the two conditions which are essential to the efficiency of that administration—publicity and responsibility. 'Finance is not mere arithmetic: finance is a great policy. Without sound finance, no sound government is possible: without sound government, no sound finance is possible.' The problem of public administration is to so expend the money provided as to secure the maximum of efficiency. There is no principle more clear, though the truth is too often apt to be overlooked, that administration and finance are not merely interwoven, but that finance is an indivisible part of administration itself. The administrator is always working with both factors; he is cutting a coat according to his cloth, and the quantity of

Anson,
Con.,
ii. II. 14
et seq.
Cp.
C.N.E.
APP. 13

Bast-
able,
Pub.
Fin.,
VI. I, §.

Wilson,
quoted
by Bast-
able,
Pub.
Fin.

¹ Hatsell mentions that in 1340 William de la Pole and John Charnels were called before certain persons assigned by Parliament and required to give an account of their receipts and expenditure as treasurers, and notices that it is the first occasion on which 'money given in Parliament was by them ordered to be accounted for to persons appointed by themselves.'

Hatsell,
P. 101

Bast-
able,
Pub.
Fin.,
VI. 1, § 3

cloth is just as vital a factor in the problem as the pattern of the future coat in his mind's eye. A body of trained administrators under an absolute monarch might be able to ensure observance of the technical rules of public economy, though the probabilities would be against a satisfactory result. This can only be achieved by the full publication of authentic accounts and the influence of public opinion, direct or indirect. Secrecy breeds prodigality, oppression, and, if not injustice, at least a sense of injustice. Publicity is the safeguard of popular liberties, and secures control over the accounts. Responsibility guarantees a proper supervision over expenditure and minimises the tendency to unnecessary and extravagant, if not improper, spending. The development of constitutional arrangements in respect of financial matters, which was the inevitable and concomitant result of the institution of cabinet government, owes its success to the fact that it is founded on these two corner-stones: the publicity of the accounts rendered to the House of Commons, and the responsibility of the executive to that House.

C.P.M.
1857,
App. 2,
p. 550

Real responsibility cannot be attached to the acts of the executive without publicity, and can only be ensured if, after the executive has performed its part, the way in which that part has been performed is ascertained by independent officers, and the result made known to Parliament.

R. 1882,
77, T.M.

C.P.M.
1857,
App. 2,
p. 547

The value of the publicity of the accounts is in direct proportion to their completeness and detailed information. However valuable a summarised statement may be in affording *prima facie* evidence that the provision made by Parliament has been followed, it cannot in itself furnish that full information which Parliament is entitled to have and which alone will enable it to follow up the expenditure. This principle applies not only to the normal annual provision, but still more to any extraordinary and supplementary provision made during the year. If Parliament has placed money at the disposal of a department for extraordinary services, that department is bound to show Parliament in return, as completely as circumstances permit, the manner in which the money so entrusted to it has been expended. Publicity furnishes the most effectual mode by which control can be exercised through the instrumentality of an audit office,

and is therefore a most effective check upon improper or irregular expenditure of every kind, provided due advantage is taken of it; but, as Mill points out, 'publicity is no impediment to evil nor stimulus to good, if the public will not look at what is done.' At least the opportunity is provided, for without publicity the public could neither check nor encourage what it was not permitted to see.

Rep.
Govt.,
P. 32

At the present day, the claim of the House to supreme control in money matters is fully recognised and, in theory, practised. Such deficiencies in parliamentary control as do exist are the result, not of indifference on the part of the House of Commons or any failure to appreciate its responsibilities, nor to any external refusal to recognise that control, but to causes incidental to the development of modern parliamentary practice and procedure. The modern tendency is undoubtedly to magnify the power of the executive at the expense of individual members of the House, and is one which in the interests of parliamentary control should be resisted, though the power of resistance is too often weakened by the necessities of public expediency and convenience. The modern House of Commons has indeed, from time to time, done all in its power to increase its control, and is fully alive to the importance of making it as effective as possible. In many respects it has secured a control which leaves little to be desired. In others it still feels that it is not as powerful as it should be, in proportion to its responsibilities. Some of the difficulties with which it has to contend are probably insuperable under modern conditions. Others would doubtless be gradually solved by experiment and the determination to overcome them—which, in matters of finance, has been a characteristic of the spirit of the House of Commons during the last sixty years, at any rate as an abstract theory. An efficient control exercised by the House of Commons would assist in maintaining proper economy by strengthening the hands of the Treasury. So far as such control is effected by the Public Accounts Committee on behalf of the House, this is undoubtedly the result; but in regard to direct parliamentary action the opposite is often the case, the hands of the Treasury being forced in order to comply with the continual demands made by members or groups for favourable treatment for individuals or classes.

Cp.
C.N.E.
Ev. 69

Cp.
R.C.
Civ.
Estab.,
2 R. Ev.
17443-6

Though the system of accounting for parliamentary grants necessarily possesses many of the features which are generally understood to be included in the term accounting, as applied to commercial affairs, it cannot in its wider and more important aspect be treated from the commercial point of view at all, for it is founded on constitutional principles and is dependent on state policy. The essence of commercial finance is the outlay of money with the object of securing a monetary profit. The object of state finance, under parliamentary government, is to strike a balance between receipts and expenditure or, in practice, to aim at a small surplus in order to prevent the chance of a deficit. 'A state that has large surpluses is as ill managed as one with large deficits.' The profit to the state on its turnover is the measure of efficiency which the public service attains—'a thing which may be metaphorically more precious to a nation than rubies and much fine gold, but which, unfortunately, cannot be priced and booked up in a ledger.'

Bast-
able,
Pub.
Fin.,
I. i. § 2,
& V. i. § 1

Army
Finance,
P. 60

Hans. 3 s.
cccxl.
1799-
1805

May,
Parl.
Prac.,
p. 591
C.P.M.
1857,
App. 1,
P. 519

The deliberate creation of a profit, or surplus, would be a breach of constitutional propriety. The proceeds of taxation should not be allowed to accumulate, pending the decision of Parliament as to their appropriation. Statutory provision must be made, during each financial year, to ensure that all the money to be raised during the year shall be applied to a distinct use within the year. If, therefore, the budget statement were to show an imprudently large surplus, the House of Commons would bring pressure to bear to procure a reduction of taxation, with a view to securing a closer balance. The intention of this statement is not only to explain the scheme of taxation, but also to satisfy the House that the public income to be raised will be sufficient, and no more than sufficient, for the expenditure which the government proposes to incur. This is the first important step in our system of financial control.

May,
Parl.
Prac.,
P. 52

The right to impose taxes and to vote money for the exigencies of the public service is the most important power that can be vested in any branch of the legislature, and furnishes one of the main instruments of political power. With the complicated relations of finance and public credit which prevail in this country, the power of giving or withholding the

supplies at pleasure, which rests with the House of Commons, makes the position of that House one of absolute supremacy. At the same time, Parliament depends for its legal existence upon the exercise of the royal prerogative. It can only commence its deliberations at the time appointed by the sovereign and must cease them when he wishes. Any undue exercise of the royal prerogative in the direction of restricting deliberation could only re-act on the Crown, which would be prevented from getting the supplies it required. The strictly limited appropriation of the grants for the current financial year only is therefore practically a law for the annual meeting of Parliament. So long as the Crown was possessed of hereditary revenues which satisfied many of its needs and was only obliged to apply to Parliament at irregular intervals for subsidies the control of the House of Commons was remote. In the mediæval ages 'no means existed of assigning portions of the grant to particular services or indeed of providing that the king should not spend the entire subsidy on purposes quite different from those for which it was asked; so when the grant was made the virtue had gone out of the Commons, and they could exercise no control over policy till money was wanted again.'

The supreme control of the Commons over public grants, as already mentioned, necessarily demands the complete right of control over the manner in which those grants are spent. This second right must be inseparable from the first if the control over the grants is to be effective; but it is a right which was not claimed nor enforced by the House of Commons until long after the right of control over supply had been established. Though the Bill of Rights was but a declaration of the ancient law of England and made no new claims for Parliament, it defined and brought into relief what the rights and privileges of Parliament were. The occasion was ripe for claiming the exercise of powers hitherto dormant, or hardly appreciated. Among these, the claim to control expenditure began to be exercised practically for the first time; but it was not for nearly two hundred years more that it arrived at full maturity. The reason for this slow development of a natural and, indeed, necessary claim is to be found mainly in the fact that Parliament failed to appreciate the

May,
Parl.
Prac.,
p. 5

Todd,
Parl.
Gov.,
ii. 139
Anson,
Con.,
i. 286

May,
Parl.
Prac.,
p. 39

Hallam,
Const.
Hist.,
iii.

27-29

Anson,
Con.,
i. 18

May,
Parl.
Prac.,
p. 4
Anson,
Con.,
i. 26

fact that any advantage was to be gained by exercising the right. So long as the House of Commons felt it was controlling exchequer issues, both as regards the authority for issue and the appropriation, it was satisfied to leave the control of expenditure to the executive. When once the fallacy of this view was exposed, the development of the House of Commons' right followed and has now been carried to almost its farthest conclusions. The control of the House of Commons over expenditure, as well as over issues, is now recognised as supreme. Whether the control is effective or not depends on two main factors: firstly, on constitutional and parliamentary procedure and practice, and secondly, on the machinery which Parliament sets up for seeing that its will is carried out. The second of these considerations will be dealt with in succeeding chapters.

Cp.
Redlich,
H. of C.,
iii. 120

In its constitutional aspect then, the English system of finance and the rules of financial administration are based on the principle of supreme control by the House of Commons, and the machinery, by which it works, has been built up, developed, extended or modified to meet the requirements of that principle. As evidence of the efficacy of the system, it has been pointed out that the fact of the great financial economy practised by the English government for several generations, as compared with foreign governments, was very striking. Comparing the history of English finance since 1820 with that of any continental country, it would be found that the expenditure of the English government, the central government, had increased, in comparison with that of continental governments, very little indeed. Such a fact cannot but be a great testimony to the economy of the system and to the efficacy of treasury control.

R.C.
Civ.
Estab.,
2 R. Ev.
19165

Financial Aspect

The extent of parliamentary control over supply grants is affected, first, by the method in which they are made, and, secondly, by the efficiency of the system under which they are accounted for. Of these, the latter far transcends in importance the former, in the sense that strictness of granting would be rendered nugatory by laxity or deficiency in account-

ing, as has been amply illustrated by the history of parliamentary control, whereas strictness in accounting would greatly mitigate the drawbacks of laxity in granting.

A sound system of finance should possess the qualifications of completeness, intelligibility, and timeliness, and should be so administered as to ensure accuracy and economy. Nothing ensures a sound system more than the keeping and publication of true and intelligible accounts. Accuracy should be obtainable in all systems in the absence of deliberate attempts to conceal facts. Intelligibility can be secured by a logical method of arrangement. The remaining qualifications are, however, dependent on factors outside the system and can only be obtained in so far as they are able to be fitted in with, or are not opposed to, the prevailing political and constitutional conditions.

In the English system, completeness is sacrificed in two directions to such considerations. The qualification of completeness demands that the full amounts, both of receipts and expenditure, should appear if a true and exact statement of national finances is required, and if parliamentary control over the whole is to be secured. This principle was affirmed by the House of Commons in 1848 when it resolved that 'This House cannot be the effectual guardian of the revenues of the state, unless the whole amount of the taxes and of various other sources of income received for the public account be either paid in or accounted for to the exchequer.' The importance of the point was again emphasised during a debate in the House in 1854 and by the Committee on Public Monies in 1857, which declared that 'It is essential to a complete parliamentary control of the public money that no portion of it should be arrested in its progress to the consolidated fund from which alone it can be issued and applied with parliamentary sanction.' This well-recognised principle was eventually embodied in legislation in 1866, the Exchequer and Audit Act providing that the gross revenue should (after deduction of drawbacks, repayments, and discounts) be paid into the exchequer. This provision has, however, never been fully complied with. The system of assignment of local taxation is at variance with this enactment, and results in large sums being intercepted and expended locally, with the

Bast-able, Pub. Fin., VI.iii. § 1
Bowles, Nat. Fin. in 1908, Pref. 7

103, C.J., 580
Cp. P.P., vol. x., 1831, p. 4
Hans. 3 s. cxxxv. 1266-84
C.P.M., 1857, R., para. 2
Cp. C.P.M., 1856, App. 2, p. 576
C.N.E. Ev. 1135, etc.

Bowles,
Nat. Fin.
in 1905,
p. 17;
& 1908,
p. 13

C.N.E.,
App. 12,
I.

result that the national statement of expenditure contains no record of them and they are not brought within the purview of Parliament. It is, however, doubtful whether the control over such assigned revenue is any less effective than it would be if an equal sum were given to the local authorities by a statutory charge on the consolidated fund, or even whether control could be more effective, from a practical point of view, if these big subventions—the ultimate appropriation of which Parliament does not pretend to follow up, and could not follow up itself—were made the subject of annual votes. It would be beyond the scope of this work to consider more fully this question of diversion of public money to other channels than the exchequer. The arrangement is a matter of policy, which has been deliberately adopted by Parliament.

Secondly, the quality of completeness is sacrificed to simplicity.

The effect of financial measures during any specific period may be shown in one of three ways. The usual commercial method is to compile a statement of cash transactions during the period, supplemented by a balance-sheet of those financial transactions which have not developed into cash transactions and by a profit and loss account, thus providing a complete financial statement of the concern.

C.N.E.
Ev.
1025

Bast-
able,
Pub.
Fin.,
VI. ii. § 4

By the second method as adopted in France, a personality, as it were, is given to the period, and a statement of accounts is prepared which includes all the revenue which properly belongs to the period, irrespective of the date of receipt, and all the expenditure incurred in respect of it, though perhaps not paid till after the expiration of the period. This method possesses the obvious drawback of delay in rendering the account, though the account compiled shows more precisely the real effect of the operations of the period.

Idem

The third method is to deal with cash transactions during the period alone, and to ignore all assets and liabilities until such time as they are realised, when they enter as cash transactions into a subsequent account. Such is the method adopted in this country. It is the system of annuality strictly applied. Only actual incomings and outgoings of the exchequer within the financial year are considered in the national accounts, and the departmental accounts are similarly accounts

solely of the cash transactions which actually take place within the year. If, for instance, there is money still owing to a department for a repayment service, it cannot be shown in the appropriation account as an asset, for that account is a cash account simply. If, owing to the importance of the outstanding asset, Parliament ought to be informed of it, the fact must be recorded by means of a note. If the failure to realise the asset within the year results in a deficit, the fact would of course be brought to the notice of Parliament in the explanation of the deficit.

R. 1912,
Ev. 945

Such a system possesses the beneficial qualities of simplicity, directness, and rapidity in closing the accounts. It is true that balance-sheets are prepared, but these deal only with cash balances and are in no sense balance-sheets in the commercial sense. An Imperial balance-sheet, or even a departmental balance-sheet on such lines, would be a practical impossibility, for many of the assets or liabilities of the state could not be expressed financially in the manner in which the goodwill of a business concern is assessed. In particular cases, valuations of stock may be supplied when thought necessary by Parliament, but such valuations are in no way prepared for balance-sheet purposes, nor embodied in any general statement.¹ Strictly speaking, there is no such thing as a capital account of the revenues of the British Empire.

C.N.E.
Ev.
1072

On the other hand, the danger of the system is that it may encourage the mischievous practice of a department, with a balance in hand towards the close of the year beyond its requirements, applying it to expenditure which should properly belong to the succeeding year in order to avoid a surrender of voted money to the national debt; while it is also suggested that a Chancellor of the Exchequer, who anticipates a surplus on his estimated revenue, might let it be known that he would be prepared to accept supplementary estimates for services not provided for in his original budget. Such practices are neither consistent with economy nor with sound financial practice, as they tend to hurried and lavish expenditure. They require therefore to be strictly watched.

Idem,
1025

Cp.
W.O.
Org.,
App. IV.
H.

¹ These remarks do not apply to such concerns as the government factories, which are dealt with as business concerns and for which balance-sheets on commercial lines are prepared.

27 G. III.
c. 13
Cp. R.
Pub. Acc.
Comms.
1785,
p. 60
Pub. Inc.,
p. 811
Redlich,
H. of C.,
iii. 126

Idem,
p. 130

With the exception of the proceeds of local taxation, previously mentioned, and of departmental receipts which will be referred to later, all revenue is paid into one central fund at the Banks of England and Ireland, termed the consolidated fund, and from this fund alone the grants authorised by Parliament are issued. The fund, originally formed in 1787, is replenished by the proceeds of taxation and by public loans when necessary. The former are the direct result of parliamentary action, the latter of treasury action alone. The statutes, under which duties and taxes are imposed, usually prescribe their continuance until Parliament otherwise determine. They therefore remain in force continuously, when once imposed, in the absence of further statutory provision. In order, however, to secure parliamentary control from year to year, it is customary to subject one important customs duty and one direct tax to annual renewal, and on the discussion of these criticism may be directed to the continuance of any other duty or tax. The replenishment of the consolidated fund is therefore continuous and, up to a certain point, independent of direct annual legislation, though it is to be remembered that Parliament when granting the variable taxes and duties in the Finance Act and passing the Appropriation Act, gives the ultimate legal and financial sanction to the *whole* finance of the current year.

Issues out of the consolidated fund can only be made to meet parliamentary grants. Such grants may either be in the form of standing charges or of annual grants. An essential preliminary to a grant is the justification to Parliament of its necessity: in other words, a statement of the estimated cost of the service for which the grant is required. Such an estimate may be for a definite service, or for general use during a definite period, or finally for a definite service within a definite period. In a word, an estimate may be vague or clearly defined, according to the usage or requirements of the system or conditions under which it is made.

Economy can only be secured if the estimates of expenditure are carefully prepared and kept as low as possible, consistent with efficiency. The extent to which they are intelligible to, and can be controlled by, the body to which they are submitted depends upon their arrangement and detail. In

early days of English parliamentary history, the supplies were voted *en masse* to the sovereign and the detail of expenditure was left to his more or less uncontrolled discretion. Up to the beginning of the eighteenth century only one grant was made for the army, while the navy vote remained undivided up to 1798. To-day the estimates are prepared and voted under innumerable heads. The development of the system in this respect represents the aim of Parliament at securing control over the expenditure, for, broadly speaking, the more detailed the estimates are, the greater the control will be. It is, however, not only impossible for a large assembly to do more than control the larger heads of expenditure, but it is also a serious handicap to the administration to be restricted by an excess of detail. The present system represents the mean which practically affords the maximum of parliamentary control with the minimum of restriction on the administration.

The estimates are presented in three main divisions—namely, for the army, navy, and civil services including revenue departments, those for the civil services being subdivided into classes. Each of these classes of the civil service estimates and the army and navy estimates are divided into votes, which constitute the basis for the parliamentary grants. When making the grant, Parliament appropriates it to the particular vote, and it cannot legally be applied to any other vote though, in the case of the army and navy, transfers between votes are in certain circumstances permitted, parliamentary sanction being subsequently obtained. Generally speaking, however, the money voted by Parliament is granted for a particular vote only, and it is therefore clear that the larger the number of the votes, the greater control Parliament is able to secure. The form in which the estimates are presented is a matter of importance not only in the securing of control over expenditure, but also in assisting criticism of their desirability by the information they give. The proper arrangement and classification strengthen parliamentary control by rendering the course and variations of expenditure, as well as its description, more easily understood and followed.

The qualification of timeliness is in many respects the most important, for the success of a public financial system

depends in a large measure on the extent to which the preparation, execution, and audit can be brought together in point of time. Unless expenditure follows closely upon estimate, the difficulty of forecasting is increased, the estimates will not approximate to the result, and the value of criticism on the estimates will be proportionately reduced. If audit does not follow closely on expenditure, the difficulty of investigation is increased, waste and extravagance cannot be easily brought home to the responsible individuals, and the effect on future expenditure is lessened by the report being delayed. The fact that ordinary expenditure is repeated every year, and, speaking generally, not oftener, and that the principal physical and economic conditions recur in the same period, marks out the period of a year as the most convenient for which to make up the public accounts. If a shorter period were selected, estimate and comparison would be rendered difficult by the inevitable occurrence of accidental changes or the effect of special circumstances. A longer period would tend to conceal real variations. An indefinite period is objectionable in that it either entails an incomplete statement if the expenditure is accounted for at specific times, or, if no account is rendered until the whole grant be spent, the accounting for and audit of the earlier expenditure would be unduly delayed. Under the present system this is obviated, as the accounts are prepared on an annual basis and include only the expenditure which actually takes place within the year. Supply is definitely granted for the service of the year and any unexpended balance must be surrendered to the exchequer; it cannot be carried forward. Parliament therefore knows that the accounts it receives are final statements of the expenditure of its grants. It deals with each year separately and independently of the preceding or succeeding years.

The drafts made on the consolidated fund for supply services are available only for the supply belonging to the financial year to which the acts under which they are made apply. They cannot be used for the supply of another financial year. Nor, moreover, are the drafts made to meet the supply voted in one session applicable to the supply voted in another session. If, therefore, a supplementary estimate be taken towards the close of the financial year, the grants it authorises

Bast-
able,
Pub.
Fin.,
VI. ii. § 3

May,
Parl.
Prac.,
p. 592
Cp.
C.P.M.
1856,
App. 9,
p. 662.
et seq.

cannot be legally met from consolidated fund issues made under acts in the previous session, even though made for the service of the same financial year. Fresh issues from the consolidated fund must be provided in the then current session.

So far as the rendering of the accounts in an annual form is concerned, it is immaterial on what date the financial year should commence. The determination of the date is actually decided by parliamentary practice as affecting the question of bringing the estimates and the expenditure as close together as possible. Up to 1854¹ the financial year coincided with the calendar year. The effect of this was that, unless there was an autumn session, the estimates had to be presented either a long time before the expenditure was to commence or else after it had commenced. In the former case, accuracy was impossible. In the latter, expenditure took place without parliamentary sanction, or recourse to votes on account was necessary, such votes having somewhat the character of temporary votes of credit. It was sought to overcome the difficulty by making the financial year commence on 1st April, the hope being entertained that the presentation of the estimates to Parliament at the commencement of the session would enable the committee stages to be completed and the Appropriation Act finally passed before that date. This hope has never been realised. The system, however, enables the presentation of the estimates to be postponed until a date which is closer to that on which the expenditure begins than was formerly the case.

The presentation of the estimates to Parliament provides the basis for the grants. When these have been made, the responsibility for the expenditure rests with the executive, which is required to render accounts showing that the intentions expressed in the estimates have been carried out. Such accounts are termed appropriation accounts, since they are not merely statements of expenditure but are classified state-

¹ Up to 1799 the public income and expenditure accounts were made up to Michaelmas. After that date they were made up to 5th Jan. In 1832 the annual budget was made up to 5th April, but supplies were taken up to 31st March. At this period, therefore, there were three distinct terminations of the financial year—5th Jan., 5th April, and 31st March. In 1854, under 17 & 18 Vict. c. 94, § 2, finance accounts were made up to 31st March.

Cp. Bastable, Pub. Fin., VI.ii. §3.

May, Parl. Prac., p. 548 Est. Pro. Ev. 2

Pub. Inc., p. 814 Anson, Con., vol. ii. Pt. II. p. 149

ments of the appropriation of the grants, which enable Parliament to see the extent to which the legal appropriation of each has been followed. Surpluses and deficits on each grant are set out, and the account shows what unexpended balance is available for surrender to the exchequer or what excess spending will require a further grant.

The examination of these accounts on behalf of the House of Commons is provided for by statute and by standing order. The Exchequer and Audit Act requires the Comptroller and Auditor General to audit and report on the accounts, while, under a standing order of the House, a select committee on public accounts is appointed at the commencement of every session to report on them. The nature and effect of these examinations will be dealt with more fully later. It is only necessary here to point out that the Exchequer and Audit Act removed the evils of delay in audit to a very great extent by not only fixing the dates on which the accounts were to be rendered, but also those on which they were to be reported on, thus ensuring the timeliness of the system so far as expenditure and audit are concerned. The accurate appropriation and exact audit which have been secured, have enabled the needs of the public service to be nicely gauged, and the control of Parliament has therefore been proportionately increased.

3 R.
1896, 16

II. PARLIAMENTARY PROCEDURE

There are many internal restrictions on the theoretically supreme control of the House of Commons as a body over money matters, due partly to parliamentary procedure, partly to modern conditions: some advisedly set up by the House itself, others sprung from constitutional usage, and others again the unavoidable result of modern developments of the financial system. 'All the rules as to financial procedure are measures intended to protect the House against itself, to prevent hasty grants and ill-considered increases in the responsibilities of the people,' while at the same time such rules are the best safeguard of the minority against the autocracy of the majority.

Redlich,
H. of C.,
iii. 124

Reference to these points must necessarily find a place

in any attempt to deal with the subject of public accounting from the point of view of parliamentary control. The treatment of this portion of the subject will therefore extend in a measure to the general question of public finance in order that the narrower field of public accounting may be subsequently the better understood. There are three stages of finance affecting the House of Commons,—namely, estimates, expenditure, and accounting. The control of the House of Commons is exercised mainly in two stages only, firstly in considering and authorising the proposals made to it, whether of taxation or expenditure, and secondly in dealing with the results, the completed accounts of the same.

Control over the Course of Expenditure

Its power of control over the intermediate stage, the course of the expenditure, is necessarily and properly limited. The House of Commons is a deliberating and legislating body. It is not a ruling body. Into the details of administration it is, as an assembly, essentially unfit to enter. 'There are some prerogatives with the exercise of which the Houses of Parliament must ordinarily refrain from intermeddling, lest their intrusion should be equivalent to an unwarrantable interference with executive functions.' It is no part of the functions of the House of Commons to administer, and, though it has the right to investigate methods of administration, if it suspects that they are causing waste and extravagance, it has no right to interfere with a view to relieving the department of the functions of administration. It arrives at a decision, but has technically no power of taking administrative action beyond its own borders to carry out that decision. It has 'no direct control over any single department of the state. It may call for papers, investigate the conduct of public officers, and pronounce its opinion upon the manner in which every function of the government has been, or ought to be discharged, but it cannot convey its orders or directions to the meanest executive officer, in relation to the performance of his duty.' Practically it secures that effect is given to its decisions through the instrumentality of the government, as well as by means of the unlimited legislative competence

Cp.
Redlich,
H. of C.,
Pref. vi.—
vii.
Todd,
Parl.
Govt.,
i. 142;
ii. 150

Redlich,
H. of C.,
ii. 223—
224

May,
Const.
Hist.,
ii. 85-6

which it possesses. To attempt direct administrative action, however, would be an infringement of a fundamental principle of the constitution. 'Parliament recognises to the full the importance of non-intervention in matters of government; and on the rare occasions when it has encroached upon executive functions, such encroachment was the result of error rather than intention. Disapprobation of a minister, of a department, of a policy, may be, and is from time to time expressed, but interference with the action of a minister, or of a department, or with the development of a policy is, on the whole, carefully avoided.' Its intentions are expressed in legislation, by means of which alone public departments can legally be made to change their modes of action. It is the duty of the executive to carry out those intentions. When this has been done, Parliament has the right to examine the results. So long, however, as the executive is carrying out the prescribed programme and acting in accordance with the recognised principles, any interference would not only be unjustifiable but harmful. The proper office of Parliament, as Mill points out, is 'to watch and control the government, to throw the light of publicity on its acts, to compel a full exposition and justification of all of them which anyone considers questionable, to censure them if found to merit condemnation, and if the men who compose the government abuse their trust, to expel them from office.' It is not its duty to decide upon matters of administration itself, but to take care that the persons who have to decide them are the proper persons, and are honestly and intelligently chosen. 'Deliberation, and not dispatch, is the duty of the House of Commons.' Again, 'when a popular body knows what it is fit for and what it is unfit for, it will more and more understand that it is not its business to administer, but that it is its business to see that the administration is done by proper persons, and to keep them to their duties.' The working of constitutional government necessitates the delegation of certain powers to every department. If such powers are exercised with the knowledge of Parliament and subject to its control, they can be more advantageously discharged by the responsible minister or his department, which has the special or local knowledge, than by direct parliamentary action. A recognition of this

Anson,
Con.,
i. 369

Rept.
Govt.,
p. 104.
Cp.
idem,
pp. 94
& 106

Hans. 3 s.
ccviii.
76 (Fox);
cxcii.
1731
(J. S.
Mill)
Gov.
of Eng.,
p. 68
Todd,
Parl.
Govt.
ii. 170

principle does not in any way prevent Parliament from raising questions as to points on which it suspects that its will is not being carried out. In such cases it is clearly within its functions to call the responsible minister to account with a view to demanding those administrative steps which will ensure its intentions being complied with, or to preventing others which would be in opposition to its will. By questions addressed to ministers, by motions for papers on matters of present interest, members are able to exercise that constant criticism and control of the executive which the system of cabinet government puts into the hands of the legislature. The chief danger of the system is the liability to abuse by an undue extension in unimportant matters, thus causing unnecessary work in the departments and undue expense by the work entailed. The control of Parliament over the course of expenditure is limited to its control over the executive ; and so long as the government possesses the confidence of the House, no active exercise of control would take place except in case of suspected illegality. Any other system would be subversive of administrative responsibility, and contrary to constitutional usage and procedure. It is true that pressure is frequently brought to bear on ministers during the year to remedy grievances or to incur special expenditure, but action of this nature is on a different footing and is rather an attempt to amplify the intentions of Parliament than to prematurely investigate the expenditure which is in point of fact taking place.

This principle obviously only holds good so long as the general scheme of expenditure put forward by the government and approved by Parliament is adhered to. Parliament should be informed at the earliest possible date of any important modification of that scheme, even though a further parliamentary grant may not be required. 'When an important arrangement with respect to the expenditure and receipt of public moneys is subsequently modified, such modification ought to be explicitly made known to Parliament.' If no substantive grant is required this may be effected either by the presentation of a detailed supplementary estimate for a token vote or 'by presenting an explanatory statement, on the principle whereby a revised shipbuilding programme is laid before Parliament whenever any considerable changes are

Anson,
Con.,
i. 370

R. 1877,
130

1 R.
1906,
9 T.M.

introduced in the course of the year, and on analogy with Mr. Monk's resolution of 4th March, 1879, with reference to transfers between votes.'

Control over Results

Hans. 3 s. cxcvii. 633 (Gladstone) Cp. also Hans. 3 s. ccxvii. 1266

'It is undoubtedly the business of the House of Commons to be responsible not only for the inception of all public expenditure, but also to follow the money raised by taxation until the last farthing is accounted for.' This, however, does not mean that the House itself must follow up the expenditure in detail, nor, as explained elsewhere, would such procedure be possible. The exercise of control over results is effected mainly through the agency of the Public Accounts Committee and the Comptroller and Auditor General, whose functions will be dealt with in detail in succeeding chapters. It need only be observed here that in practice the House of Commons, as a body, exercises no direct control over the completed accounts except in cases which are specially brought before it for consideration or decision, or when further provision in the form of an excess vote is required to meet expenditure in excess of provision, and in the case of the army and navy when its covering sanction is required for the powers of virement exercised by the Treasury. The accounts, with the reports on them, are, in accordance with statute, laid before the House, which thus becomes officially aware of the results, but the forms of procedure make no provision for their consideration or for their criticism. That duty is left to the Public Accounts Committee, which is able to discharge it much more efficiently and effectually than could be done by the House itself, with the result that control over results, though indirectly secured—if indeed it can correctly be termed parliamentary control at all—is far more real and more close than it could possibly be if directly exercised by the House of Commons.

E. & A. Act, §§ 22 & 32

Cp. Est. Pro. Ev. 2

Control over Proposals: Procedure in proposing, granting, and rendering available Supplies

There remains for consideration the question of control over proposals, and the essential portion of this question

is control over the estimates of expenditure, for it is by the estimated expenditure that the amount of revenue to be raised is fixed. Control over the revenue is practically limited to criticism of the proposed methods of raising the requisite sum and can be nothing else. Criticisms on the estimates may be directed to reducing the proposed expenditure; but once the amount is settled it is the duty and the necessity of Parliament to provide that sum, and only that sum. Destructive criticism may be directed at the estimates with a view to causing their modification or reduction, but, speaking generally, destructive criticism of the revenue proposals must be accompanied by constructive criticism. The necessary money must be provided; the House cannot seek to relieve the taxpayer in one way without proposing to burden him in another. If it wishes to reduce the revenue absolutely, it can only do so by first reducing the estimates. Parliamentary control over the proposed financial programme of the year becomes therefore, apart from the policy of the method of raising the revenue, almost entirely a question of control over the estimated expenditure.

Constitutional practice, the rules of parliamentary procedure, and statutory provisions require various steps to be taken in making the grants, and in rendering them available. A brief consideration of these steps will assist in showing the extent to which they secure or limit parliamentary control.

Parliamentary procedure and practice may appear to be exceptionally complicated, to involve unnecessary stages, to invite obstruction by their multiplicity. Each process, however, each form of procedure, each formality, constitutes an integral portion of a harmonious whole. Each performs a valuable function in the system which has been built up in the past and which, with modifications to suit modern requirements, provides to-day those safeguards which are now needed even more, though for different reasons, than in former days. 'Nothing tends more to throw power into the hands of the administration and those who act with the majority of the House of Commons than the neglect of, or departure from, these rules. The forms of procedure, as instituted by our ancestors, operate as a check and control on the actions of ministers, and are in many instances a shelter and protection to the minority against the attempts of power.'

Redlich,
H. of C.,
i. 56.

2 R.
1884,
51-53,
T.M.
Redlich,
H. of C.,
Intro.
xxxiii.

Hatsell,
p. 176

It is not difficult to see how this is so, for were there no such rules, and it were possible for the House of Commons by a single resolution to legislate and make such legislation operative forthwith, the power of the government would be uncontrolled in the highest degree; whereas, under the existing system, 'the passing of a bill is guarded by scrupulous precautions to ensure full consideration, and to prevent legislation by surprise.' The importance of the point has been expressed even more strongly: 'the very existence of a Parliament rests on its rules of business as a foundation, and in the last resort its whole energy may come to depend upon the correct solution of a problem of procedure.' In matters of financial, more perhaps than any other form of legislation, the procedure is important as a safeguard against extravagance and in securing parliamentary control. 'The House of Commons,' Hatsell points out, 'have with great wisdom imposed these rules and restrictions upon themselves, in the exercise of that great and most important privilege, "the sole and exclusive right of granting aids and supplies to the Crown," in order (as it is their duty when they are imposing burthens upon their fellow-subjects) to give every opportunity for free and frequent discussions, that they may not, by sudden and hasty votes, incur expenses, or be induced to approve of measures which may entail heavy and lasting burthens upon themselves and their posterity.'

Demands of the Crown

S.O. 56
Cp. Todd,
Parl.
Gov.,
ii. 65
Hans. 3 s.
clxxxi.
1131
Cp.
Hatsell,
p. 104
May,
Parl.
Prac.,
p. 545

In the proposal of grants, the House of Commons cannot take the initiative. Under constitutional practice the demand must come from the Crown, through a responsible minister, and for such demands the government is solely responsible. Unless and until such a demand is made the House can neither propose, discuss, or make a grant. No proceedings towards raising or allocating money would otherwise be in order. Over this step, therefore, the House of Commons, as such, has no control. 'The Crown demands money, the Commons grant it, and the Lords assent to the grant. The Commons do not vote money unless it be required by the Crown, nor impose or augment taxes unless such are necessary for the

public service as declared by the Crown.' The demand of the Crown may be made in one of four ways :

(i) In the speech from the Throne at the opening of Parliament.

(ii) By messages desiring pecuniary aid }
 (iii) By a demand for a vote of credit } during the session.
 (iv) By the presentation of an estimate }

The methods to be adopted depend on the circumstances and nature of the grant, and it rests with the government to decide upon the most suitable in any particular case, subject to conditions laid down by the House itself. The last one is that in most general use and is the method employed normally for all the annual supply services.

Committee of Supply

The Committee of Supply is the apparatus whereby the House of Commons makes effective its absolute control over the whole administration of national and imperial finance.

All proposals as to taxes or grants must, in accordance with the rules of procedure, be considered in the first place in committee of the whole House, as a preliminary to legislation, and no bill creating a public charge can be ordered to be brought in until the report of the resolution of such a committee has been received, sanctioning the grant of public money or the imposition of a charge upon the people.¹ Such procedure, 'which, as it has its foundation in prudence, and an attention to the ease of the people, ought to be in all instances invariably observed,' is peculiarly advantageous in financial discussions owing to the greater relaxation of rules of debate in committee as compared with those of the House itself, thereby ensuring 'a more free discussion than other propositions are entitled

¹ A resolution was agreed to on 29 March, 1707, to the effect that 'the House will not proceed upon any petition, motion, or bill, for granting any money, or for releasing or compounding any sum of money owing to the Crown, but in a committee of the whole House'; and this was ordered to be made a standing order on 29 Nov. 1710. The principle, however, was of older standing, for in 1667 the House resolved 'that any motion for a public aid or charge upon the people ought to be referred to a committee of the whole House, and their opinion reported, before any resolution or vote of the House do pass thereon.'

Cp.
Anson,
Con.,
i. 268

May,
Parl.
Prac.,
p. 545-6
Cp.
Redlich,
H. of C.,
ii. 245.

Idem,
ii. 198;
iii. 136

May,
Parl.
Prac.,
pp. 559,
560
S.O. 71

Hatsell,
PP. 177,
183

15 C. J. 367
Cp. Hatsell,
pp. 176, 193
Anson, Con.,
i. 269
16 C. J. 405
9 C. J. 52

to, in which the levying money on the subject is not included.' If, however, the charge is merely of a subsidiary nature and not the main object of the bill, the royal recommendation and the preliminary committee stage are not required in the first instance. The demand for supplies having been made, the next step, therefore, is to refer it to the committee for consideration. But before the House can resolve itself into committee, the motion must be formally made and carried, 'That Mr. Speaker do leave the Chair,' since the Speaker does not preside over a committee of the House. It is the motion for this formality which illustrates and secures the ancient constitutional doctrine that the redress of grievances should precede supply; for on this motion usage sets aside the rule of relevancy and the opportunity is taken to criticise the policy or acts of the government and lengthy debates frequently ensue before the motion is carried. The extent to which these are possible has, however, been greatly curtailed since 1882 by rules of procedure designed to economise the limited time of the House.

May,
Parl.
Prac.,
p. 608
Anson,
Con.,
i. 270

Functions of the Committee of Supply

The functions of the House in Committee of Supply are strictly limited. The proposals for the grants are laid before it by the minister concerned, and it is the business of the committee to consider and debate upon those grants alone. In the case of the army and navy, however, the rule of debate is relaxed. The expenditure, though spread over various heads, is devoted to one object, the military or naval service. It is usual, therefore, on the introduction of the first votes which are put down for each of these services, for the responsible ministers to make a general statement on the services for the year, and this is followed by a general discussion, although the actual votes on the order paper are usually only those for the numbers to be maintained and for their pay, vote A. and vote 1. No such rule applies to the votes for civil service and revenue departments, the debate on which must be confined to the particular vote under consideration at the time.

May,
Parl.
Prac.,
pp. 619-
621

The committee may vote or refuse a grant, or may reduce it either as a whole or by the omission of items of which it is composed, but it has no power to increase a grant, nor can proposals to that effect be made even by the minister. When an estimate has once been presented, the only method by which a vote can be increased by the government is for the estimate to be withdrawn and an amended one presented, or by the presentation of a supplementary estimate. So too, if a department finds it necessary to propose a variation from a vote, as originally presented, and before the vote has been taken, a revise of that vote should be submitted to Parliament. Nor has the Committee of Supply any power to attach conditions to a grant, other than such as may have been proposed by the government, to add an expression of opinion to it, or to alter its destination. It must either approve or reduce it, in the form in which it is demanded, or reject it; for it can only vote money pursuant to the demands of the Crown. If the discussion makes it clear that the committee is not disposed to grant it in that form, but would be willing to consider it in some other, it is open to the government to introduce an amended estimate. Having voted the grant or otherwise, the work of the committee is at an end, but such vote has no operative effect. It is the House on report which grants the votes; the Committee of Supply merely advises, and submits its resolutions to the House. It must therefore next proceed to report to the House its resolutions, and until such resolutions are agreed to 'nothing that has passed in a committee can be of any validity.' These resolutions are made in the following form, 'That a sum not exceeding £— be granted to His Majesty to defray the charge which will come in course of payment during the year ending on the 31st of March 19— for (the object specified in the demand or estimate).'

A vote when so passed becomes a grant. The government is, however, under no obligation to spend the whole or any part of it. Such a vote is in the nature of a maximum; on the other hand, Parliament is not justified in exacting a pledge that a particular estimate should not be exceeded in any circumstances.

May,
Parl.
Prac.
p. 615
Idem.,
p. 616

W.O.,
Org. Ev.
3261
2 R.
1894,
12
May,
Parl.
Prac.,
p. 616

Todd,
Parl.
Gov.,
ii. 210

Est. Pro.
Ev. 474

Hatsell,
p. 181,
footnote
May,
Parl.
Prac.,
p. 613

2 R.
1896, 4,
T.M.4(c)
Todd,
Parl.
Gov.,
ii. 259

Functions of the Committee of Ways and Means

C.P.M.
1857,
App. 1,
p. 520
Cp.
Anson,
Con.,
i. 272

Although the resolutions of the Committee of Supply record the sanction of the House of Commons to the expenditure submitted to it and authorise a grant to the Crown for the objects specified, they do not enable the government to draw forthwith from the consolidated fund. Further steps are necessary.

May,
Parl.
Prac.,
p. 624

The House, having agreed to the grant on report from the Committee of Supply, is then under the necessity of providing the funds to meet it, and deciding whence they shall be drawn. The consideration of this step is carried out by the Committee of Ways and Means which, as in the case of the Committee of Supply, has definite and limited functions. Its duty is 'to raise or consider such portion of the public revenue as is needed to meet the expenditure required for the service of the Crown during the current year; and to vote money from the proceeds of taxation to cover grants in supply.'¹

Redlich,
H. of C.,
iii. 134
May,
Parl.
Prac.,
p. 624
Anson,
Con.,
i. 273

Its functions are therefore twofold. In the first place, it has to decide upon the nature and amount of all the taxes and duties which are being granted for the first time or which need revision or renewal, that is to say, to adjust income to expenditure by dealing with the taxation of the year; and in the second place, it has to assign the proceeds of taxation to cover the supply grants. The annual budget statement of the Chancellor of the Exchequer, which is made before it, provides the basis for the performance of the first of these duties, and it is incumbent on him when proposing ways and means 'for raising money for the service of the current year, to explain and to show to the House, by a detail of the sums granted for the several services, that the amount of those sums will be a sufficient justification, in point of quantity, to the Committee of Ways and Means, to adopt such measures, and impose such taxes, as shall be then recommended to them.' The second duty, which more immediately

Hatsell,
p. 197

Hatsell,
p. 293

¹ Hatsell points out that as late as 1727 the distinct functions of the two committees were on occasion confounded and mistakes made 'in voting in one of these committees what ought properly to have been the subject of consideration in the other.'

affects the present question, is performed independently and consists in authorising the application of moneys in the consolidated fund to the purposes sanctioned in supply. Consequently if the growing balance of the consolidated fund is insufficient to meet the demands on it, either through the estimated produce not being realised or through the Finance Act being unduly delayed, it must be supplemented by the Treasury under the powers conferred on it by the Exchequer and Audit Act and the Appropriation Act. The Committee of Ways and Means in the exercise of its second function is, however, not concerned with seeing that the consolidated fund is sufficient to meet its drafts on it. Its function is, then, to authorise such drafts as are required to carry on the service of the country, subject always to the limitation that it cannot authorise drafts in excess of the amount of supply previously granted for the year, and it is the special duty of the public bill office on behalf of the Speaker to see that this restriction is complied with. 'Such is the constitutional jealousy of Parliament, that it is not the usage of the House of Commons to grant ways and means exceeding the amount of supplies actually voted.' It is the function of the Treasury to see that the consolidated fund is in a position to meet the calls made upon it.

Redlich,
H. of C.,
iii. 143
C.P.M.
1856,
App. I,
p. 547
Cp.
Todd,
Parl.
Gov.,
ii. 242

Consolidated Fund Bills

When the Committee of Supply has authorised the grants and the Committee of Ways and Means has authorised the necessary drafts on the consolidated fund to meet those grants, the House of Commons is in a position to consider the bills which are to give legal sanction to them, and without which the votes in supply can have no practical effect, and are inoperative.

C.P.M.
1857,
App. I,
p. 521

The financial provision for the year is embodied in the Appropriation Act, but as this act is not passed until the end of the session, it is necessary to make legal provision for the carrying on of the services in the meantime. All grants in supply are strictly appropriated to the service of the financial year in which provision is made, and no issues can be made from the consolidated fund on account of unspent grants

May,
Parl.
Prac.,
p. 557
Cp.
Anson,
Con.,
i. 274

in one year for use, even temporarily, in the following year. Unless, therefore, the services are to be brought to a standstill, it is absolutely essential that provision for carrying them on should be made before 1st April. The Treasury, moreover, has no power to authorise issues out of the consolidated fund except under statute. It is therefore necessary to pass before 1st April a Consolidated Fund Bill which empowers the Treasury to issue out of the consolidated fund, for the service of the departments for whose use the grants are voted, such sums as they require, in anticipation of the statutory sanction to be conferred by the Appropriation Act. Similar bills may also be required between 1st April and the date on which the Appropriation Act is passed, if the supply made available by the first one becomes exhausted. The position was clearly expressed by the Prime Minister in 1910. 'You must pass,' he said, 'before the end of the financial year, the first votes for the army, the navy, and the civil service, because, although you may have a treasury full to overflowing on 1st April with money derived from taxation or loans, you cannot lawfully expend one halfpenny unless this House has, before the expiration of the financial year, given authority to do so by the necessary votes in supply. Therefore your army, your navy, your civil service, your old age pensions, come to an absolute standstill on 1st April, unless we get through these votes in supply. Not only have you to get the grant in committee, and its approval on report, but you have to pass the Consolidated Fund Bill through all its stages in the requisite time.' It is therefore, as Anson points out, not the need of supply, but of the appropriation of supply, which makes the annual meeting of Parliament necessary. The permanent taxes ensure the existence of supply up to a certain point, and this can be legally utilised to pay such charges on the revenue as are permanently authorised by statute, such as the salaries of judges and the interest on the national debt; but in the absence of the annual appropriation of supply to specific purposes there would be no authority whatever which could obtain the funds to carry on the supply services.

The drafts made on the consolidated fund are based on resolutions of the Committee of Ways and Means, on which are founded, first the sessional Consolidated Fund Acts, and

Parl.
Deb.
5 s. xiv.
59.

Anson,
Con.,
i. 288

May,
Parl.
Prac.,
p. 591

finally the Appropriation Act which endows these resolutions with complete legal effect.

*Course of the Exchequer*¹

But though the passing of a Consolidated Fund Bill, and later the Appropriation Bill, is the last stage in this process so far as Parliament is concerned, there are further formalities to be gone through before the money reaches the hands of the Paymaster General for credit to the spending department. These formalities afford valuable guarantees for the legality of the issues and so guard against any being made, other than those that Parliament has authorised.

Although the grants have been endowed with the force of law, it is to be remembered that they are grants to the sovereign by whom they were demanded, to be applied by the Crown to the ends specified in the resolution. To make them available for issue, therefore, it is necessary for the sovereign to place them at the disposal of the Treasury by a royal order under the sign manual. On receipt of such an order, the Treasury is in a position to make a requisition for them on the Comptroller and Auditor General, in his capacity as comptroller of exchequer issues, basing such requisition on the act of Parliament which granted them. The Comptroller and Auditor General, under section 15, Exchequer and Audit Act, grants the necessary credit to the Treasury after satisfying himself of the legality of the requisition, and finally the Treasury orders the Bank of England or Ireland to transfer the sums from the exchequer account to the Paymaster General, by whom issues are made to the respective accounting officers, that officer being the banker of the public service, and the relationship between him and the public departments closely resembling those between a banker and his customers.² Such is the course of the exchequer.

¹ The origin of the word is believed to be *Scaccarium*, the ancient name for the treasury, possibly so called because a chequered cloth (figured with squares like a chess board) used to be placed on the table to facilitate the counting of the money (cp. Madox, *History and Antiquities of the Exchequer*, i. 160 and 191, and *Pub. Inc.* p. 818).

² The office of Paymaster General was constituted in 1836 under 5 & 6 W. IV. c. 35.

Todd,
Parl.
Gov.,
ii. 240
C.P.M.
1856,
App. I,
p. 547

Cp.
Hatsell,
p. 196

C.N.E.
Ev. 754
Cp.
Anson,
Con.,
ii. II.
151.
155

R. 1865,
App. I,
para. 23

Votes on Account

Pub. Inc., P. 1142
Cp. C.P.M. 1856, p. 662
May, Parl. Prac., p. 548
et seq.
Redlich, H. of C., iii. 130
Est. Pro. Ev. 2

So long as grants were voted 'for the service of the year,' the balances unspent at the end of the financial year were available for making payments in the following year, and it was immaterial whether the grants for that year were voted at once or not; but as soon as the practice of voting grants for services coming in payment in the year was adopted, further machinery became necessary to provide funds for the early part of the year. As the financial year begins on 1st April and the majority of the votes are not taken until several months later, it is necessary to make statutory financial provision for carrying on the public service during the intervening period in those cases in which the vote itself is not passed by 1st April, for otherwise the government would on that day be left without resources, the prior year's grants having been made for that year's transactions only and being legally inapplicable, if unspent, to the services of the following year.

Cp. Est. Pro. Ev. 2, 27-8

In the case of the army and navy, the sums granted for the votes which are taken before 1st April, and subsequently as required, are available for use provisionally for the whole service, by a temporary suspension of the constitutional principle which directs that each grant of supply shall be devoted exclusively to the object for which the grant is made.

E. & A. Act, § 15
Cp. Anson, Con., ii. II. 155
R. 1912, Ev. 36
May, Parl. Prac., p. 550

Express provision is made for this by the Exchequer and Audit Act, which directs that issues for army and navy services shall be made under the general heads of 'army' and 'navy' respectively. No such provision exists for the civil votes, at least a portion of each of which has therefore to be granted as required, pending the passing of the Appropriation Act. This is effected by asking the Committee of Supply to grant a vote on account, which is usually demanded on a basis of four months' supply, though Parliament has at times restricted the period to six weeks. Subsequent votes on account are regulated by the interval likely to elapse before the date on which the Appropriation Act is expected to be passed. If a dissolution is impending, votes on account are as a rule required for all services, until the new Parliament is able to consider the grant in supply, and when this is so,

large amounts may have to be taken. In former days, votes on account as now understood were only resorted to on such occasions, though in the eighteenth century the term appears to have been occasionally used for what was in effect a vote of credit. In granting a vote on account, Parliament makes no appropriation beyond the specification of the vote of service to which the money is to be applied. In this respect a vote on account is similar to a vote of credit, but there is this important difference that, whereas a vote of credit is a final vote so far as the House of Commons is concerned, and no further detailed appropriation is made than is specified in the general terms of the vote, a vote on account merely provides for the supply of funds as a temporary expedient, and such funds are subject to the eventual detailed appropriation made when the normal vote itself is granted, a portion of the grant for which is provisionally supplied by the vote on account. Again, there is this further dissimilarity in principle between these two classes of votes, apart from the fact that their objects are dissimilar. A vote on account must deal with some subject the policy of which has been accepted by the House of Commons previously, whereas no such rule applies to votes of credit, which may be taken for entirely new services.

By the regulation of the votes on account, the House of Commons retains its constitutional check upon the government by limiting the grant of ways and means to an amount sufficient only to last such time as may be thought proper to give it the means of carrying on the public service. By such limited grants, it is able to prevent the government from dissolving or proroguing Parliament,¹ while at the same time, in agreeing to the votes, it is not pledged to the estimates, in anticipation of the opportunity to be afterwards afforded of voting them in detail.

¹ On 12 Jan., 1784, the House of Commons resolved, 'That for any person in the Treasury, Exchequer, or Bank of England, or employed in payment of public money, to pay any money for sums voted in the present session after prorogation or dissolution, if before the passing of an Appropriation Act appropriating the supplies to such services, will be a high crime and misdemeanour, and a daring breach of a public trust, derogatory to the fundamental privileges of Parliament, and subversive of the constitution of this country.'

Est. Pro.
Ev. 2

Cp. Est.
Pro. Ev.
114-118

C.P.M.
1857,
App. I,
p. 521
Bowles,
Nat. Fin.
(1904),
p. 12
Todd,
Parl.
Gov.,
ii. 212

39 C.J. 358
Cp. Hatsell,
207-8.

Cp. Est.
Pro. Ev.
30-1
Hans. 3 s.
cclxvii.
852

Votes on account are, however, objectionable in principle, in that the money granted remains temporarily unappropriated. They are tolerated in the case of the civil votes because of absolute necessity, but a proposal to take them also for the army and navy, where no such necessity existed, was condemned by Gladstone as 'a most mischievous and even dangerous innovation,' since a large portion of the expenditure would be sanctioned at the beginning of the year by the House of Commons without discussion.

2 R.
1912, 4,
T.M.

The greatest care must always be taken to secure that the amount asked for in the first vote on account shall be sufficient to cover the whole needs of the period for which the vote on account is required. If this is not done, the only alternatives are to suspend payment or to find some means of temporarily advancing money to the votes which are exhausted. For this purpose the civil contingencies fund is available, but if it too is exhausted, the only other source is the treasury chest fund. Such a use of it, however, is neither normal nor desirable, since its primary object is the supply of funds abroad. To stop payment, however, is obviously objectionable, owing to the hardship it would involve, as well as possible loss to the public. If the vote on account fails before another can be taken, one of these courses must be adopted since no legal authority exists for a further issue from the exchequer.

W.O.
Org. Ev.
3067,
3073

Although no vote on account is required for either the army or navy, as the money available on any vote taken is temporarily available for use on any other vote, it is to be remembered that parliamentary sanction has not been given to any vote other than that taken. It is therefore important that new services, especially in the case of works, which should receive parliamentary sanction before commencement, should if possible receive such sanction by the vote concerned being taken, if not before the commencement of the year, at any rate early in the year. If this is impracticable, it is essential that treasury authority should be obtained before starting a new service provided for in the estimates. It would be very dangerous to allow an accounting department to assume parliamentary sanction, if Parliament has not expressed an opinion, either by granting or appropriating money. As a matter of principle, anticipation of parliamentary sanction

should be extremely limited in extent, but where it becomes necessary, the responsibility for assuming it should be shared by an independent department. If the necessary vote cannot be taken at the beginning of the year, either the works must be begun on treasury authority only, or else much valuable time would be wasted in waiting for parliamentary sanction, and simultaneously the department might be prevented from spending the full amount it had undertaken to spend in the year. The correct procedure is consequently to take the works vote, if not at the same time as vote 1 before the commencement of the year, at any rate early in the year, and the Public Accounts Committee has expressed the opinion that this course should be strictly adhered to. The same principle is applicable in the case of civil votes, and grants on account should be restricted to such services as have already received the sanction of Parliament, except in the case of trifling or non-contentious new services. Votes on account should therefore not be asked or used for new services.

R. 1913,
Ev.
2970-1,
2979

2 R.
1913.
34
May.
Parl.
Prac.,
p. 550
Parl.
Deb., 4 s.
xxxiv.
657
Est. Pro.
Ev. 30

Appropriation Act

When all the estimates of the year have been voted, the Appropriation Bill is brought in. The passing of this gives final and full legal sanction to the votes on account which have previously been passed, by appropriating them to their respective services. The issues out of the consolidated fund are legalised by the passing of Consolidated Fund Bills, but these bills give no legal effect to the votes as such. If a prorogation or a dissolution takes place before the Appropriation Act is passed, all the grants made are nullified and would require to be re-voted in the next session before a legal appropriation could ensue. It is therefore necessary that before a dissolution takes place, all grants on account should be legalised by an Appropriation Act. On the other hand, no grant of supply is effected by the Appropriation Act. The grants are made on the resolution of the Committee of Supply. The provisions of the act are solely administrative, the object being, first, to authorise the issue from the consolidated fund of the balance required to make good the supply which has not previously been authorised by Consolidated Fund Bills,

Cp. Est.
Pro. Ev.
84
C.P.M.
1857,
APP. I,
p. 521

May,
Parl.
Prac.,
pp. 551,
595
C.P.M.
1856,
APP. 9,
p. 662
et seq.
Hatsell,
p. 207

and secondly, to ensure that the whole of the grants are appropriated to the objects defined in the committee's resolutions.

The act therefore, while including all Consolidated Fund Bills in its schedule of grants out of the consolidated fund, distinguishes between those issues previously authorised under Consolidated Fund Bills and those now to be made under the Appropriation Act, and only authorises the issue of the latter. It then proceeds to appropriate the total amount of the grants for the year to the services set down.

This annual act is deemed the great security for parliamentary control, inasmuch as it appropriates every separate grant by Parliament to a specific service or purpose. The passing of the act provides the last opportunity for control and discussion by the House over the proposals, and that only to a limited degree; for debate and amendment during the stages of the bill must be strictly relevant, and must be confined to the conduct or action of those who receive or administer the grants specified in the bill. Owing to the late stage in the session at which the bill is usually introduced, and the pressure of other work involved in winding up the session, the time available for even this discussion is very limited.

Bowles,
Nat. Fin.
(1904),
p. 14

May,
Parl.
Prac.,
pp. 594-
5

Treatment of Departmental Receipts

The Appropriation Act gives final statutory effect to the grants for the year and to their allocation, but its scope extends beyond this. The specific grants made by Parliament do not represent the total expenditure of the public service, but only that portion which has to be provided for out of the consolidated fund. It is an important general principle in the management of finance that all receipts should be brought into account, and the Exchequer and Audit Act provides for the payment into the exchequer of the revenue derived from the customs, inland revenue and post office and all other public moneys payable to the public. The receipts, however, of departments which are cognate to the vote services as the concomitant effects of their administration, rather than the result of direct or indirect taxation, are treated

C.N.E.
Ev.
2058-9

E. & A.
Act, § 10

in a different manner. Such receipts are not paid into the consolidated fund, but are retained by the departments and applied to the services of the year under the authority of Parliament. The estimates set forth in greater or less detail the sums which a department expects to receive under each vote and which it proposes to retain to meet its expenditure up to that amount. The balance only of the proposed expenditure Parliament is asked to grant. The votes are in fact taken net. This practice is, however, not usually adopted for civil votes in regard to receipts which are very uncertain, or in cases where the total amount expected to be received is only a small sum. In such cases they are not appropriated in aid of the vote, but are treated as extra receipts and paid to the exchequer. The question of procedure is one of administration, with regard to which a discretionary power is vested in the Treasury under the Public Accounts and Charges Act of 1891. However desirable uniformity of practice may be, the extent to which it can be secured is dependent upon practical considerations. The receipts for sale of fee stamps are, for instance, collected by the inland revenue authorities and not by the accounting officer, and are paid direct into the exchequer. Again, in the case of some votes the estimated receipts do not exceed £10, and it is necessary to observe some limit of amount for the exercise of the practice of appropriating in aid. Though there may be no difference in principle involved, 'the total amount of the cash receipts estimated to accrue in connection with a particular vote should be a material consideration in deciding whether a credit sub-head should be opened in that vote.' The limit as regards those votes which had credit sub-heads was at first fixed by the Treasury at £1,000, but this has never been strictly adhered to. In cases where, for practical reasons, receipts connected with votes which had credit sub-heads continued to be paid direct into the exchequer instead of being credited to such sub-heads, it was laid down that the amounts should be clearly shown as sets-off in the estimates volume.

The method of treating these departmental receipts was for many years under discussion by the Public Accounts Committee, as a result of which the present system was eventually legalised by the Public Accounts and Charges Act

R. 1913,
Ev. 822-

4
5 R.
1895, 2,
T.M.

3 R.
1896, 1

5 R.
1902, 6,
T.M.

H.C.
46/1896;
P.P.
xlix. 365

54 & 55
Vic. c. 24

3 R. of 1891, after having been admitted tentatively since 1881.
 1881, 9 Section 2 of this act enacts that all money directed, by act of Parliament or the Treasury, to be applied as an appropriation in aid of money provided by Parliament for any purpose, shall be deemed to be money provided by Parliament for that purpose and shall, without being paid into the exchequer, be applied, audited, and dealt with accordingly. The purpose of this system of appropriations in aid is to prevent the votes of Parliament being needlessly increased by expenditure to which there are counterbalancing receipts.¹

5 R.
 1902, 6,
 T.M.

3 R.
 1894, 4

Idem, 6

Idem, 8

Idem, 9

Though the insertion of amounts so placed at the disposal of departments in the estimates and the passing of those estimates by the House of Commons might be considered as inferentially giving parliamentary sanction in each case for the total expenditure to be defrayed out of the net grants as shown by the annual Appropriation Act, and out of the appropriations in aid allocated by the Treasury to the respective services, it was considered necessary 'to give some more formal and distinct parliamentary sanction for the application of the appropriations in aid by means of the Appropriation Act itself year by year.' It was accordingly agreed in 1894 that the sums intended to be applied in aid of the several grants should be set out in an additional column of the schedule of the Appropriation Act, which appropriates and limits the amounts of the grants in supply, and that a paragraph should be added to Section 3 of the act to the effect that 'In addition to the sums hereby granted out of the consolidated fund, there may be applied out of any money directed, under section 2 of the Public Accounts and Charges Act of 1891, to be applied as appropriations in aid of the grants for the services and purposes specified in schedule B annexed hereto, the sums respectively set forth in the last column of the said schedule.' The adoption of this recommendation in the Appropriation Act of 1894, continued in that of each year since, has secured statutory authority for the application of sums not exceeding the amount shown in the estimates, and formally limits the spending authority of the departments, as regards the appropriations in aid, to the same extent as in the case of exchequer

¹ The Appropriation Act of 1894 is the first one in which receipts are shown as appropriated in aid.

grants. Though the effect of this amended wording of the act was to give parliamentary sanction to the expenditure of appropriations in aid, it did not authorise the use of receipts realised in excess of those authorised by Parliament to be appropriated in aid. As regards civil votes this was immaterial, for such excess receipts could not be used without exceeding parliamentary provision, but in the case of the army and navy the powers of virement enable surplus appropriations in aid under one army or navy vote to be applied in making good a deficiency under another army or navy vote. The Treasury in exercising its powers of virement deals with the net amounts under each vote, after setting off against the expenditure not only the amount of the authorised appropriations in aid but all realised receipts.

In the act therefore as amended in 1894 there was a certain conflict of wording between section 3 and sections 4 and 5, as was admitted by the Treasury at the time, but it was not until 1907 that a further amendment was made of the latter sections which had the effect of legalising the existing practice.¹

¹ The material difference in the wording of sections 4 and 5 of the Appropriation Act is as follows :—

Up to 1906.

4. The department is to obtain treasury authority to defray expenditure 'out of any surplus which may have been or which may be effected by the saving of expenditure upon votes . . . the Treasury may authorise the expenditure unprovided as aforesaid to be temporarily defrayed out of any surpluses.'

5. The Treasury having authorised the prior year's expenditure unprovided for to be defrayed 'out of surpluses effected by the saving of expenditure on other votes,' such application is sanctioned.

From 1907 onwards.

4. ' . . . any surplus arising on any vote for those services, either by an excess of the sum realised on account of appropriations in aid of the vote over the sum which may be applied under this act as appropriations in aid of that vote, or by saving of expenditure on that vote, may with the sanction of the Treasury be temporarily applied, either in making up any deficiency in the sums realised on account of appropriations in aid of any other vote in the same department, or in defraying expenditure in the same department which is not provided for in the sums appropriated to the service. . . .'

5. 'Whereas . . . surpluses arising on certain votes . . . have been temporarily applied as shown in the accounts set out in schedule C to this act' such application is sanctioned.

1 R.
1907, 2

3 R.
1894,
T.M.

The Appropriation Act only definitely and directly appropriates the amount of issues out of the consolidated fund which represent the net expenditure, but it indirectly appropriates the balance of the expenditure by enacting, as stated above, that the sums set forth as estimated appropriations in aid may be applied to the respective services. This authority, in conjunction with the above-mentioned clause of the Public Accounts and Charges Act, furnishes the full legal basis of the appropriation in their case also.

C.N.E.
Ev. 1092
Idem,
App. 8

The effect of this system is that in one sense such sums are granted to the Crown, not by the House of Commons, which never votes them, but by the Treasury under the authority of this act. But although Parliament only votes the net sum, its control over the whole remains. The complete programme is submitted to it for consideration. Neither the grants which it in point of fact makes, nor the balance which the department expects to receive, are allocated to specific items within the vote. The House of Commons deliberates on and approves the gross and votes the net expenditure. The appropriations in aid represent sums due to the department which, generally speaking, the department must receive in any case. If appropriations in aid were therefore to come before the House of Commons to be voted, the effect of an amendment reducing them would be inoperative in the majority of cases. In those cases in which a department was able to waive its receipts as a result of such an amendment, the only effect would be that Parliament would be required to make further provision for the gross expenditure from the consolidated fund, unless it desired to reduce the expenditure absolutely. This it now has the power to do under the present system by a reduction of the grant for the net expenditure. Its supreme control is therefore in practice in no way lessened by this system, so far as the voting of the annual estimates is concerned.

Idem,
App. 12

3 R.
1894, 38

Even if a service is estimated to be entirely self-supporting, a department must still obtain parliamentary sanction to use its receipts. There could be no question of allowing it to spend such receipts without parliamentary control. If, therefore, the receipts are estimated to equal or exceed the total of the vote, and would thus obviate the necessity for a substantive

grant altogether, a token vote must be taken to bring the matter before Parliament in Committee of Supply. The receipts to be appropriated in aid are in such a case fixed at a nominal sum less than the gross expenditure and so entered in the second column of the schedule to the Appropriation Act. The department thereby obtains authority to appropriate its receipts up to that extent and any excess would have to be surrendered as 'extra receipts' to the exchequer.

Cp. R.
1913.
Ev. 446,
781-4,
975-9

This system of appropriating receipts in one way tends to increased economy, for it is to the interests of the departments to see that they realise all their receipts, since any shortage will have to be made good by either reducing expenditure proportionately or by applying to Parliament to make good the deficiency. They have consequently a more direct interest in them than formerly, when they were treated as extra receipts payable on recovery to the exchequer.

C.N.E.
Ev. 2074
-6

Although Parliament, in dealing with the vote as a whole, authorises the application as appropriations in aid of the gross estimated receipts under each vote, yet it also requires the department to distinguish between those receipts which are specially applicable to a particular sub-head or a group of sub-heads, and those which cannot be so appropriated and have therefore to be taken in aid of the vote as a whole. In the general account or summary of the appropriation account, the gross total only is given; but in the account of the vote and the explanatory statement, the details must appear. The object aimed at is to secure a correct record of the total departmental expenditure and receipts.

R. 1880.
54, T.M.

Exceptions to this principle are permissible in cases in which the receipts are rather in the nature of adjustments, or transfers between cash and kind, and do not represent new transactions. As an instance of this class of case, reference may be made to the sub-head of the army vote which provides for clothing allowances to soldiers. The state gives the soldier a cash allowance to enable him to renew his clothing, and at the same time it purchases or makes clothing which it sells to him as required and which he pays for out of his allowance. The original cost of the clothing is chargeable to other sub-heads. If a purchase is made, the soldier is in effect refunding to the state a portion of his allowance and

taking what he is entitled to in another form. If, therefore, the cash allowance remained charged to one sub-head, while the cost of the garment remained charged to another, and the cash payment were treated as an appropriation in aid, the public expenditure and receipts would both be unnecessarily increased and the cost of technically the same service would be estimated for twice. In such a case, the cash receipt is more correctly treated as an adjusting transaction rather than as a sale of stores, and the estimate shows it as a deduction from the total clothing allowance to be issued. Parliament therefore only votes the net sum, and it is this sum only which appears in the appropriation account.

Apart from those receipts which are estimated for and notified to Parliament in the estimates, the Treasury has power under the act of 1891 to direct that any sum received may be treated as an appropriation in aid. If, therefore, the estimated items fall short, but others are received and so applied under this authority, the control of Parliament, as secured by its approval of the original programme, is to this extent diminished, that the approved expenditure is being met from sources other than those from which it was informed it would be met. As a treasury minute, to be laid before Parliament, is required to appropriate such receipts in aid in addition to those originally appropriated, Parliament is kept informed of the exercise of the power though its sanction is not required. In practice this is not done for any sum less than £1,000. The gross expenditure cannot, however, in any case be exceeded without further parliamentary authority, and therefore the only practical question at issue in such cases is whether any particular unexpected receipt should or should not be paid into the exchequer forthwith, leaving the department to apply to Parliament for a supplementary estimate to make good its deficiencies on appropriations in aid, if it cannot reduce its expenditure to meet such deficiency. In other words this power of the Treasury enables the department to carry on its authorised expenditure without the necessity of a direct application to Parliament, if it fails to realise its appropriations in aid but obtains other receipts which were not estimated for.

When considering the probabilities of the estimated receipts

54 & 55
Vic.
c. 24,
§ 2 (3)

R. 1913,
Ev. 1091

being realised, however, the point should not be lost sight of that there is a natural tendency to underestimate appropriations in aid, because, if overestimated and not realised, the deficiency has to be made good out of gross expenditure, which may be very inconvenient. A surplus of appropriations in aid is therefore, as a rule, more likely to occur than a deficit. Accuracy in estimating receipts is, however, as important as accuracy in estimating expenditure, and care should be taken to ascertain the probability of receipts in aid of a vote, though the possibility of receipts from unexpected sources may make accurate estimating difficult. The tendency to disregard this principle led the Treasury to point out that there was 'an obligation on all accounting officers to frame their estimates of appropriations in aid under each vote as closely as circumstances admit, and this obligation is emphasised when the estimate is a supplementary estimate framed at the close of the financial year, when the financial conditions of the year are known with an approach to certainty not possible at the time the original estimates were prepared.'

The existence of surplus receipts does not allow a department to utilise them to the extent of exceeding parliamentary provision, though it renders such an irregularity possible. The rule governing them is that 'the total amount of extra receipts (or, as they are now termed, appropriations in aid) which may be applied in aid of the gross expenditure in any year, is to be strictly limited by the total amount of the estimated receipts as shown in the estimates for the year, and any excess of actual receipts beyond the total of the estimated receipts will, when ascertained, be surrendered in the same manner as ascertained surpluses on grants.' The wording of the Appropriation Act similarly restricts the extent to which receipts may be utilised to the amount set out therein. Parliament is thereby assured that the gross provision authorised can only be exceeded by the commission of a serious financial irregularity, for which the department will have to account when the occasion for asking for an excess vote arrives.

R. 1912
Ev. 304

2 R.,
1885,
115

2 R.,
1903, 1,
T.M.

3 R.
1881,
T.M. 17
Cp. R.
1887, 88,
T.M.

III. NATURE OF GRANTS

Consolidated Fund Charges

Cp. Anson, Con., ii. II. 152 The grants made by the House of Commons may be classified under two main heads: those which are authorised as recurring direct charges on the consolidated fund, and those which are met by annual or special vote for the supply services.

Direct charges on the consolidated fund, which amount to about a third of the annual expenditure, are authorised by statute for the specific purposes and for such length of time, definite or indefinite, as are therein laid down. When once granted they become in effect continuing grants to the Treasury to be obtained on its requisition and issued for the purposes for which they are provided. They do not come up for annual review or criticism, and are to that extent removed from the control of the House of Commons after the statute has been passed. On the other hand it is at any time within the power of Parliament to repeal such a statute and to transform the charge from a permanent to an annual one. The House therefore possesses continuously the potential right to exercise its supreme control in such cases. The fact, however, of the charges not being automatically brought under review necessarily withdraws them in a measure from the notice of Parliament, and there is a disinclination consequently to make such permanent charges in any cases which could be provided for without detriment by an annual vote. Such grants as those for the civil list are advisedly charged directly on the consolidated fund with the specific intention of withdrawing them from annual criticism. So also the objection to submitting the actions of judges or of the Comptroller and Auditor General to criticism on an annual vote is obvious. The effect of charging the salaries of such officials directly on the consolidated fund is to secure their independence and to guard against the possibility of any undue influence being brought to bear on them in the exercise of their high duties. So long as the substantial part of the public expenditure is subject to the discretion of Parliament, and the mode of paying out the funds is under strict legal arrangement, there is no

Redlich, H. of C., iii. 129

Idem, 128

Cp. C.P.M. 1857, App. i. P. 520

Cp. Todd, Parl. Govt., i. 191

Bastable, Pub. Fin., VI. iii. § 4

danger in making permanent provision of this nature, which, moreover, does not in any way infringe the unity of the budget. The House of Commons exercises its control in the first place when it makes the grant and in laying down the conditions under which it is to be charged; it explicitly waives its right of further control so long as the circumstances remain the same. The only further condition it demands is that it shall be informed that the issue has reached the destination for which it is intended. The Treasury therefore has to prepare an annual account showing the issues out of the consolidated fund for direct charges, and the Comptroller and Auditor General certifies this and reports on it to the House with reference to the acts of Parliament under the authority of which the issues have been made. All such charges on the consolidated fund have to be included by the Chancellor of the Exchequer each year in his budget statement though no vote is required; they constitute definite liabilities which must be met annually, until revoked by Parliament. This account must be presented to Parliament on or before 31st January in the following year, or within one week of the meeting of Parliament. It is then referred to the Public Accounts Committee for consideration.

E. & A.
Act, § 21

Annual Estimates

The remainder of the expenditure set forth in the budget is in the form of proposals which require to be voted for the service of the year, and it is in the exercise of its function of granting these supplies that the supreme control of the House of Commons is most evident.

The most usual form in which the demands of the Crown for supplies are made is that of the annual estimates. They are put forward in three main divisions, comprising respectively the estimates for the army, the navy, and the civil services, including the revenue departments; but while each of the two former constitutes what is practically a single service for which a single accounting officer is responsible, the last-named division comprises the estimates of various services dealt with by various accounting officers and having no connection with each other beyond that of each constituting a branch

of the civil service or revenue departments. While therefore the total estimates of the latter are summarised for presentation to Parliament, the purpose of such a method is to place before Parliament the estimated total expenditure of those services as well as the total of each. The accounting for each service is carried out entirely independently and without reference to the others.

The civil services are divided into the following seven classes :—

- I. Public works and buildings.
- II. Salaries and expenses of civil departments.
- III. Law and justice.
- IV. Education, science, and art.
- V. Foreign and colonial services.
- VI. Non-effective and charitable services.
- VII. Old age pensions, labour exchanges, insurance, etc.

The revenue departments comprise :—

- Customs.
- Inland revenue.
- Post office.

Each of the civil service classes is composed of various votes. In the case of the revenue departments the expenditure is estimated for under one vote only for each.

Resolu-
tion,
19 Feb.,
1821, 76,
C.J. 87

Est.Pro.,
Ev. 147

The annual estimates for the army and navy, which are presented to the House, not under a standing order, but in accordance with resolution,¹ are required to be presented before 15th January in each year, if Parliament assembles before Christmas, otherwise within ten days after the opening of Committee of Supply. The civil service and revenue departments estimates must be presented in time to admit of the votes on account being available by 1st April. In practice the principle of the resolution referred to above is followed also in the case of these estimates, but there is no standing order or resolution of the House applying specifically to them.

These annual estimates inform Parliament of the requirements of each department during the succeeding financial year, as settled by the policy of the government, and in theory

¹ The rules of the Committee of Supply furnish a further example of resolutions being observed as permanent without being made standing orders (May, *Parl. Prac.*, p. 148 footnote).

enable the House to deal with the year's proposals as a whole and to make the requisite grants as in full and final satisfaction of the demands. If it were possible to estimate sufficiently accurately in advance to ensure the provision made by Parliament being a close approximation of the actual eventual expenditure, parliamentary control would be more of a reality than is possible when large variations of the original estimate as presented to Parliament inevitably take place during the year. For many reasons the ideal is seldom attained, and a department frequently is in the position of having a large surplus at the end of the year or of being obliged to present a supplementary estimate. Either contingency causes a diminution of parliamentary control in so far as it shows a departure from the intended programme of the year as originally presented to Parliament.

Apart from the annual estimates and grants for consolidated fund services already alluded to, Parliament may be asked for supplementary grants, excess grants, exceptional grants, or votes of credit.

Supplementary Estimates

'Supplementary estimates, when treated as customary and as a matter of course, instead of being restricted to occasions of unforeseen contingencies, do more to destroy effectual parliamentary control than any other indirect method that could be devised.' They are, however, for one service or another annually recurring necessities.

They may be presented either :—

- (i) For a further grant to a service already sanctioned and voted for, or—
- (ii) For a grant for a further occasion of expenditure arising since the estimates were presented :—
 - (a) For expenditure newly imposed on the executive by statute.
 - (b) To meet an unexpected emergency.

Owing to the fact that the annual estimates have to be prepared some months before the commencement of the financial year, and possibly as much as fifteen months before

Bowles,
Nat. Fin.
in 1905,
p. 12

Cp.
R. 1862,
Ev. 1571
May,
Parl.
Prac.,
p. 552

the expenditure estimated for actually takes place, the varied nature of the services estimated for (especially in the case of the army and navy), and the distant parts of the earth in which much of it is incurred, the possible changes of policy or programmes that may occur during the year, and other causes, it is extremely difficult to make a close forecast of the amount which will have to be provided. If the provision eventually proves too small it is necessary to ask Parliament to supplement it at the earliest opportunity, and, whenever possible, before the close of the financial year, so as to enable it to be included in a Ways and Means Bill to be passed before the year has expired. 'In case, while Parliament is sitting, any unexpected circumstances should make an additional expenditure necessary to such an extent as would satisfy the department that the vote will prove insufficient, it becomes their duty to communicate to the Treasury, and, having obtained their assent, to lay before the House a supplementary estimate, or, if such circumstances should occur while Parliament is not sitting, to present a supplementary estimate upon the meeting of Parliament, and before the termination of the financial year.' Inasmuch, however, as the effect of supplementary estimates is to upset the financial proposals placed before Parliament in the budget and thereby to modify the provision which Parliament has made for the year, and proportionately to diminish its primary control, they are objectionable in principle though often unavoidable in practice.

Todd,
Parl.
Gov.,
ii. 260
2 R.
1862

C.N.E.
Ev. 1222
-3

Est.Pro.,
Ev. 2
R. 1862,
Ev. 1571
(Glad-
stone)
C.N.E.,
Ev. 1027

Bowles,
Nat. Fin.
in 1905,
p. 11

It is a sound principle that one, and only one, estimate of national expenditure should be laid before Parliament during each session; for 'to render parliamentary control effectual it is necessary that the House of Commons should have the money transactions of the year presented to it in one mass and in one account.' 'Except for sudden, unexpected, and urgent demands, the budget estimate, both of revenue and expenditure, is one which the House of Commons has a right to expect should be realised in the eventual facts. It is on that estimate alone that the Chancellor of the Exchequer induces the House to agree to the financial policy proposed by him and embodied in his budget.' The introduction of supplementary estimates of any considerable amount is really a breach of contract between the government and Parliament,

for when this is done the budget statement is destroyed, and in effect a supplementary budget is set up. The fact that circumstances often unexpectedly increase the revenue since the estimates were made does not in itself justify supplementary estimates. The surplus should be treated in the recognised manner and be taken in diminution of the national debt. Supplementary estimates are, however, less objectionable than an excess vote. Since a department has no power to exceed the provision made by Parliament and is committing an illegal act if it inadvertently does so, it might appear that it would take precautions against such a contingency by liberal estimates. But a surplus on the account is almost as great a financial irregularity as a deficiency, though more convenient to deal with; and a department with a large surplus at the end of the year is under the necessity of answering for it to the Public Accounts Committee. 'Large savings require explanation no less than do considerable items of unforeseen expenditure.' There is, moreover, a danger to be apprehended when a department has estimated too liberally and finds itself towards the end of the year with a probable surplus. The availability of the money may encourage the department to spend it uneconomically, if not on services not contemplated by Parliament when the estimates were passed, rather than to have to surrender it to the exchequer. For this reason the Public Accounts Committee always looks with suspicion on over-estimates, which have been spent in this manner, or which, even if surrendered, have opened the door to such spending. Further, though the department gains nothing by the surplus which is surrendered to the exchequer, and is taken in reduction of the national debt, the effect of it is that Parliament has been asked to make greater provision than was required, and the taxpayer has been called upon to pay more during the year than the necessity justified. The duty of imposing taxation is at all times a disagreeable one, even when necessary; any avoidable extension resulting from a department's unnecessary demands is therefore not unnaturally discouraged by the House of Commons. Moreover, a department having obtained the grants it asked for cannot have them subsequently reduced absolutely, in order to avoid a gross surplus, on finding that it will not

C.N.E.,
Ev. 1028

C.N.E.,
Ev. 1027

4 R.
1892, 1,
T.M. 5

May,
Parl.
Prac.,
p. 553

R. 1911,
Ev. 404

2 R.
1883, 30

require to spend them, while it is always open to it to obtain, with treasury sanction, a supplementary estimate if required. The tendency is consequently to underestimate rather than to overestimate, and the resulting supplementary estimates which are required are therefore often caused by the system in force for ensuring parliamentary control, whereby estimates have to be prepared so long beforehand. In the case of the army and navy, owing to the powers of virement which can be exercised between the votes, there is no legal necessity for a supplementary estimate unless the total provision is likely to be exceeded. The vote for the treasury chest fund is, however, independent of army and navy votes and must be taken separately when the deficiencies thereon can be estimated. A supplementary estimate is usually presented for it at the end of the year.

Since no expenditure can legally be incurred for which parliamentary provision has not been made, the taking of a supplementary estimate should in theory precede all excess expenditure on a civil vote or on the gross army and navy votes respectively. In practice this is not always possible. It is, however, eminently desirable to do so whenever practicable, as, when once the payment has been made, or the department committed to payment, Parliament is obviously hampered in its decision as to the expediency of such payment. Expenditure so incurred is invalid; but the granting of the supplementary vote and the passing of the Appropriation Act may be held to have a retrospective effect and to cure such invalidity. Though the Appropriation Act embodying a supplementary vote need not be passed within the financial year the supplementary estimates must be passed before the end of the year in order to give legal effect to the expenditure which they authorise. Further, if presented in a subsequent session to that in which the annual estimates were passed they must be followed by a Consolidated Fund Bill, for no issues from the exchequer authorised in a previous session, although for the same financial year, are legally available for grants made in a subsequent session. The legal appropriation may be effected later, however, and is normally embodied in the Appropriation Act of the financial year following that to which the supplementary estimates relate.

The fact that a department may have available funds at its disposal to meet excess expenditure owing to its having realised appropriations in aid in excess of its anticipations will not enable it to legally utilise them if thereby the total provision of Parliament is exceeded. The spending power of a department is strictly limited to the total of exchequer grants and the estimated appropriations in aid, which together represent the gross expenditure authorised by Parliament, and a department cannot look to excess receipts under appropriations in aid to cover deficits on its votes. If, therefore, it desires to increase its expenditure and has an equal or greater sum of extra receipts available without asking Parliament for a further grant it must present a supplementary estimate setting forth the extra expenditure on the one hand and the estimated extra receipts on the other, a nominal deficit of receipts, usually £100, being shown which Parliament is asked to grant. The full facts of the case are thus laid before Parliament, which, in granting the token vote of £100, authorises the additional expenditure. Any further receipts beyond the amount abated are surrendered to the exchequer. It is a wise provision that an accounting department cannot use its excess appropriations in aid without parliamentary sanction. When such extra receipts are taken in aid of votes, any amount realised beyond the sum deducted in the estimate is to be considered as diminishing *pro tanto* the amount of the grant of Parliament at the disposal of the department, and dealt with in the same manner as an ordinary surplus. The same principle applies when a department requires a substantive vote, but has realised excess appropriations in aid which will meet a portion of the extra expenditure. In such a case the fact that a net grant only is required would not justify the department in presenting an estimate for the net expenditure only, nor would such an estimate have the effect of increasing the provision to the required extent. Parliament must approve the gross amount while voting the net amount.

Again, if the War Office or the Admiralty wishes to increase its gross expenditure on some heads, but anticipates savings on other heads, the necessary supplementary estimate should set forth the total excess expenditure on the former

R. 1887,
88 T.M.

Cp. 1 R.
1898, 1;
4 R.
1905, 1

2 R.
1884, 28
R. 1912,
Ev. 28

2 R.
1884, 26
-28 T.M.
R. 1887,
88 T.M.

Cp. 2 R.
1883, 13

R. 1911, and the estimated savings on the latter in order that there
 Ev. 1094 may be no concealment from Parliament of the real grant
 -6 that is required. The same principle applies to the sub-heads
 of a civil vote. Parliament is thereby asked, first, to grant
 the gross extra expenditure on those heads on which the
 department wishes to exceed the former provision; secondly,
 to vote the net excess for issue out of the exchequer; and
 thirdly, to authorise the application of the savings, to the
 extent shown, to those votes or sub-heads which will require
 them. So, too, if the savings equal or exceed the proposed
 excesses and the Treasury decides to proceed by supplementary
 estimate instead of exercising its powers of virement, an
 arbitrary deficit of £10 or £100 is shown, for which a token
 vote is taken. The amount of the savings in such cases is
 really granted twice over: in the original estimate under
 one or more heads, and then, on its being apparent that it
 would not be required under those sub-heads, Parliament
 again grants it under the other head. When supplementary
 estimates of this nature are presented for the army and navy,
 the anticipated surpluses and deficits on all the votes are
 embodied in the estimate, thus securing at the earliest date
 parliamentary sanction to the deviations from the original
 estimate which would otherwise be provisionally sanctioned
 under the treasury powers of virement. If a department
 therefore wishes to exceed parliamentary provision, or if it
 requires further grants to meet unrealised appropriations
 in aid, a supplementary estimate must be presented; but if,
 in the case of the army and navy, it only desires reallocation
 of the grants between the votes the decision rests with the
 Treasury as to whether the powers of virement should be
 exercised or whether a supplementary estimate should be
 presented. If the proposed changes are of such importance,
 either because of their amount or on account of questions of
 policy involved, as to practically have the effect of substituting
 an amended estimate for the original one, the Treasury would
 insist on a supplementary estimate being presented on a token
 vote in order to obtain parliamentary sanction within the
 financial year.

Besides being taken to meet excesses on the current services
 of the year, supplementary estimates may also be presented

Cp.
 R. 1910,
 Ev. 1721

Cp. 2 R.
 1908, 2,
 T.M.

for special services such as arise on the outbreak of war, in which case they replace votes of credit, with the intention of endeavouring to place before Parliament more detailed proposals of the expenditure under votes. If a fairly definite estimate can be formed, both of the amount required and of general heads of expenditure, such a method is more in accordance with the recognised principles of parliamentary control by securing more particular appropriation; but if applied to large operations for which reliable estimates are impossible, the benefits are more theoretical than practical. A vote of credit, of which the expenditure is followed up, is as effective in securing parliamentary control as an estimate based on unknown conditions, and liable to be entirely changed in character eventually by the exercise of the powers of virement. ✓

May,
Parl.
Prac.,
p. 553

In all such cases of special expenditure it is most important that the accounts for the ordinary services of the year should, as far as practicable, be kept distinct from those relating to extraordinary services for which provision is made by separate grants. This procedure not only facilitates the control of Parliament over the public money, but also tends to promote economy in public expenditure.

2 R.
1869

Excess Votes

A deficit on a civil vote or on the gross army and navy grants is met by either a supplementary estimate or excess vote, according to the time at which it is discovered. The circumstances of the insufficiency of provision for the year, when such is the case, should be brought under the notice of Parliament either before the close of the financial year, or in the course of the session.

2 R.
1896,
App. 7
1 R.
1876,
72

If a department exceeds parliamentary provision and fails to take a supplementary estimate either through misapprehension or because it ascertains the fact of a deficit too late to do so, the only alternative is to obtain an excess vote in the following year, and at the earliest practicable moment after the excess is established.

Cp. May,
Parl.
Prac.,
pp. 553-4

The only manner in which such excesses can occur is either through the utilisation of available funds, other than those issued from the consolidated fund as parliamentary grants,

or by the use of grants issued for other votes. - A department could never obtain funds within the year from the consolidated fund for such a purpose since the issues are strictly limited to the authorised grants. Such expenditure cannot therefore be controlled in advance outside the Treasury or the accounting department. An excess on a grant is regarded by the Public Accounts Committee as a serious irregularity, apart from its illegality, and the House of Commons has always endeavoured to check any tendency to exceed the provision without informing Parliament within the year. The feeling on the point was expressed by the House of Commons in 1849 when it was resolved that 'when a certain amount of expenditure for a particular service has been determined upon by Parliament, it is the bounden duty of the department, which has that service under its charge and control, to take care that the expenditure does not exceed the amount placed at its disposal for that purpose.' So seriously does the Public Accounts Committee view the necessity for an excess vote that it encourages the taking of a supplementary estimate, if the final forecast on the account shows but a small surplus. 'Whenever the margin of provision over an expenditure of fifteen millions can only be estimated at a few hundred pounds, it would be much safer to present a supplementary estimate.' If this is not done, and in the event the anticipated surplus is not realised, 'the Treasury must share with the department the responsibility for not acting on the forecast of a small surplus, without insisting on a supplementary estimate.' The degree of margin advisable necessarily varies largely in the different departments, in proportion to the nature as well as the extent of the expenditure of each. In the case of the army, for instance, with a net expenditure of about £27,000,000, it was suggested that £37,000 was as small a surplus as could safely be worked to.

The number of excess votes required has very largely decreased within the last twenty or thirty years owing to the greater feeling of responsibility in the matter felt by departments, whereby expenditure is more carefully watched and either kept within the provision, or so closely followed, that a supplementary estimate can be presented if found

104 C.J.,
190
Cp:
Hans.
3 s. civ.
62-68

3 R.
1895, 12

Idem

R. 1913,
Ev. 2002

necessary.¹ In former days, however, there was not the same disposition on the part of departments to regard excesses so seriously, and in 1881 the Treasury observed that departments generally had been slow to learn that an excess was a financial offence, adding, that it was anxious to establish this as 'a canon of the public service,' and to dispose of any idea that an excess upon a vote could be created at pleasure. In the case of the army and navy the privilege of virement obviates the necessity for excess votes, unless in exceptional cases, such as occurred in 1891 when the Admiralty failed to realise a large sum estimated for to be appropriated in aid, and postponed taking a supplementary estimate until too late, hoping to obtain the money in time by arbitration.

2 R. 1881,
41 & 42,
T.M.

2 R.
1892, 2

All cases of excess are reported by the Comptroller and Auditor General, and considered by the Public Accounts Committee, to whom they must be explained. The explanation, moreover, must be fully given and the real causes shown. It is not sufficient to merely give one general explanation of the excess of expenditure and another of the fallings off of receipts in order to obviate the presentation of a long statement, if such is necessary to explain the various excesses and surpluses fully. If merely a general explanation is given, or if one particular item corresponding in amount to the excess is picked out to explain the excess and other causes are not stated, it suggests that the department merely looks upon the House as giving formal consent to the excess vote, and that consequently it is unnecessary to give more than a formal reason for the deficit. The Public Accounts Committee dissents from such a view which precludes it from a full examination of the causes leading up to the excess vote. If the committee after its investigation reports that there is no objection to the excess votes being granted, they are presented to Committee of Supply in the form of a resolution and the position legalised at the earliest possible moment after such report. This should, if possible, be at the latest within the

3 R.
1895,
6-13, &
T.M.

¹ In the nine years 1868-9 to 1876-7 the number of excess votes required for civil service and revenue department votes was 233. In the nine years, 1886-7 to 1894-5, the number was 18 only; while in the nine years, 1905-6 to 1913-14, only 7 cases occurred.

C. & A.
G. Memo.

financial year in which the excess is reported by the Comptroller and Auditor General, and at the earliest cannot take place before the necessity occurs—that is to say, when the irregularity is proved on the audit of the completed account. In practice the consideration of excess votes is the first business dealt with by the Public Accounts Committee, and the recommendation is embodied in the first report presented by that body in the session.

The same principle is followed in dealing with excess votes as with supplementary estimates, if a department has incurred the excess by utilising surplus receipts and consequently no further grant is required, or a grant for a portion of the excess only. The object in view is to secure parliamentary sanction by a vote. Therefore the realised receipts are treated as appropriations in aid of the expenditure, and the excess vote is taken for the net sum only. If, however, these extra receipts exceed the excess expenditure, only such portion of them are allowed to be appropriated as will leave a nominal deficit, £10 or £100, to be voted, the balance being surrendered to the exchequer.

An illustration of this may be seen in the navy appropriation account for 1910-11. In that year the gross expenditure exceeded the estimates by £28,895, which was met from, and more than counterbalanced by, realised receipts, which exceeded the estimated appropriations in aid by a still greater amount. In order to avoid a surrender to the exchequer of the whole of the excess receipts, which would have necessitated an immediate re-vote of the excess expenditure, £28,795 of the surplus receipts were authorised to be appropriated in aid of the excess expenditure, leaving a nominal deficit of £100 to be voted, thus securing parliamentary sanction to the whole. If the excess expenditure had been foreseen it should of course have been met by a supplementary estimate and vote, even though no additional substantive grant was required, thus obviating the necessity for an excess vote later. But even if the excess is foreseen in such a case and a supplementary estimate taken, care must be taken that, if surplus appropriations in aid are expected to be available for use, they should be specifically included in the estimate with a view to securing parliamentary sanction to

3 R.
1881,
9-12

1 R.
1912

3 R.
1912,
18

their being utilised; for surplus appropriations in aid cannot be applied to meet expenditure except by specific parliamentary authority. If in such a case the supplementary estimate only deals with the net amount for which a substantive grant is required, then any further expenditure incurred by the use of the surplus receipts would be illegal and would necessitate an excess vote. 1 R.
1910

Exceptional Grants

Exceptional grants do not call for much notice in this connection. The legally unlimited power of the House of Commons over the public purse stands out clearly in all the forms of special grants and enables it to meet special demands in this form, and equally enables it to make them free of restriction or to impose such conditions as the particular circumstances may require. Special pecuniary rewards to individuals for distinguished service are usually made in the form of exceptional grants, and other services of an important or Imperial nature which are neither directly connected with the current service of the year on the one hand, nor on the other are continuing services which might form consolidated fund services. The vote taken for the suppression of the slave traffic in 1833 was in the form of an exceptional vote, as also was that for the purchase of the Suez Canal shares. Redlich,
H. of C.,
iii. 132

88 C.J.
482
131 C.J.
55

Grants of this nature are either proposed in a committee of the whole House and, when voted, dealt with by a bill brought in to give legal effect to the vote, or may be presented in the form of an estimate, in which case they are subsequently embodied in the Appropriation Act. The nature of the service and the conditions imposed by Parliament would determine the question of the surrender of any unexpended balance. May,
Parl.
Prac.,
P. 555

Votes of Credit

Votes of credit demand a somewhat more full consideration. As the term implies they constitute grants for services which the Crown requires a credit, but which are of such an indefinite nature that the details cannot be estimated for in *Idem*,
P. 554

advance, as in the case of an outbreak of, or during the continuance of, war. During the period of loose appropriation following the Revolution it was usually possible to find the sinews of war out of the annual votes for army 'extraordinaries' which provided the government with sufficient available funds, replenishment being effected by a similar vote in the following year. So long as Parliament was satisfied with the incurring of expenditure in this manner, without its prior sanction, no vote of credit was necessary. The amount of expenditure so incurred beyond the normal votes, and the resulting heavy increases of the 'extraordinaries' votes during the wars in the eighteenth century, brought about, though only gradually,¹ the system of votes of credit, or supplies of credit, as they were originally termed, for extra war expenditure, which, however unreliable as estimates, secured parliamentary sanction in advance to the expenditure generally. At first they were used rather to supplement the funds available from 'extraordinaries' than as the sole means of providing for war expenditure; but on the abolition of 'extraordinaries' in the last century they became a necessity for meeting such expenditure, unless replaced by a supplementary estimate.

C.P.M.
1856,
App. I,
p. 568

The House of Commons makes a grant for a vote of credit on the strength of its confidence in the government that it is necessary, and waives its right of particular appropriation. The prior control is therefore limited to its control over the general policy of the government. There is necessarily no antecedent financial control, as no definite details are or can be supplied on which such control could be exercised. In such cases the grant of a round sum for the special purpose expressed in general terms satisfies the legal requirements without hampering the executive. A vote of credit differs

Redlich,
H. of C.,
iii. 131

Hatsell,
pp. 205, 211,
213
Cp. Pub.
Inc. pp.
1171-2

¹ During the wars at the opening of the eighteenth century, which were carried on in so many parts of the globe, the difficulty of estimating was endeavoured to be solved by Parliament making a general appropriation for the army, navy, and ordnance without specifying the sums for each service. In 1739 a specific sum was voted as a 'supply of credit.' On the breaking out of the war in 1756, and during its continuance, annual 'supplies of credit' of £1,000,000 were voted to supplement the 'extraordinaries' in addition to 'votes on account' of £500,000 in each year; while in each of the years 1780-2 £1,000,000 was voted as a 'supply of credit' to supplement the 'extraordinaries.'

from ordinary supply votes inasmuch as it is taken not by the spending department but by the Treasury. Parliament, in fact, makes a gross grant to the latter, as being the central department of finance, to which it leaves the responsibility of distributing the money in the manner best calculated to meet the emergency. Nor is the Treasury precluded, after having made its allotment, from transferring any of it to another department, if necessary.

If a sudden demand arises during the course of the year which cannot be met by the normal parliamentary grant, further provision must be made by the presentation either of a supplementary estimate or the demand for a vote of credit. If the demand is in connection with services which owing to their magnitude or indefiniteness cannot be estimated for in detail, or of which on grounds of military expediency it is inadvisable to publish details, a vote of credit may be justified. Such conditions ordinarily only arise on the declaration of war or to meet special preparations required in anticipation of a possible outbreak of war, and up to 1885 were usually met by the grant of a vote of credit. Such a vote, however, as compared with a supplementary estimate, possesses financial drawbacks in that it eliminates the possibility of financial control over the proposals by the House of Commons, while, further, Parliament has no means of comparing eventual expenditure with estimates. The demand never gives any particulars as to details of expenditure, and it is therefore presented in a form which precludes any discussion of details. In the interests of financial control, a supplementary estimate is preferable if it can be presented with any reasonable degree of accuracy. On the other hand the vote of credit breaks the unity of the budget in the least dangerous way, as from its nature as a special vote it indicates that the proceeding is irregular and exceptional. Two other advantages are attached to the taking of a vote of credit in place of a supplementary estimate. Firstly, it obviates any necessity for the disclosure of war plans and provisions, and the publication therefore of information which might assist the enemy; and secondly, it reduces the amount of surplus to be eventually surrendered if provision for all services is made from a single vote instead

Adm.
Exp.
App.
P. 194.
Cp. I R.
1886,
9-12

Est. Pro.
239 &
243

Bast-
able.
Pub.
Fin.,
VI. iii.
§ 4
2 R.
1916.
70

of from many separate supplementary votes, on each of which sufficient margin would have to be allowed.

The Treasury, upon whom rests the responsibility of deciding by which method to proceed, has in modern times always shown a disinclination to ask for a vote of credit if it could be avoided. 'Whenever practicable a war or other special service not provided for in the ordinary estimates should be provided for by means of supplementary estimate and not by vote of credit.' This method secures better information for Parliament ; but at the same time greater latitude must be allowed both in bringing the expenditure to account within the proper year, and in estimating in detail for each separate vote and sub-head. In 1879, also, the Treasury expressed a similar view. 'If the requirements of the army and navy had been known more accurately in January 1878 (when the vote was taken), instead of a vote of credit being taken, the ordinary army and navy grants would have been increased by supplementary votes, just as in fact actually was done in preparing the estimates for the following year.'

The first occasion on which a vote of credit was replaced by a supplementary estimate was in 1878-9 to meet extra expenditure consequent upon the war between Russia and Turkey, though in the same year the expenditure in connection with the war in South Africa was met by a vote of credit, and the extra expenditure in connection with the former war in the prior financial year had been met by a vote of credit.

After investigating in 1880 the relative advantages of votes of credit and supplementary estimates, with a view to ascertaining in what way the greatest amount of information and control with respect to the expenditure for such services could be secured to Parliament and the Treasury, the Public Accounts Committee expressed its opinion in favour of a supplementary estimate being presented whenever possible, on the ground that when such an estimate is taken in sub-heads Parliament has in the first instance fuller information ; and the Treasury has greater control over the department while the service is being carried on, as no variation can be made between those heads without treasury sanction. 'When

R. Sess. 2,
1880,
47-53,
T.M.

3 R.
1903, 1

2 R.
1879,
91-93,
T.M.

R. Sess. 2,
1880, 47

Idem, 49

therefore,' it recommended, 'the department can make a fairly definite estimate of the service, and of the general heads under which the proposed expenditure will mainly fall, it is desirable that a supplementary estimate should be presented, . . . votes of credit should as a rule only be resorted to when from the nature of the services to be performed it is very difficult, if not impossible, to give any fairly approximate estimate of the amount required, and when consequently the attempt to do so would be practically useless and even misleading.' On the other hand the committee expressed the opinion that the adoption of the system of supplementary estimates for the purpose of securing more effective control and audit should not supersede the duty of presenting to Parliament in one complete view the best estimate that could be formed of the total cost of any extraordinary service.

R. Sess. 2,
1880, 48
Cp. R.
1887, 121
Cp. T.M.
24/2/52,
H.C. 160,
1856

2 R.
1880,
49A

Votes of credit continued to be taken in some cases up to 1885, but from that date onwards the system was practically abandoned in favour of supplementary estimates, and the expedient is unlikely to be again resorted to unless in very exceptional emergencies such as the present war. The South African war of 1899-1902 was financed throughout by means of ordinary and supplementary estimates at the express wish of the Treasury, and proved the practical possibility of the adoption of such a system for even a war of magnitude. The exceptional circumstances of the present crisis, which justified the first vote of credit in 1914, are clearly seen from the terms of the vote then taken, which was granted 'for defraying expenses which may be incurred during the year ending on the 31st day of March, 1915, for all measures which may be taken for the security of the country; for the conduct of naval and military operations; for assisting food supply; for promoting the continuance of trade, industry, business, and communications, whether by means of insurance or indemnity against risk or otherwise; for relief of distress; and generally for all expenses arising out of the existence of a state of war.' The inadvisability of proceeding by supplementary estimate was further explained to Parliament when the token estimates for 1915-6 were presented, it having been decided to continue to finance the war entirely by votes

Appropriation
Act 1914,
4&5 G.V.
c. 24

Parl. of credit. 'We cannot,' said the Financial Secretary to the
 Deb., Treasury, 'estimate what the cost of the war will be, and if
 5s. lxix. we could it would not be a wise thing to announce it, because
 278 any detailed estimate showing what we are doing or intending
 to do would give information to our enemies as to numbers,
 organisation, training, and equipment, which it is most un-
 desirable that they should know.'

- The grant of a vote of credit is in no sense an unconditional
 grant, though it is made in general terms and is intended by
 Parliament to be liberally interpreted. It is resorted to for
 2 R. the purpose not of restricting, but of widening, the approp-
 1879. riation of the money granted. To subject the issues from
 91-93, a vote of credit to a stricter appropriation could hardly be
 T.M. reconciled with taking a vote of credit at all except for purposes
 of secrecy, and even if a statement is laid before Parliament
 Cp. at the same time as the vote which gives any information
 Adm. as to the intended allocation, it in no way has the effect of
 Exp. Ev. binding the government in details. It is not only not divided
 4 & 5. into different subjects or sub-heads, but it is not even specially
 applied to any one department of the public service. The
 2 R. only definite condition which is usually laid down is that
 1880, 49 the grant is for application in the current financial year only.
 It rests with Parliament to decide whether this condition
 shall be imposed or not. In dealing with the point in 1870
 T.M. the Treasury was of opinion that it was advisable in the case
 24/11/70 of votes of credit to omit the ordinary limitation of period
 so that any portion of such vote, which might remain un-
 issued or unexpended at the close of the financial year, might
 be available in diminution of any similar demand upon Parlia-
 ment for the same purpose in a succeeding year. In conse-
 2 R. quence, however, of the opinion expressed by the Public
 1872, 3 Accounts Committee in the following year, it agreed that there
 was no insuperable objection to votes of credit being taken
 Idem, for the current financial year only, and recommended the
 T.M. adoption of that course in future.

But though the terms of the grant exclude any detailed
 R. 1887, appropriation, and it is difficult to maintain the ordinary
 114 rules laid down for securing strict appropriation, the fact
 that Parliament grants a vote of credit in this manner neither
 implies nor permits that the expenditure shall be uncon-

trolled. The recognition of this principle is of old standing, though the means of enforcing it are comparatively modern. 'This deviation, in time of war, from the usual forms of Parliament,' Hatsell wrote in 1818, 'can only be justified from the impossibility of stating in an estimate those demands which the unforeseen exigencies of extensive and uncertain operations may require; it is therefore incumbent upon the House of Commons not only to make this supply of credit as small as possible, but in a subsequent session to inquire into the particular expenditure of the sum granted; and to be assured that it is strictly applied to those purposes for which it is intended, and not squandered loosely, improvidently, wantonly, or perhaps corruptly.' Apart from the inevitable relaxation of control due to active service conditions, Parliament requires an account of the grant in the usual manner and as far as possible under the usual vote headings. It trusts to accountability rather than to estimates for securing proper financial control. The expenditure must follow normal lines and regulations, subject to military exigencies, and the audit is carried out on the same lines, whether the grants are made in the form of votes of credit or on estimates. The antecedent control of the House of Commons is lost, but its subsequent control over expenditure as exercised through the Public Accounts Committee and the Comptroller and Auditor General remains, for it is clear that the latter is within his functions in reporting upon the application of a vote of credit as strictly as upon a normal vote. It has even been suggested that the financing of the present war by votes of credit will have little practical effect in reducing control. The military correspondent of *The Times* writing on 15th February, 1915, observed that under the proposed arrangement 'there seems to be no reason why accounting and audit should be less effective than heretofore. The House of Commons have been for years so utterly lax and ineffective as critics of service estimates that they do not lose much by the new manner of proceeding, neither does the country. The Treasury, the finance branch of the War Office, the Public Accounts Committee, and the Auditor General will have a busy year. It will be nothing new that the real control over army expenditure should rest with them.'

Hatsell,
P. 214

A. Est.
Com.,
Ev.
1274

The Times,
15/2/15,
p. 6

The methods by which the expenditure of sums granted under a vote of credit is accounted for will be more particularly dealt with in a subsequent chapter ; but the underlying principle holds good in all cases—namely, that Parliament shall be furnished eventually with as detailed information of the expenditure classified under the appropriate heads as would have been supplied had it been possible to appropriate the grant in advance under the pertinent votes. In other words, the appropriation instead of being made by Parliament is made by the department with treasury sanction in accordance with the needs of the services as they arise, and such appropriation receives the implied sanction of the House of Commons on the presentation and passing of the accounts.

Since, however, the vote is taken by the Treasury, by whom the distribution is made, the department is required to make demands on the Treasury for its needs ; and such demands, though not estimates in the ordinary sense, should embody a general scheme of expenditure which the department proposes to incur, as some justification to the Treasury of the legitimacy of the demand. Such schemes, though they do not convey or imply any legal appropriation, constitute a consecutive record of the intentions of the department and of the treasury sanction to it, and furnish the basis for the subsequent account and the audit of it ; while, further, the Comptroller and Auditor General is of opinion that such a scheme of expenditure would furnish his department with valuable information, and probably lead to considerable economy. The scheme is meant, whenever practicable, to precede the vote of credit and to be presented to Parliament as a record of the grounds on which the vote is asked. It may, however, well happen that when the occasion for the vote of credit first arises it will be difficult, if not impossible, to submit a detailed scheme, owing to the lack of the necessary information. Such was the position in 1914 when 'the emergency developed with such rapidity, and the scope of the expenditure, for which it might call, was so incapable of definition, that it was quite impracticable for the departments concerned to present to the Treasury, or for the Treasury to submit to Parliament in support of the vote, any general scheme of the expenditure proposed to be incurred.' In such

Adm.
Exp.
App.,
p. 320.

R. 1887,
116

Adm.
Exp.,
p. 320

R. 1887,
119

T.M.
20/8/14,
para. 8 ;
H.C.
458/14

a case the scheme should be submitted at a later date as soon as it becomes practicable to do so, and the Public Accounts Committee considers that it is the duty of the Treasury to see that it is supplied, and to impress upon the departments concerned the importance of furnishing sufficient information. The extent to which information of this nature can be given must vary greatly according to the circumstances of each case, and even if a detailed scheme is practicable it may be inadvisable on military grounds to present it to Parliament.

The absence of appropriation in advance demands all the greater care in subsequent classification. This principle is fully recognised and enforced by the Treasury, whose view was clearly laid down in 1879. 'My Lords,' it was stated, 'are specially anxious to adopt the most stringent rule of appropriation in dealing with moneys placed at their disposal by a vote of credit,' thus strengthening the control of Parliament over the expenditure of such votes. 'The spending department must in every case be able to produce reasonable ground for maintaining that any individual charge, or excess of charge, defrayed in whole or part from a vote of credit has been incurred directly for the purposes to which Parliament intended such vote to be applied.' While a department is not tied down to an appropriation made by Parliament under sub-heads, the appropriation which it in point of fact makes must be covered by the terms of and connected with the service mentioned in the vote.

'However wide may be the terms of the vote of credit, the charge against it must not exceed the aggregate of the sums which the spending departments can identify as *directly* occasioned by or for the event or object to meet which the vote was taken.' This rule both strengthens the control of Parliament over the expenditure under votes of credit and also tends to save controversy as to what are and what are not legitimate charges to the vote. In order not only to facilitate the work of the Comptroller and Auditor General, but also to enable him to carry out an audit of vote of credit expenditure as such at all, it is necessary that the department should, as far as possible, mark separate vouchers for expenditure as appertaining to the vote of credit, as well as submitting a statement of accounts and the basis of calculation

2 R.
1879,
91-94,
T.M.

R.Sess. 2,
1880,
47-53,
T.M.

2 R.
1879,
91-94,
T.M.

Cp. 2 R.
1881, 64,
& T.M.

R.
Sess. 2,
1880, 53.

or principle upon which that statement is made out. This would apply of course only when a vote of credit is taken in addition to or after the annual estimates.

It is erroneous to suppose that there are no limitations as to the time at which the expenditure should cease to be chargeable to a vote of credit, and that so long as the vote remains unexhausted it is available for any special expenditure which the department thinks desirable in the interests of the public service. In other words a vote of credit is not to be regarded 'in the light of a sum placed at the disposal of the department by Parliament to meet any expenditure unprovided for in the ordinary votes which, in a time of emergency, it might seem desirable to incur with a view of increasing generally the effective strength of the service, irrespective of clear and direct connection with the special preparations or the particular expenditure for which alone it was intended to provide.' As soon as the emergency has passed, or the apprehension of war has ceased, no fresh expenditure should be

R. 1887,
116 &
129

Cp.
Adm.
Exp.
Report

R. 1887,
117, 120

2 R.
1879, 91
R. Sess. 2,
1880, 47-
53, T.M.

1 R.
1886, 12,
& T.M.

incurred unless it is clearly the necessary consequence of previous special expenditure, and simultaneously all existing special expenditure should be closely scrutinised with a view to seeing whether, by making special arrangements, savings in it cannot be effected. If a vote of credit were to be considered to be applicable to meet deficiencies on ordinary votes the due control of Parliament over the expenditure authorised by the annual estimate for normal services would be at an end as soon as the vote of credit were granted, and the advantage of substituting a supplementary estimate, if made by Parliament to meet a special emergency, for a vote of credit would be lost. In this aspect, therefore, a department is more limited in dealing with expenditure under a vote of credit than in dealing with expenditure for which a supplementary estimate has been presented. The latter would have been made applicable to meet deficiencies on the original votes for normal services. The vote of credit can only be applied to such deficiencies in so far as they can be shown to be directly due to the special circumstances for which the vote is taken. It is, moreover, immaterial whether the deficiency is due to excess expenditure or a falling off in appropriations in aid. Thus, if a department incurs expenditure on the special service

for which a vote of credit is taken to the extent of, say, £50,000 and finds itself at the end of the year with a deficit of £30,000 on the total provision made by Parliament for the year and a further deficit of £10,000, caused by unrealised appropriations in aid, the appropriation of £40,000 from the vote of credit to meet the gross deficiency may justly be made and ought to be made. In other words, a vote of credit is applicable to meet any excess of expenditure over the sums at the disposal of the department, whether in the form of grants or of appropriations in aid, provided the expenditure was incurred for purposes for which the vote of credit had been granted.

On the other hand, the hands of a department are less tied and parliamentary control proportionately diminished in one important respect in the case of votes of credit as compared with supplementary estimates. The former may be utilised for services which would not normally be a charge upon the ordinary votes of the department. Such services may be of two kinds: firstly, those which are in the ordinary course legitimate charges against parliamentary grants, but which would be met from the votes of another department—such as law charges in connection with the army and navy. If a vote of credit is taken, such charges might be legally met from it and charged to army or navy votes instead of to the law charges vote, though the Treasury has accepted the view of the Public Accounts Committee that such classification is incorrect. And secondly, exceptional charges which would not normally be met by any departmental vote without special parliamentary provision. Such charges, if connected with the service for which the vote of credit was taken, are legitimately chargeable to it without further parliamentary sanction; whereas if a supplementary estimate only has been taken it would be necessary to obtain specific sanction from Parliament. A serious case in which this important distinction was not realised occurred during the last South African war which, it will be remembered, was carried on by means of detailed estimates presented to Parliament. It was therefore incumbent on the War Office to obtain treasury sanction to exceptional expenditure not provided for in the estimates, and for the sanction and approval of Parliament to be immediately obtained for any proposals of magnitude which had not been brought to

2 R.
1881,
59 & 67,
T.M.
R. 1882,
16, T.M.

A vote of credit is usually taken during the progress of a financial year as a supplement to the annual estimates, and in such cases is accounted for in conjunction with the appropriate votes which have been granted by Parliament for the year. If, however, the whole service of a year is to be financed by votes of credit it becomes necessary to present token estimates for the year, which are in fact skeleton estimates. Under a House of Commons resolution of 19th February, 1821, annual estimates are required to be presented to Parliament; and though in this case the primary object is non-existent, the presentation of token estimates, besides fulfilling this requirement of the House, possesses two important functions. In granting the token votes Parliament sanctions and lays down the lines of subsequent appropriation of the expenditure of the votes of credit. As the annual estimates are normally the basis of the subsequent appropriation account, so these token estimates provide the legally approved framework into which the expenditure of the year provided from the unappropriated votes of credit is built. The House of Commons has therefore the assurance that the expenditure will be appropriated as far as possible to one or other of the recognised heads. The token estimates in effect legalise the nature of appropriation, but not the degree. In the second place the presentation of token estimates possesses a further use in affording the House of Commons its annual opportunity of criticism of the service. The discussion of them cannot be such a financial discussion as is possible when the estimates contain the details of the proposed expenditure of the year, and can only be a discussion on policy and administration. As, however, the normal discussions on the annual estimates are rarely financial in the ordinary sense, the loss of power by the House of Commons when dealing with token in place of actual estimates is more theoretical than real. The nominal votes still provide pegs for discussion, and the control of the House of Commons, to the extent to which it is usually exercised in this respect, is not materially diminished.

When the services of the year are financed entirely by votes of credit, as for the army and navy in 1915-16, some further arrangement must be made for dealing with the receipts which are ordinarily appropriated in aid of the votes.

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Departmental receipts may be dealt with in one of three ways: they may be either appropriated by Parliament under an Appropriation Act, or appropriated by the Treasury under the Public Accounts and Charges Act, or paid into the exchequer. To deal with the whole of the receipts under the last-mentioned system would entail the objections which the system of appropriating in aid was adopted to obviate and which are referred to elsewhere, while, further, to so treat them for a single year as a special case would possess the objection of a derangement of comparisons with previous and subsequent years. The appropriation of receipts under the Public Accounts and Charges Act can only be effected if the expenditure authorised by Parliament is not exceeded. If, therefore, the whole of the vote of credit as well as the amount of the departmental receipts are required to meet the expenditure, the Treasury would have no power to authorise the use of the receipts; but if the total expenditure, after utilising the receipts, were within the amount of the vote of credit the treasury powers of appropriation under the act might legally be exercised, the exchequer issues from the vote being proportionately reduced. In view, however, of the principle and the amount involved it is preferable that the appropriation should be made by Parliament. This might be effected by authorising the appropriation on the vote of credit or on the token estimates, or by means of a supplementary estimate. Appropriation in aid of a vote of credit would be contrary to precedent and, moreover, even if it were considered advisable to make an exception, the amount of such receipts for a whole year in war time would necessarily be so uncertain that accurate estimates would be impossible. The system of token estimates, again, does not conveniently lend itself to an arrangement under which the appropriation in aid of substantive amounts could be made under the separate votes. The difficulty of preparing accurate estimates at the time the token estimates are prepared would also arise. There remains the method of presenting a supplementary estimate on which the substantive appropriation of the receipts in aid could be made under the respective votes, a nominal appropriation only being made on the original estimates. The advantages of this procedure are that the appropriation is made by Parlia-

T.M.
5/2/15.
Cd. 7790

Idem

ment, and that the supplementary estimate need not be presented until later in the year when the amounts can be more accurately estimated. In the meantime the receipts are retained by the department and applied in reduction of exchequer issues from the vote of credit, thus effecting economy of balances.

IV. AVAILABILITY OF CASH

Consideration is now necessary of the facilities possessed by the government for incurring unauthorised expenditure, that is to say, of the sources and extent of funds available without reference to Parliament.

The activities of the executive are limited by the amount of available funds. So far as issues from the consolidated fund are concerned the amount is strictly limited to that authorised by Parliament, and primarily parliamentary control is secured by the strictness of appropriation and the statutory limitation of such issues. The existence of additional available cash at the disposal of the executive renders possible expenditure unauthorised by Parliament, and therefore at the expense of loss of prior control. The control of Parliament over the public expenditure is weakened by placing funds at the disposal of a department which, not being required for its own immediate expenses, may be employed for purposes not contemplated by Parliament.

In the middle ages of constitutional government, the eighteenth century, the object of ministers was to retain in their possession large sums of money, thus rendering them to that extent independent of Parliament. Such practices were gradually eliminated as the control of Parliament increased. But however objectionable, on constitutional grounds, independent action may be, occasions will inevitably arise when the executive may consider it advisable or expedient to take action which, for reasons of secrecy or owing to pressure of time, it can only effect by the temporary use of funds other than those issued from the exchequer. Even though such action may be irregular and even technically illegal, it may happen that if the facilities exist a department may, with or without the concurrence of the Treasury, deliberately adopt

Cp.
R. 1865,
App. 1,
54-60

Cp.
Todd,
Parl.
Gov.,
ii. 247
C.P.M.
1857,
App. 3,
p. 585

C.N.E.
Ev. 1634

it as being in its opinion in the public interests. The existence of funds increases the temptation to so apply them temporarily, even with the knowledge that such action must be disclosed when the accounts are presented and will then have to be justified. Even, however, if such expenditure is not incurred deliberately, with or without treasury sanction, and with the intention of obtaining *ex post facto* sanction on an excess vote, it may still be incurred unintentionally through lack of information as to the cause of expenditure. In either case, both the expenditure and its cause will have been kept from the information of Parliament until the accounts are closed, when it can only be dealt with as a *fait accompli*.

3 R.
1904, 5,
T.M.

This condition is particularly liable to occur in the case of services which involve large expenditure in all parts of the world, as there must then necessarily be at all times a considerable amount of cash in the hands of sub-accountants, while the position is still further aggravated during a state of war, when the requisite balances must be greatly increased. Owing to such increase and the delay in rendering accounts inevitable to war, it becomes possible to largely exceed the expenditure authorised by Parliament if the war has been carried on by ordinary and supplementary estimates instead of by a vote of credit. Parliament has always shown itself to be most jealous of such action in normal times and has never permitted the executive a free hand by placing at its disposal unappropriated funds, beyond certain narrow limits. The chief drawback of this policy is that the government can never, except by the irregularity of a temporary misappropriation, make exceptional and secret preparations rapidly in an emergency, as the necessary funds can only be obtained by presenting a supplementary estimate to Parliament, but in spite of the disabilities of this policy, especially when war is imminent or possible, it is unlikely that Parliament would ever agree to a change which might diminish its control, by deliberately placing large sums at the disposal of the government in peace time to be spent without its prior knowledge.

Vide
p. 485

The funds, apart from exchequer issues, which are actually and potentially available, may be classified under two heads: firstly, those which may or may not be definitely known to

Parliament and of which the limits may or may not be fixed; and secondly, those which are of uncertain amount and can only be controlled by Parliament in advance generally.

Departmental Receipts

The latter include all sums realised by departments in the course of their administration. Of these a portion are estimated for as appropriations in aid and Parliament sanctions their being so appropriated in aid of the votes, but neither Parliament nor the department can entirely control the extent of the realisations, and though the utilisation to such an extent as to enable a department to exceed parliamentary provision would be illegal, the realisation of excess receipts enables this to be done, within limits, without the prior knowledge or sanction of Parliament.

Special arrangements are made as regards the revenue collected by the revenue departments. The expense of collecting the revenue is a supply service payable from the consolidated fund in the form of parliamentary grants, but for convenience and economy the revenue departments in practice defray their expenses out of the revenue as they collect it, and before it is paid into the exchequer, the accounts between the revenue and the consolidated fund being adjusted periodically. In this manner money is used on the spot where it comes to hand and can thus be used most economically, while the subsequent adjustment brings the expenditure into accord with the parliamentary grants; but while the fact of irregularities in its use or any excess of expenditure over provision will be brought to light when the accounts of the revenue departments are presented to Parliament, there is no safeguard against the temporary misapplication of the moneys received as revenue, if deliberately so used by the department before being paid in to the exchequer.

Again, certain departments receive extra receipts which are payable to the exchequer or which are applicable to definite purposes under departmental administration, or which are payable to the National Debt Commissioners as in the case of post office savings bank deposits. Against the temporary and improper use of such funds while under the control of the

T.M.
16/4/85
H.C.
145/1885
P.P.
vol. xlv.

department there is no practical check outside the department unless the facts are brought to the notice of the Treasury. The weakness of parliamentary control in this respect was exemplified in February 1909, when the expenditure on old age pensions was found to be £69,000 in excess of the grant, and as there was not sufficient money in the civil contingencies fund to meet the deficit temporarily in anticipation of subsequent provision, the excess expenditure was defrayed out of moneys in the hands of the Postmaster General. It was admitted that the use of such moneys was illegal and that in this case the Treasury was aware that a deficit would arise though the extent of it was unknown. Though the excess expenditure in this case was not on an object which had not been authorised by Parliament, but was the result of an underestimate of the cost of the authorised scheme, yet it illustrates the possibilities of action open to a department through the use of moneys in its hands other than those issued from the exchequer. A parallel case occurred in 1872 when large sums amounting to £890,000 were taken from the post office departmental receipts, the majority from savings bank deposits, to use on the telegraph service for which the provision made by Parliament had become exhausted. The transaction was most seriously regarded both by the House of Commons and by the Public Accounts Committee. The latter expressed the opinion that 'this wholesale expenditure out of the balances in anticipation of the vote is in the highest degree irregular and objectionable,' while the former agreed to a motion which was accepted by Gladstone, that 'it is the duty of the government to take effective measures to prevent the recurrence of such a proceeding.' The actual recurrence of the case previously mentioned is evidence of the lack of control of Parliament over these balances, other than the reliance it can place on the Treasury and the department for correct procedure.

3 R.
1910, 24

2 R.
1873

Hans. 3 s.
ccxvii.
1189 *et*
seq.

1 R.
1873, 89
May,
Const.
Hist.,
1912 ed.
iii.
pp. 84-5

The former class of funds are those which it is recognised must exist for specific objects, and though their proper use is limited to those objects and the use of funds elsewhere will have to be made good eventually out of parliamentary grants, yet the existence of the funds provides at any rate the possibility of their temporary misapplication.

These funds consist of : The treasury chest fund, the civil contingencies fund, departmental deposit funds, and the ordnance factories supplies suspense account.

Treasury Chest Fund

The treasury chest fund, formerly known as ' army extraordinaries ' and subsequently as the commissariat chest fund, in its earlier history provided a fund from which expenditure could be made apart from the annual parliamentary grants, and therefore offered the facilities for independent action on the part of the government which strikes at the root of parliamentary control. By successive steps its limitations and functions have been narrowed down. It became a statutory fund for the first time in 1861 when the Treasury Chest Fund Act was passed (24 & 25 Vic. c. 127). A further act on the same lines was passed in 1877 and is still in force (40 & 41 Vic. c. 45).

This fund is a central banking fund, under treasury control, which exists for the purpose of laying down funds abroad to carry on the public service generally, and the capital of the fund is kept by the Paymaster General in so far as it is not in the chests abroad. Any deficit on the fund as the result of the year's transactions is voted by Parliament; and any surplus of the fund at the end of each year over and above the statutory maximum, is payable to the exchequer to form part of the consolidated fund, thus definitely preventing an accumulation of cash available to the Treasury beyond what is considered by Parliament to be necessary for the purposes for which the fund exists. The maximum balance, originally fixed at £1,300,000 in 1861, was reduced to £1,000,000 in 1873, and eventually to £700,000 in 1893.

The Treasury Chest Fund Act allows the Treasury to employ the fund for ' temporary advances for any public service,' but it is not intended that it should be used for any other purpose than providing money abroad and in the colonies, and though it is within the power of the Treasury to use the fund for such a purpose as a loan to a foreign government, the Public Accounts Committee deprecates this use of it, and considers its use ought to be restricted to its main purpose,

C.P.M.
1856,
App. 1,
p. 526;
App. 3,
p. 617
Idem,
1857,
para. 9
R. 1862,
Ev. 1678
-33
Pub.Inc.
p. 979

R. 1902,
App. 5
Cp. R.
1911,
Ev. 609
et seq.

36 & 37
Vic. c. 56
56 & 57
Vic. c. 18

R. 1914,
25, & Ev.
1298,
et seq.

- R. 1914,
T.M.,
para. 5
- as mentioned above, of a banking fund. If such a use is made of it as the making of a loan, repayment ought to be made in the following year by the presentation of a vote. In 1910-11; for the first time, it was used for a home service in two cases in which the votes on account taken for civil services were exhausted and a second vote on account could not be taken in sufficient time to provide money for current expenses. Normally, such temporary deficiencies are met from the civil contingencies fund; but in this case that fund was temporarily exhausted and the Treasury utilised the treasury chest fund to meet the emergency. The Public Accounts Committee, however, strongly condemned the use of the treasury chest fund as an auxiliary reserve to the civil contingencies fund, as being contrary to the wishes of Parliament. The Treasury admitted that the procedure was an encroachment on the normal purposes of the treasury chest fund and therefore not strictly regular, but no further safeguards exist in the future against similar irregular use beyond the effect upon treasury action of the definitely expressed views of the Public Accounts Committee, and the moral check of having to defend itself if a similar irregularity were permitted again. The Treasury is, however, of opinion that circumstances may justify the irregularity, and even when the civil contingencies fund was increased in amount, with a view to obviating such an irregularity, the Treasury was unable to give an undertaking not to use the treasury chest fund for home services in any case. 'In a case,' it was stated, 'where any prediction whatever may be falsified by the event, it would not be proper nor in the public interest that they should give a definite pledge that they will never in any emergency, however grave, avail themselves of a resource which is legally open to them, when there is no alternative between such a step and the dislocation of the public service.'
- 2 R.
1912, 4
- 2 R.
1913, 7
- Cp.
R. 1914,
Ev.
1305,
1308
- 2 R.
1913,
T.M.,
para. 4

Civil Contingencies Fund

For fifty years prior to 1816 it was the practice to supplement the grants in supply by making advances from the civil list. The obvious objections to this procedure were attempted to be remedied by thenceforth taking an annual

vote for civil contingencies, 'to provide for such expenses of a civil nature as do not form part of the ordinary charges of the civil list.' Little control was, however, exercised over the necessity for the amounts so voted annually and the balance on the fund accumulated, thus providing the government with unappropriated funds. To obviate this practice it was determined in 1862, on the recommendation of the Public Accounts Committee of 1861, to reconstitute the fund on a new basis and with a fixed maximum balance. The civil contingencies fund, so constituted, differs essentially from the treasury chest fund in that 'the advances from the chest fund can only be made legitimately on the credit of money which at the time of the advances is actually available for repayment, as, for instance, colonial revenues or votes of Parliament; while the advances from the civil contingencies fund are never made on the credit of moneys which are available for the repayment. They are only made to services which have exhausted their votes, or to services for which no votes had been taken, in the belief that Parliament will at some subsequent time be induced to grant what may be necessary to repay the advances.'

While, then, no final charges may be made upon either account, the treasury chest fund is one of deposit simply, while the civil contingencies fund provides a sum entrusted to the government to meet unexpected demands, and to make advances for services to be afterwards voted by Parliament. The latter fund, therefore, includes both advances to meet temporary deficiencies repayable within the year, and also advances for services which will subsequently come before Parliament to be voted—usually in the following year. The latter class of advances may be in respect of entirely new services, or in respect of deficiencies on the ordinary votes. Such advances are voted in the estimate of the succeeding year and repayment is then made to the civil contingencies fund, which is thereby kept at its authorised maximum, which was £120,000 up to 1913, when it was increased to £300,000 (*vide* Civil Service Appropriation Accounts, 1912-13, Class VII, Vote 7A).

Unlike the treasury chest fund, the civil contingencies fund is not statutory, but created under treasury minute;

Pub.
Inc.,
p. 1141

1 R.
1863,
App. 1

R. 1865,
App. 1,
paras. 4
& 56
Cp. R.
1911, Ev.
596

Todd,
Parl.
Gov.,
ii. 244-5

4 R.
1861

1 R.
1862, 3

40 & 41
Vic. c.45.
§ 4

but in each case the accounts are prepared by the Treasury, audited by the Comptroller and Auditor General, and presented to Parliament. In the case of the former, the audit is carried out by the Comptroller and Auditor General in accordance with the Treasury Chest Fund Act, and of the latter at the request of the Treasury. For the civil contingencies fund two accounts are prepared: one showing the receipts and payments during the financial year, and the other the distribution of capital at the beginning and end of the year with the amount of advances outstanding.

R. 1910,
Ev. 2664

Idem,
Ev. 2143

It will be seen, therefore, that, although the expenditure from the civil contingencies fund will be eventually brought before Parliament, there is a wide and legitimate scope for its use during the year. The fund has, indeed, been described as 'a kind of perquisite of the executive government which they can make as much use of as they like.' It is a fund wholly at the disposal of the government in aid of any civil service chargeable to supply grants for which either no provision or insufficient provision has been made. In view of this latitude it is natural that Parliament, while admitting the necessity of providing funds to meet unavoidable emergencies arising out of the civil votes, should at the same time be cautious of extending the facilities for unestimated expenditure beyond what may reasonably be considered necessary to meet such emergencies.

Deposit Funds

Cp.
R. 1865,
App. I,
para. 57;
& T.M.
16/4/85
H.C. 145.
1885
P.P. xlv.

Deposit funds comprise moneys which come into the possession of the government in the course of its large transactions, and which are held on deposit or suspense account, not being due immediately, if at all, to the consolidated fund. These funds are very numerous in character and amount and may be regular or temporary, and may be held as cash or be wholly or partly invested. They, however, cannot be finally applied to any other purposes than that for which they are held, but the cash balances on them may be temporarily applied to current services and are so applied for the purpose of effecting economy of cash balances, but only in so far as there still remain unissued parliamentary grants

from which their balances can be again made up. Any further use of them which cannot be so made up within the year would be irregular. 'When payments are made from these deposits, they escape altogether from the sanction of the Crown, expressed in the royal order; from the sanction of the Treasury, as conveyed in the treasury warrant; and from the authority of the exchequer warrant, which is the statutable mode of determining the legality of the issue. The application of deposits and similar sums is therefore contrary to law. It is also contrary to the first elements of the constitution and is utterly subversive of our parliamentary system of control.'

C.P.M.
1857,
App. 3,
p. 584

It has been suggested by the Public Accounts Committee that, in the case of those suspense accounts on which profits arise while the funds remain in the hands of the department, such profits might on reaching a certain amount be, under regulation, automatically transferred to the exchequer, provision being made in the estimates for the sum to be so transferred. Such a rule would prevent any undue accumulation of cash from such sources remaining available for the use of the department. An arrangement of this sort would, however, be inapplicable to cases in which the accrued profits were not eventually payable to the exchequer, and in which the profit if credited to the exchequer would have to be subsequently voted for issue.

R. 1915.

7

Ordnance Factories Supplies Suspense Account

The ordnance factories supplies suspense account¹ is really a form of capital reserve fund for the factories. All surpluses on the ordnance factories appropriation accounts are credited to it and all deficits debited to it, but if it accumulates beyond £100,000 (formerly £65,000) any balance in excess of that amount is surrendered to the exchequer. The question of the amount to which the accumulated balances should be allowed to rise is one of administration, proper to be decided by the executive, but the Public Accounts Committee considers that it should not under any circumstances be permitted

R. 1912,
Ev. 2767
-2773
R. 1910,
Ev. 1102
& 1235

2 R.
1896, 12,
& T.M.

¹ This account has been temporarily in abeyance while the war continues to be financed by votes of credit.

to exceed the sum reasonably necessary to provide for the contingencies which the reserve is designed to meet.

2 R.
1896,
App. 7

The fund provides both for the carry-over of balances, when necessary, and also for the replacement of worn-out buildings and machinery and for other capital expenditure in connection with the factories, such as the laying down of special plant. No part of the surplus, however, can be spent without the sanction of Parliament given upon the yearly estimates of the factories. But though this is so, the money is available, apart from consolidated fund issues, and could be temporarily misapplied by agreement between the Treasury and the War Office in an emergency, subject to these departments being called to account for such irregularity later. It is therefore an open question, from the point of view of parliamentary control, whether the balance on the account is not larger than should be allowed to remain in the hands of the department.

E. & A.
Act,
§ 11

T.M.
22/12/48
para. 13
H.C.
1040,
1849
P.P. vol.
xxxiii.
C.P.M.
1856,
App. I,
p. 522

Though all these various funds are accounted for separately in the books of the Paymaster General and of the departments concerned, it is specially legislated that the cash balances thereon shall not be kept distinct. For purpose of economy of balances the Paymaster General keeps only one drawing account at the Bank of England from which all issues are made for current services, irrespective of the source from which the moneys comprising his balance are derived. The objects of this system were set forth by the Treasury in 1848 and still hold good: 'It is an object of great importance that the public money should not be issued from the exchequer either before it is wanted, or in larger sums than the service for which it is issued requires, or in other words that the balances should be confined to the lowest sum which may be necessary for carrying on the payments for the public service in the most punctual and regular manner. This object, so essential both to security and economy, may be greatly facilitated by considering all the sums received as forming one common fund, to be used indiscriminately for all current payments.' The same point has been emphasised by the Public Accounts Committee, which has pointed out that 'it is a well established principle of financial administration, with a view both to

2 R.
1896, 4

security and to economy of cash balances, that issues of public money shall be limited to the sums actually required for meeting disbursements for the public service.' The practice of issuing specific sums to be applied only to the purposes for which they might be issued, and which issues, if not required for immediate payments, could not be held applicable to any others, would not be consistent with the proper and economical working of a consolidated cash balance. Appropriation must follow eventually but need not be anticipated. The responsible departments may be entrusted for a limited time with the application of the general issues, subject to ultimately answering to Parliament. This system of making issues from the exchequer may at first sight appear to be somewhat inconsistent with the strict principles on which appropriation is based, but the inconsistency is apparent only. The exchequer itself makes no final payments, but merely supplies certain officers, appointed by the Treasury, with the means of making them. Issues from the exchequer must be limited to the aggregate amount of the grants, but so far as appropriation is concerned there is no more necessity to issue specific sums from the exchequer for specific votes than there would be in issuing specific sums to imprest holders for specific services. 'Public money is not the subject of the appropriation check, until it becomes available for payments on account of the public; until, that is to say, it can be applied to the final discharge of the government obligations. The public money is never in this condition, until it has passed from the exchequer into the hands of some public accountant, as, for instance, the Paymaster General.' That official's cash balance is kept consolidated irrespective of the eventual appropriation of its component parts, and accordingly it is only when he has first issued the cash he holds in respect of the balances of all his funds that he is able to obtain supplies from the consolidated fund. Though by this method the voted services may in the first instance be partially financed by non-voted money, yet the practice is 'perfectly consistent with a strict appropriation of the votes of Parliament, as the Paymaster General will not make a payment under any head of service exceeding the balance remaining on the grant of Parliament for that service,' and by the accounts in his books is able to 'exercise

C.P.M.
1856.
App. I,
pp 517-
8

C.P.M.
1857.
App. I,
p. 522

R. 1865,
App. I,
para. 50,
note A

T.M.
22/12/48,
H.C.
1040,
1849

an efficient check upon the accounts of the application of the votes of Parliament.' Similarly in the case of civil votes, it is not considered necessary to keep a distinct cash balance continuously for each vote, but for the sake of economising balances, the demands for any one may be met out of the balance on another temporarily. As, however, each civil service vote has its own account in the books of the Paymaster General, none can ever be exceeded except in error, or by the utilisation of funds other than consolidated fund issues. The same principle is applicable to the money required for loan accounts, as regards which, indeed, it may often be difficult at the moment of payment to say whether the expenditure is on account of the loan or the ordinary vote. At certain prescribed periods an adjustment is effected, issues being made from the consolidated fund to enable all the sums which have been temporarily used for the public service to be replaced to the credit of either the deposit or other fund, or the vote from which it was temporarily diverted.

Todd.
Parl.
Gov.
ii. 259
4 R.
1892, 59,
T.M.

Cp.
R. 1865.
App. I,
paras.
52-3

The safeguard which Parliament possesses against the improper use of these funds, that is to say, against their issue for use beyond the extent of the parliamentary vote with the intention of replacement subsequently, lies in the correct attitude of the Treasury. If the Treasury is prepared to authorise the Paymaster General to issue the money for use, even on objects for which parliamentary sanction has not been obtained and even though the effect will be to exceed parliamentary provision, it will become possible to incur unauthorised expenditure, and at the same time withhold the knowledge of it from Parliament until the accounts are presented. Such a contingency could only arise in a case of extreme necessity if there were no extra receipts available for temporary use and the civil contingencies fund and the treasury chest fund were exhausted, and it were not possible to present a supplementary estimate.

Unexpended Balances on Votes of Credit

There remains to be mentioned the case of available balances on votes of credit, when the services for which the vote was granted have come to an end. Such balances are liable to be

surrendered, but until such surrender is made the executive has at its disposal money which might be improperly used on objects other than those for which Parliament intended it. The danger of loss of parliamentary control from this cause was foreseen by the Treasury in connection with the decision to finance the present war entirely from votes of credit, which might result in leaving large sums at the disposal of the government if the war came to an end before the end of a financial year. Parliament could not guard against such a contingency if a vote of credit were taken for the whole year, but the Treasury gave an assurance that care would be taken so to limit the amounts asked for from time to time that the supply in hand under votes of credit should at no time exceed the cost of navy and army services upon the pre-war footing up to the end of the financial year by more than the amount of war charges actually incurred or imminent when the estimates for the votes of credit were presented.

T.M.
5/2/15.
Cd. 7790

V. DOMESTIC CONSIDERATIONS AFFECTING PARLIAMENTARY CONTROL

While the House of Commons secures its control primarily by examining and sanctioning every head of proposed public expenditure and, subsequently, by learning from its own officer, after the close of each year, whether the limits which it has imposed have been obeyed, and whether, generally, the financial administration of the public service has been orderly, mention should, in conclusion, be made of two considerations which have an important bearing on the question of that control—namely, the relations between the House of Commons and the cabinet, and the scope of debate in the House of Commons.

T.M.
16/4/85
H.C.
145/85

Relations between the House of Commons and the Cabinet

Expenditure depends primarily on policy, and secondarily on the methods by which the settled policy is carried out. For the former the cabinet is solely responsible. The latter are more particularly dependent on the accounting department, though in this case, too, the ultimate responsibility rests

with the cabinet. Parliamentary control is therefore essentially dependent on the relations between the House of Commons and the cabinet, and on the status and power of the latter.

Bagehot,
Eng.
Con.,
p. 10

The cabinet has been described as the connecting link between the executive and legislative powers—a committee of the legislative body selected to be the executive body. But the cabinet is not, as such, the executive. It shapes policy and settles what shall be done in important matters, and it consists mainly of the heads of the great departments, but it is not, therefore, the executive. It gives no orders, but it settles that orders shall be given.¹ It is the motive power over the executive. In so far as its constituent parts comprise

Anson,
Con.,
ii. I. 141

Gov. of
Eng.,
pp. 15, 20
Cp.
Idem,
p. 135

the executive, it is itself for all practical purposes 'the responsible executive, having the complete control of administration, and the general direction of all national business, but exercising those vast powers under the strict supervision of the representative chamber to which it is accountable for all its acts and omissions.' The nearly complete fusion of the executive and legislative powers furnishes the key to the secret of efficiency of the English constitution, though in theory the goodness consists in the entire separation of these authorities. A high authority on parliamentary procedure,

Redlich,
H. of C.,
Pref. xii

Idem, vii.

Sir Courtenay Ilbert, brings out the same point: 'The keynote of the British constitution,' he says, 'is the intimate relation between, the interdependence of, the executive and the legislative. Its characteristic feature, the indispensable condition of its working, is the cabinet. . . . It is the separation, but interdependence, of the criticising and controlling power on the one hand, and the executive power on the other, that constitutes the parliamentary system of government.'

May,
Parl.
Prac.,
p. 457

The same important principle of the constitution is also emphasised by Sir Erskine May: 'The presence of ministers in both Houses maintains the closest relations of the Crown with the legislature. The representation of every department of the state by members of Parliament, and the principles of ministerial responsibility, bring the executive

¹ This is perhaps scarcely true as regards the present war cabinet which, by the formal issue to departments of its decisions, has practically assumed executive functions.

government and the legislature into uninterrupted intercourse and combined action.'

The administration requires the continued aid of legislation, of which an important part is taxation. Unless there is complete harmony and co-operation between the two the result will be, if not disastrous, at least futile. The executive will be hampered by not getting the legislation it needs. The legislature will be demoralised by irresponsibility, by making laws of which others than itself will suffer the effects. At the same time, although there is this fusion of the two elements, the government is dependent for its continued existence on the confidence of the House of Commons, and the House collectively is therefore its master and no measure can be carried of which it does not approve. In important matters; just as the House of Commons only goes where it thinks the nation will follow, so the government will only lead where it thinks the House will go, or where in matters of less importance it feels that, supported by party loyalty, it will be able to force its will upon an indifferent or perhaps reluctant House.

It is, however, only with the principal matters of policy and state—the leading questions of the day, the party cries—that the nation generally is concerned, and in the main it is only on these matters that the House of Commons as a body will ever exercise its ultimate powers over the government. For the settlement of policy the House of Commons is in no way responsible. Its functions are to criticise, discuss, amend and finally approve or disapprove of the policy of the government as laid before it. The extent to which it exercises these functions is the measure of its control over the government. In times of great excitement definite lines of policy may be forced upon the government, but in normal times the public will be educated and led by the government. Such is the duty of statesmen, with this qualification: that in finance the public opinion must be created and the lead be strenuous, whereas in other matters the lead should be only in those directions which are marked out by the governing forces of the public mind. And just as public opinion outside the House is normally guided by the leading statesmen of the day, so does the opinion of the House, as the people's representative body, follow the same lines. But whereas the power of the

Bagehot,
Eng.
Con.,
pp. 16-
17

Cp.
Anson,
Con.,
i. 35, 37¹

Bagehot,
Eng.
Con.,
p. 131

Cp.
Reign
of Q.
Victoria,
i. 137 *et*
seq.

Bagehot,
Eng.
Con.,
p. 108

Cp. Life
of Glad-
stone,
ii. 54

Cp. May,
Const.
Hist.,
1912, ed.
p. 100

- people can only be exercised indirectly after they have once elected their representatives, the power of the House of Commons is exercised continuously and directly on the government. 'The House of Commons lives in a state of perpetual potential choice; at any moment it can choose a ruler and dismiss a ruler.' Its main function is that it is an electoral chamber, though technically the ministers of the Crown are not actually elected by it although responsible to it. This point has been aptly put by Anson. 'The mediæval Parliament,' he says, 'wanted to be able to elect for the Crown the minister of its choice. The modern Parliament is content with the power of making it impossible for the Crown to employ others than those whom Parliament favours for the time.' Ministers are, so to speak, confirmed in their appointments by the support of the House, but they cannot hold them after that support is withdrawn. This still remains true, but with certain important modifications under modern conditions, in that members of Parliament have become in increasing degree delegates of their constituents rather than representatives; and therefore their electoral powers, though as strong as ever, are exercised normally in strict accordance with their pledges to the constituencies—that is to say, in favour of the authorised leaders of the party.
- Not only has there been a tendency since 1832 to shift the centre and force of the state from Parliament to the cabinet, but also, as Low points out, to render the latter amenable to the control of the constituent bodies themselves rather than to that of their elected representatives. The latter control the cabinet, but such control is strictly limited in practice to the lines approved by their constituents, or, to be more accurate, by the caucus, the party managers, the political association, under whose ægis their election took place. Control under such conditions can frequently be but little more than nominal.
- It has, indeed, been stated that the House of Commons no longer controls the executive, but that on the contrary the executive controls the House of Commons, for it is very difficult to bring a government to account for anything done in its ministerial work, the real check upon a gross or salient misuse of ministerial power being the salutary fear of public opinion. In so far, however, as the House of Commons has
- Bagehot, Eng. Con., p. 142
Cp. May, Const. Hist., ii. 91
Anson, Con., i. 19
- Cp. *idem*, ii. I. xxiii.
Gov. of Eng., pp. 101-3
- Idem*, 54
- Cp. *idem*, 84
- Idem*, 81

a potential power over the government it controls the policy in general, and by its criticism of proposals it controls it in detail; but the actual control of the House as a body over the cabinet is modified to a very large extent by the system of party government under which the government of the day can in practice carry through any proposal it wishes and which is not of sufficient importance to provoke a revolt among its own supporters. 'The most dangerous of all sinister interests is that of the executive government, because it is the most powerful. It is perfectly possible that the cabinet, being very powerful in the Commons, may inflict minor measures on the nation, which the nation did not like, but which it did not understand enough to forbid.'

Bagehot,
Eng.
Con.,
pp. 108-
109

The ties of party are undoubtedly one of the most serious of the restrictions which are placed upon the control of the House of Commons over finance. In theory there may be no restriction since the House is all powerful, but in practice the government possesses a most powerful weapon for enforcing its will—the threat to dissolve. So long as the party system lasts this must remain an inherent disability inseparable from it. But while on the one hand such cases may from time to time occur in which the House of Commons waives its right of control by accepting a policy of which the majority of its members may as individuals disapprove, on the other the cases are probably far more frequent in which it brings pressure to bear and causes the government to adopt a policy which it did not initiate and would not have formulated but for that pressure. It is, moreover, only by this means that the House can secure that proposals for new or increased expenditure are brought before it; for under constitutional practice no member other than a minister is permitted to propose grants which have not been demanded by the Crown. In the region of finance the initiative must be taken by the government. The House of Commons cannot propose to spend more than is asked for, nor, generally speaking, can a motion be made to impose a tax except by a minister, nor can the amount of a tax proposed be augmented or any alteration made in the area of imposition. This important constitutional rule is a restriction on the supreme control of the House of Commons; but it is restriction against increase, not against

Cp.
May.,
Const.
Hist.,
i. 316
Gov. of
Eng., pp
110-112

Cp.
Redlich,
H. of C.,
iii. 123 &
142
May,
Parl.
Prac.,
pp. 564-5

Rep.
Gov.,
P. 90

economy. 'It has, no doubt, been felt,' Mill observes, 'that moderation as to the amount (of supply), and care and judgment in the detail of its application, can only be expected when the executive government, through whose hands it is to pass, is made responsible for the plans and calculations on which the disbursements are grounded.'

Bagehot,
Eng.
Con.,
P. 57

Redlich,
H. of C.,
ii. 101

The sovereign, as the executive power, is charged with all payments for the public service, and with the management of all revenues. The sovereign, however, is the executive only in theory. The Prime Minister is in fact the principal executive of the British constitution, 'the uncrowned temporary regent,' and on his advice the sovereign notifies the House of Commons of the requirements of the public service and demands the necessary supplies. The Commons grant or reduce the demands, but cannot increase them. Their consent is all that is asked for. As Bagehot points out, 'the principal peculiarity of the House of Commons in financial affairs is nowadays not a special privilege, but an exceptional disability. On common subjects any member can propose anything, but not on money. The minister alone can propose to tax the people.' This principle, though based on the mediæval prerogative of the Crown to tax the people, is now a valuable rule of the constitution, though the actual conditions under which it originated have changed. A relic of former times, it has survived as a rule of procedure to serve a new and valuable purpose. 'Such a rule is the great safeguard of the taxpayer against the casual benevolence of a House wrought upon by the eloquence of a private member; against a scramble for public money among unscrupulous politicians bidding against one another for the favour of a democracy.'

Bagehot,
Eng.
Con.,
p. 136

'The House of Commons, now that it is the true sovereign and appoints the real executive, has long ceased to be the checking, sparing, economical body it once was. It now is more apt to spend money than the minister of the day. If you want to raise a cheer in the House of Commons make a general panegyric on economy; if you want to invite a sure defeat, propose a particular saving.' Everybody desires economy in the abstract, and every one is prepared to recommend one special increase of expenditure, at the least, in a direction which appears to him to be useful. Further, it must be remem-

Anson,
Con.,
i. 269

Bagehot,
Eng.
Con.,
p. 136

Est. Pro.
Ev. 556

bered.

bered that the man who wants to spend more on a particular thing—that is to say, the man who is urging a concrete case—will, in general, obtain his way rather than the man who wants to spend less on things in general, and who does not put forward definite items for reduction. In other words, abstract proposals for economy will give way to concrete proposals for increased expenditure. ‘The economical critics denounce *in globo*, but whenever any question of particular claims comes up they are always absent.’ Amendments proposed to reduce the estimates are in reality, in most cases, merely pegs on which to hang criticism of policy or the means of airing a grievance, the remedying of which would have the effect of increasing the grant, and, moreover, they are put forward by those who are not responsible for finding the money; ‘Honourable members who press the government hard to increase expenditure fight just as hard against taxes imposed in order to meet that expenditure.’ It is dangerous to give the expenditure of money to individuals or bodies who have no responsibility for raising it. Such a precaution, therefore, as this rule of the constitution provides, is most necessary, and particularly so since there are no checks upon the liberality of the Commons, but such as they impose upon themselves.¹

Whatever the drawbacks of the French system, whereby the Budget Committee examines the estimates, it does not possess this inherent evil; for it at the same time accepts responsibility for finding the ways and means for meeting the estimates. Hence a double and more serious responsibility is placed upon its shoulders. If there were no such restrictions as the English constitution provides against the proposal of increased grants, the House of Commons would find itself committed to expenditure for which the government had made and wished to make no provision. This ancient constitutional maxim is now definitely legislated for by Standing Orders 66 and 70, which direct that every motion which in any way creates a charge upon the public revenue, or upon the

C.N.E.
Ev.
1637–8,

A. & N.
Est.Com.
Ev. 1669

Parl.
Deb., 4 s.
xxxvii.
724–5

Parl.
Deb., 5 s.
xxxvii.
370

C.N.E.,
APP. 13.
&
Ev. 2066
May,
Const.
Hist.,
ii. 104

May,
Parl.
Prac.,
p. 558
& 564

¹ By the resolution of 11 Dec. 1706, declared a standing order on 11 June 1713, to the effect that it will ‘receive no petition for any sum of money relating to public service but what is recommended from the Crown,’ the House formally recorded the imposition upon itself of this restraint ‘in the exercise of that most valuable and important privilege, the sole right of granting away the money of its fellow subjects.’

15 C.J. 211
17 C.J. 417
Hatsell,
p. 194

- Cp. 107 revenues of India, must receive the recommendation of the
 C.J. 353. Crown before it can be entertained by the House. The con-
 111 C.J. sideration must then be adjourned to a future day and referred
 366, & to a committee of the whole House. This rule operates most
 121 C.J. beneficially in reducing the tendency to spend, which is so
 182 characteristic of the people's House under its present democ-
 Bagehot, ratised condition; for the government which has to propose
 Eng. the expenditure, whether willingly or unwillingly, has like-
 Con., wise to find the money. To meet the bill it must undertake
 pp. 136- the disagreeable task of proposing additional taxation. Con-
 138 sequently it has the strongest motive for resisting proposals
 for extra expenditure. 'A stronger check on the natural
 Bast- tendency towards increased expenditure could hardly be de-
 able, vised.' It is, moreover, only reasonable that the responsibility
 Pub.Fin., for executive action should be accompanied by responsibility
 VI. iii. § 2 for financial proposals. 'All action costs money; all policy
 Bagehot, depends on money; and it is in adjusting the relative goodness
 Eng. of action and policies that the executive is employed.' It is
 Con., by means of the introduction of ministers into Parliament
 p. 138 that their responsibility for every act of government is prac-
 Todd, tically exemplified and enforced.
 Parl. Of all the restrictions on effective parliamentary control
 Gov., which are imposed by parliamentary practice and procedure
 ii. 25 perhaps the greatest is the lack of time for due deliberation.
 Redlich, It is by means of questions and discussions that the House
 H. of C., of Commons criticises and controls the action of the executive.
 Pref. vi., Discussion, criticism, and debate are the life blood of
 & ii., 241 democratic government. In the sphere of finance particularly,
 vigorous controversial discussion of the estimates should be
 C.N.E. one of the most powerful influences in keeping down
 Ev. 701 expenditure. 'The method by which expenses and taxes
 Bast- are voted will often account for good or bad working of a
 able, particular system, since the checks imposed on government
 Pub.Fin., action may either be insufficient or too severe, as, on the
 VI. iii. § 1 other hand, the legislature may be too careless or unduly
 active in regulating financial matters.' The cause from
 which such supineness or excess intervention arise is material
 only in so far as there is any possibility of removing it,
 or as the House of Commons may be willing to re-
 move it.

One of the essential features of the system of parliamentary government is that every stage of legislation is—theoretically, at any rate—accompanied by discussion. Criticism both provides the executive with information as to the drift of public opinion and acts as an important safeguard against unwise proposals. It brings to light all sides of a question. Liberty of speech in the House of Commons is a privilege which has from earliest times been jealously guarded, and in former days provided many conflicts between Parliament and the Crown. 'Discussions in the English Parliament,' wrote Henry VIII, 'are free and unrestricted; the Crown has no power to limit their debates or to control the votes of the members. They determine everything for themselves as the interests of the commonwealth require.' The right has been long established and would never be now disputed, though a claim to its continuance is still made by the Speaker at the commencement of every Parliament. The privilege was finally confirmed by the 9th Article of the Bill of Rights which enacted 'that the freedom of speech and debates on proceedings in Parliament ought not to be impeached or questioned in any court or place out of Parliament.' Freedom of speech, to be fully effective, demands as a corollary freedom of reporting. Publicity is one of the most important instruments of parliamentary government. 'Parliament under a free representation has become as sensitive to public opinion as a barometer to atmospheric pressure.' Freedom of discussion is important, therefore, not only as a safeguard of the privileges of the House, but also as a reflex of the voice of the people, while nothing tends more to liberty and good government than the unfettered liberty of reporting. So far as external influences affect it the right of free speech is absolute, but the practice of the right is very materially circumscribed by the limited time at the disposal of the House under modern conditions. The mass of work which the modern House of Commons has to get through is so great that it has been compelled to approve of modifications of its Rules of Procedure in many ways, with a view to facilitate progress. The claims of the private member have had to be subordinated to the claims of the government: not only in the matter of allowing the government more time for public measures at the

Bagehot
Eng.
Con.,
lix.

Cp.
May,
Parl.
Prac.,
p. 96
State
Papers,
iii. 36r

May,
Parl.
Prac.,
pp. 59,
99

May,
Const.
Hist.,
ii. 53
Cp.
Anson,
Con.,
i. 157-9

Cp.
Redlich,
H. of C.,
i. 206 &
211

expense of private bills, which do not so much affect the consideration of parliamentary control, but also in limiting the discussion on public bills. In the region of finance there are special disabilities in this respect, for provision for the public services must be made every year before certain dates.

The evolution of the cabinet from a position external to and independent of the House of Commons to one of political fusion with that House was necessarily accompanied by an assignment to it of a greater influence in the management of parliamentary business. The first visible signs of this appeared in 1811 when it became the custom to reserve one or two days in the week for government business, government orders of the day being given precedence. The difficulty of securing for the government sufficient time to enable it to exercise its proper functions of governing continued to increase during the last century, and many expedients were tried with a view to facilitating business, while at the same time minimising the loss of control. It was not until 1879 that a satisfactory solution was reached. In that year the House of Commons adopted a resolution 'that whenever a Committee of Supply or the Committee of Ways and Means stands as the first order of the day on a Monday, Mr. Speaker shall leave the Chair without putting any question.' This, however, was subject to a proviso that amendments might be moved on questions raised on first going into supply on the army, navy, and civil service estimates respectively, such amendments or questions being relevant to the estimates proposed to be taken. The resolution was renewed in 1882 with an extension making it applicable to all days on which Committee of Supply stands as an order of the day, and is now embodied as a standing order. This order refers, however, only to ordinary estimates and not to supplementary estimates or to votes on account. It has therefore now become a settled principle, and an inevitable principle, in view of the changed relations between the government and the House of Commons, that the day's programme shall be fixed in favour of the former, and that the free initiative of members should be correspondingly restricted. Such compromises have been admitted as are possible without unduly hampering the government in the securing that the House is able to perform one of its first functions—the voting

Redlich,
H. of C.,
i. 70

Idem,
P. 114

Hans.,
3 s.,
ccxliii.
1701

137 C.J.
517
S.O. 17

Redlich,
H. of C.,
i. 115

Cp.
Reign
of Q.
Victoria,
i. 146 *et*
seq.

of supplies—and these compromises represent the extent to which private members have been able to secure their privileges in this respect. The change was necessary in the interests of public business, but it is doubtful whether the restriction of debate which it has entailed has had any serious effect in limiting parliamentary control in a financial sense.

Scope of Debate in Committee of Supply

It now remains to consider the extent to which the discussion in committee of the whole House affects that control.

The ordinary function of a Committee of Supply is deliberation and not inquiry; and though in former days inquiries were at times entrusted to committees of the whole House, and witnesses examined at the Bar, the practice has long fallen into desuetude as being impracticable. The House is therefore dependent for explanation and defence of the estimates on the responsible minister and the parliamentary head of the department; but if it is desired to grapple with ultimate facts as they stand, it is necessary to obtain them from the executive witness under examination before a select committee rather than from the representative of the department, however well informed. A close and consecutive examination of the officials who have first-hand knowledge of the details is therefore not within reach of the Committee of Supply, and, if it were otherwise, neither would the time be available nor could such an examination be satisfactorily carried out by a tribunal of that nature. Further, 'the House of Commons should not waste its time in going into small details. It would be a misuse of its powers. It is upon larger lines of policy that the control of the House is most felt.'

Moreover, the discussions in Committee of Supply are necessarily of a partisan nature, the estimates being used in practice mainly to provide a series of convenient and useful opportunities for the debating of policy and administration, rather than to the criticism and review of financial method and of details of expenditure. They more often affect the general policy of a vote than the details of the items; they touch the conduct of the minister connected with the vote rather than the financial aspect. In Committee of Supply

May,
Parl.
Prac.,
p. 382

C.N.E.,
vol. ii.
Ev. 86-7

C.N.E.
Ev. 513

C.N.E.
Rep.

Est. Pro.
Ev. 275
& 665.

Parl. finance is never criticised ; ' the one subject which is never
 Deb., dealt with is the question of whether or not the financial ex-
 5 s. xxii. penditure is a proper one. The committee is used by all sections
 2120 of the House, primarily, as an opportunity for discussing the
 C.N.E. policy of the government in respect to the subject matter
 Ev. 2433 of the department which is being paid for.' As long as the
 & 2487 House only has this opportunity for such criticism so long will

Parl. it continue to use it for that purpose. It has not, it has been
 Deb., 5 s. stated, within living memory exercised any control over ex-
 xxxvii. penditure in the sense of directors exercising control over
 363 expenditure in business, though such a simile is perhaps not
 quite apt, for Parliament is not an administering body, and the
 control, such as is exercised by directors, is rather the function
 of the departmental authorities. The control of Parliament
 might more appropriately be compared to that of the share-
 holders of a company as exercised upon the directors, and it is,
 perhaps; usually exercised to the same extent.

Gov. of But even if the members of the House generally were
 Eng., 91 disposed to discuss the estimates from the financial point of
 view, there would be special reasons why their criticism would
 in the main be ineffective. The details are often highly techni-
 cal, and most members are ignorant of the complicated ques-
 tions which arise in connection with the financial and depart-
 mental measures presented to them. Such an objection is,
 however, purely academic, so long as the conditions remain as

Redlich, at present, whereunder the estimates are mainly ' the battle-
 H. of C., field where the great parties champion their respective causes,
 iii. 136 not only with reference to economic consideration, but also on
 grounds affecting the national policy as a whole.' The in-
 evitable result is that few, if any, questions are settled on their
 financial merits. The actual effect is, indeed, to urge increased,
 not decreased, expenditure on the part of individual members ;
 while proposals for decreases from the opposition are in effect
 motions hostile to the government and are resisted on party
 grounds by the supporters of the government irrespective,
 usually, of financial considerations. But while the House
 supports the principle of party loyalty, it at the same time fully
 recognises the disability under which it is placed in consequence,

Est. Pro. so far as financial control is concerned, and it is admitted that
 Ev. 273 the present mode of voting in Committee of Supply does not

secure an effective financial supervision by the House of Commons over expenditure. 'No proper discussion—much less revision—of the estimates, quâ estimates, at present takes place in Parliament at all. General questions of policy are raised, small grievances are ventilated, and the actions of ministers and officials are impugned; but a serious attempt to overhaul the estimates on financial grounds would be treated as a matter of confidence by the government, and would be ill received by a House largely consisting of members eager to disburden themselves of ideas with which the subject of finance has but a remote connection.'

W.O.
Org.,
App. IV.
H. 9

But though discussion of the estimates on these lines may not be in any true sense a financial criticism of the figures presented, it may indirectly raise many points of minor policy or administration, and provide a guide as to the general views of the House of Commons. Since no protest or expression of opinion is necessarily fruitless, even if from force of circumstances it must be ineffectual for the moment, the influence upon economy of discussions by the Committee of Supply cannot be judged altogether by the actual and immediate result. The number of reductions made may be, and is, small; and indeed they must be, so long as the estimates are regarded by the government as a capital measure, but the indirect influence may be important. If the government sees that the House is unfavourable to a particular line of expenditure, without bringing about a reduction in the vote of that year, its future policy would be modified to meet the objections. So, too, the Treasury admits that the indications of opinion which are evoked in Committee of Supply are of service in subsequent years in its dealings with departments which are asking for excessive expenditure. These views were endorsed by the Committee on Estimates Procedure, which was of opinion that though the actual reductions of votes by the Committee of Supply were apparently slight in proportion to the amount of parliamentary time occupied in the consideration of the estimates, yet they by no means represented the full economical effect of the examination to which the votes were subjected, and that the discussion had a considerable effect in preventing increase of expenditure.

Est. Pro.
Ev. 435
& 738

Idem,
Ev. 599

Idem,
R., p.iii.

The principal object of financial criticism is the prevention

of waste. When this criticism is directed to the completed accounts only, its effect is mainly moral. The expectation of criticism of the expenditure tends to moderate the enthusiasm of those spending the money and makes them more careful. It guards against similar waste in future, but it can have little effect, if any, on reducing the expenditure already incurred. The House of Commons is always ready to and must almost inevitably accept the accomplished fact. Whether it does so by admitting the expenditure as a loss or as a legitimate charge against a vote, the result, so far as the public purse is concerned, is the same. Still less, if the expenditure is strictly in accordance with the provision made by Parliament, can Parliament have any grounds for not accepting it, however wasteful it may have been. All large questions of economy are not questions of audit, but of policy. Criticism antecedent to the expenditure offers the only hope of modifying that policy, with a view to reducing the expenditure. Experience has shown that this criticism cannot be made by Committee of Supply to any useful purpose, and various expedients have been suggested from time to time for overcoming it.

The difficulty of securing any effective examination by the House itself had been solved, so far as the completed expenditure was concerned, by relegating the duty of inquiry to the Public Accounts Committee, whose work on the audited accounts has great influence indirectly on future estimates. The House of Commons, however, was not satisfied with its direct control over the estimates, and accordingly in 1912, for the first time in its history, appointed a Standing Committee on Estimates to inquire on its behalf into the estimates on the same lines as the Public Accounts Committee inquires into the audited accounts. The consideration of the work and effect of these two committees will be dealt with in the following chapter.

Mention has already been made of the legal necessity of making sufficient grants before 1st April in each year to enable the services to be carried on. Thus a time limit is necessarily placed on the discussions on the estimates when first introduced. The grants made before 1st April are, however, usually

C.N.E.,
Ev. 1191

Idem,
Ev. 1189

C.N.E.,
vol. ii.,
Ev. 41-2

less than a third of the total requirements. The discussion on the remainder, though spread over four months, is also restricted by time, for the rules of procedure now definitely limit the number of days allotted to supply to twenty, excluding supplementary estimates and votes of credit, and these are so arranged as to come to an end before 5th August. This rule was adopted on 27th February, 1896. Under such circumstances the discussion must in its nature be eclectic and incomplete. Of the large number of votes of which the estimates are composed only a comparatively few come in for any consideration whatever, and of those few scarcely any receive adequate consideration. So long as the time allotted to supply was unlimited it was possible to extort concessions as the price of acquiescence, because the government was under the necessity of obtaining all the votes before the end of the session. Now, however, the government obtains its votes automatically through the fall of the guillotine. The sessional order limits the number of days for supply, and therefore it is immaterial to the government whether the debate on any particular vote is prolonged. It can only be so prolonged at the expense of other votes. Prior to 1902 the guillotine only fell on a single vote at a time; but now it falls upon a whole class. The government knows that it must get all the remaining votes on a fixed day, whether discussed or not, and that the House will have no option but to accept or reject them as a whole. 'Nothing can be better in form than the separation between the functions of the Committee of Ways and Means and those of the Committee of Supply, or the manner in which the estimates are brought in, presented, and discussed. But, in practice, the control of the House is largely inoperative: first, because of the feverish scuffle against time, which forbids deliberate or prolonged examination of detail; and secondly, because a serious attempt to refuse a vote, or alter an item in an account, can usually be foiled by setting the party machinery to work.' It cannot be denied that the system, however necessary it may be to enable Parliament to get through its work, is a serious restriction on the control which the House of Commons can exercise over the proposals of the government.

Parl.
Deb., 4 s.
xxxvii.
1344
C.N.E.
Ev. 1028

Parl.
Deb. 4 s.
cvii. 99

Gov. of
Eng.,
P. 90

Cp.
Bowles,
Nat. Fin.
(1904),
pp. 12-
13

The proportionately increased power of the government is acquiesced in by the House—not alone on the grounds of unavoidable necessity, however. Apart from the question of party loyalty there is, under modern conditions, a considerable predisposition to place confidence in the proposals of the government and of departments. The spirit of mistrust, which was a characteristic of the House of Commons in former days, when the power of the Crown was an active force, and even later after the constitutional doctrine of ministerial responsibility had been established, has vanished with the occasion of its cause. So recently as 1857 the Comptroller General of the Exchequer wrote: 'It is constitutional jealousy, and not confidence, upon which our institutions are founded, and on which the safety of the liberties of England depend. Parliamentary control proceeds upon the principle of parliamentary jealousy. The necessity of parliamentary vigilance, jealousy, and even suspicion, is one of the least controverted, and most elementary constitutional truths.' Estimates were then examined on the assumption that the Crown would probably be asking for more than it ought to have, and consequently the House of Commons devoted its attention to restricting the operations of the executive and criticising the proposals for expenditure. With the disappearance of this mistrust this effect of it has also been seriously curtailed. The close scrutiny and close questioning which resulted from the determination to uphold the rights of Parliament against the Crown and the Treasury ceased to be beneficially exercised as a check on the expenditure when the rights had become established. Mistrust has been replaced by confidence, and simultaneously the hands of the government are rendered more free in proportion to the extent of the withdrawal of the salutary check of criticism. The interdependence of the relations between the modern House of Commons and the government has conduced to a more ready and unquestioning acceptance of the proposals of the latter with a proportionate decrease of control by the former. 'So far from opposing the demands of the Crown the Commons have rather laid themselves open to the charge of too facile an acquiescence in a constantly increasing expenditure.' Although this state of affairs is an inevitable

C.N.E.
Ev. 1030

C.P.M.
1857,
App. 3,
pp.562-3

C.N.E.
Ev. 1632

Redlich,
H. of C.,
i. 125

May,
Const.
Hist.,
ii. 100

result of constitutional growth, the extent of its development is due to the House of Commons itself. If the House has the proper spirit it has the power to mitigate the disability of loss of control, though not to remove it, by treating the estimates more as financial measures, for the economy of which it is answerable to the nation, thus making it its business to get through them in their due precedence, and to examine them with adequate but not excessive time. At the best it cannot do much in this direction with the limited time at its disposal, but the tendency in Committee of Supply is scarcely to discuss them at all under this aspect. In the abstract and in theory the House of Commons is in favour of economy, but in practice members, both as a body and still more as individuals, are rather disposed to use their influence with the government to increase than to decrease expenditure. The opportunity is seized upon to air grievances and to criticise the government rather than to deliberate seriously on the estimates from the financial point of view. 'The mass of speeches made in supply are speeches made on behalf of those who have grievances, their friends, or constituents, or those with whom they work or in whom they are particularly interested. Everybody wants more, and apparently no one in the House is sufficiently informed upon the particular point or has sufficient courage to get up and denounce these applications and to defend the public purse.' It is in fact a characteristic feature—a change of tone—of the House of Commons nowadays to view questions of expenditure with greater leniency. This is the policy of the House, and such a policy is a reflection of the general tendency of the national life induced by prosperous times. The absence of a spirit of economy in the domestic affairs of the nation is apt to encourage a similar atmosphere when dealing with the public purse, and when this is so in the House of Commons the same atmosphere spreads to the spending departments, who will take their lead from the tone of the House. It was the general prevalence of this feeling which was a constant source of anxiety to Gladstone. 'Together with the so-called increase of expenditure,' he said, 'there grows up what may be termed a spirit of expenditure, a desire, a tendency prevailing in the country, which—insensibly and unconsciously perhaps, but really—affects the spirit of the

C.N.E.
Ev. 1068

Cp.
A. & N.
Est.
Com.,
Ev.
1231-5.
1268-73
C.N.E.
Ev. 1567
R.C. Civ.
Estab.,
2 R. Ev.
17442-3

Idem,
Ev. 1730

Cp. Est.
Pro., Ev.
685

C.N.E.
Ev.
2522-4

Cp. May,
Const.
Hist.,
iii. 420

Hans. 3s.
clxx. 203

Life
of Glad-
stone,
ii. 62

people, the spirit of Parliament, the spirit of the public departments, and perhaps even the spirit of those whose duty it is to submit the estimates to Parliament.'

C.N.E.
Ev. 2081
-4

One result of this policy is that the Treasury can depend less upon the support of the House of Commons in enforcing economy. Formerly the inquiry and debates in the House of Commons rather strengthened the hands of the Treasury, but of later years the tendency of debates has been rather to weaken the hands of the Treasury by the demands made for more liberal treatment and increased expenditure. In a word, the more powerful the House of Commons becomes the more it increases expenditure, and the Treasury, though powerful in theory, is weakened by the knowledge that it has not public opinion at its back. The executive government is more concerned to keep down the estimates than the House of Commons in Committee of Supply. The latter operates not so much as a corporate body as a mass of individuals, or of groups, each of whom is interested in obtaining concessions at the cost of increased expenditure. 'Prudent expenditure, productive and equitable taxation, and due equilibrium between income and outlay will only be found where responsibility is enforced by the public opinion of an active and enlightened community.' So long as the pressure of public opinion on the House of Commons is in the direction of increased expenditure in the interests of communities, classes, or individuals, so long will the weight of opinion in the House, as voiced by its members as representatives of constituencies, operate against economy. Members of Parliament in their corporate capacity may be economical, but as delegates the tendency is in the opposite direction. For the loss of control from this cause the House of Commons itself cannot be held blameless.

Idem,
2458,
2525

Bast-
able,
Pub.Fin.,
VI. iii. 8

On the one hand, then, the opportunities of the House of Commons for control by criticism and debate have been seriously curtailed, but on the other the loss of control is more theoretical than real from the financial aspect, since the opportunities which have been taken away were seldom utilised for serious financial criticism. The compensating factors which have been provided in the Public Accounts Committee and the Estimates Committee are a far more

efficient means of securing control from the fact that their work is directed solely to financial criticism and investigation to an extent and in a manner which would be impossible to the House itself however unlimited might be its time.

The House of Commons still remains the final arbiter. It has unlimited power to investigate and control, but it wisely delegates to others the duties of detailed financial criticism and of reporting, retaining its power to take action thereon. In this manner and respect its real financial control, though indirectly exercised, is probably greater than at any previous period.

CHAPTER II

THE PARLIAMENTARY STANDING COMMITTEES¹

- I. THE PUBLIC ACCOUNTS COMMITTEE: Origin—Power and Influence—Advantages over Committee of Supply as a Body of Scrutiny—Functions—The Question of Withholding Information—Intervention in Administration—Examination of Treasury Action—Matters of Financial Order and Principle—General Review.
- II. THE ESTIMATES COMMITTEE: Considerations Leading to the Appointment—Difficulties Inherent in an Estimates Committee—Appointment of the Committee—Causes of Small Results—Lines of Action Adopted—General Review.

Bagehot,
Eng.
Con.,
lxvii.

THOUGH the House of Commons has been described as 'the greatest inquiring machine and the greatest discussing machine which the world has ever known,' yet, as explained in the previous chapter, it is neither a suitable body, nor possesses the time or facilities for examining and controlling in detail the purposes or disposal of its grants. The recognition of this truth has led to its delegating this duty to select committees, which are in a position to discharge it more efficiently, while their reports keep the House informed as to the result of the investigation and enable it to take action thereon, where action is necessary.

Redlich,
H. of C.,
ii. 187,
194

Such committees have regularly entrusted to them powers which, as a rule, are retained for exercise by the House itself—namely, the right to require the attendance of witnesses and the power to send for all documents, papers, and records relevant to the matters referred to them, and of insisting upon the production of any such papers by witnesses, with the sole exception of any papers or documents which the House itself could only obtain by the method of an address to the

¹ The term 'Standing Committee,' for the two committees here dealt with, is incomplete. Their full description would be Sessional Standing Select Committees. Their status differs from the two regular standing committees appointed for the consideration of bills in that the latter are not select committees, but it resembles those two committees in so far as both classes are sessional. (Cp. May, *Parl. Prac.*, pp. 393, 405, 597.)

Crown. Committees of this nature have no executive power. They merely report to the House their findings and recommendations. It then becomes the duty of the administration, 'to consider these propositions, to subject them in turn to careful scrutiny, and to decide, upon their own responsibilities, to what extent and in what way the reforms can be carried out.'

Todd,
Parl.
Gov.,
ii. 157

The practice of appointing such select committees or commissioners is of old standing, though the results achieved in former days were comparatively insignificant owing mainly to the incomplete and unsatisfactory financial system, and to the fact that they were only appointed spasmodically. But even in appointing such committees special precautions were taken against inquiries exceeding constitutional limits. While they were required to report on the possibilities of economy in the expenditure of the departments concerned, they were precluded from encroaching on the functions of the executive, which is alone responsible for deciding such a point as the number of men required for any service to maintain efficiency or other matters of policy.

Cp.
Hans. 3s.
xcvi.
1073,
& ci. 713

This limitation necessarily still exists, but the appointment in 1862 of a standing committee on the public accounts, supplied the necessary link in the chain of parliamentary control so far as the examination of results was concerned and 'affords facilities for securing more effectually than by Treasury control alone the strict appropriation of public money to the purposes for which it has been voted.' A similarly appointed standing committee on the estimates followed in 1912, completing the system, in theory at least, by supplying the machinery for the regular and continuous examination of the estimates on behalf of the House by a committee of its members.

Todd,
Parl.
Gov.,
ii. 255

I. THE PUBLIC ACCOUNTS COMMITTEE

Origin

The history of the origin of the Public Accounts Committee deserves more than a passing notice, for, as a vital and essential feature of our present financial system, it has largely provided the motive power by which that system has been carried to the position it has now obtained.

C.P.M.
1857,
App. 1,
p. 522

However perfect the system of parliamentary control over grants, it would be frustrated in practice if the government had the means of carrying on the expenditure of state without first obtaining the authority of Parliament, that is to say, if it had an unrestricted power of issuing the public money. A check on the issue is therefore indispensable to give effect to the control which it is the design of Parliament to exercise by the limitation of its grants. A check of this description was secured by Parliament at a comparatively early date by placing the power of issue in the exchequer, but the further check of seeing that the issues made from the exchequer were properly spent was of much later growth. 'There has always been,' it was stated in 1865, 'a marked contrast between the jealous susceptibility displayed by the House of Commons in asserting their exclusive right to grant the supplies, and the indifference with which they have abandoned the final appropriation of the supplies, when granted, to the unchecked discretion of the executive government.'

R. 1865,
App. 1,
para. 9

C.P.M.
1856,
App. 1,
p. 520
C.N.E.
App. 13

'The best security for the faithful appropriation of the public money is to be obtained in a correct system of public accounts,' but such security is only obtained if the system is complete and harmonious. Parliamentary control over public expenditure may be said to have begun at the Revolution, but not only was the control thus exercised limited in extent, but also in degree. In extent, because both the naval and military services developed a custom of spending large sums without the previous sanction of Parliament on 'extraordinaries,' for which a vote, which was little more than a formality, was submitted in the following session. In degree, because the control was limited to the issues out of the exchequer and not extended to the expenditure of the grants as a matter of regular procedure and inherent principle.

Cp. R.
Public
Accts.,
Commrs.
1711-3
Public
Accts.
Commrs.
on late
war, 1714

The spasmodic efforts at control which were made at the beginning of the eighteenth century, by the appointment of commissioners 'to examine, take and state the public accounts of the United Kingdom,' were rather an expression of the right of the House of Commons to control expenditure than a means of making that control effective. The reports were useful in bringing abuses to light, but as general reports on the public expenditure they were ineffective to cope with

the uncontrolled power of the Treasury on the one hand, or with the indifference of Parliament on the other. Thus the control was very imperfect and left a wide latitude to the executive government, of which it availed itself freely, and it has been admitted that 'owing to the confused state in which the public accounts were kept previous to 1800, no accurate view of the public income and expenditure previous to that date could be made out.' Prior to 1802, Parliament had no information beside that given in the budget speech each year as to how the money was spent, unless returns were specially called for, or, as mentioned above, commissioners were appointed to report. In that year the commencement of the publication of 'finance accounts' was a tentative effort at supplying Parliament with some general idea as to what the expenditure was, and from that time onwards we find the House of Commons groping for the key to the solution which should secure its paramount control. Parliament was clearly dissatisfied with the existing system and its results, for during the last quarter of the eighteenth and the first half of the nineteenth century it frequently appointed commissions and select committees.¹ Many irregularities and defects in financial organisation were disclosed, scandals were investigated and numerous weak points of the system freely criticised and often strongly condemned. But as examinations of the accounts they had none of the elements of an audit, and at the best were spasmodic efforts lacking in that continuity which must be the essence of successful investigation for audit purposes. It was declared, indeed, in 1865, that the statute book was overburdened with acts relating to the audit of public accounts, but the objects of such acts were administrative rather than parliamentary; they were framed rather to furnish the Treasury with the means of maintaining its legitimate control over the detailed expenditure than to supply the House of Commons with the means of maintaining control over the appropriation of grants. The statements of expenditure furnished in the 'finance

C.P.M.
1856.
App. I,
pp. 549-
550

H.C.
412/1816
quoted
in Pub.
Inc.,
p. 810

42 G. III.
c. 70
Cp. Pub.
Inc.,
p. 813
Cp.
Bowles,
Nat. Fin.
in 1905,
p. 18

R. 1865,
App. I,
para. 12

C.N.E.
App. 13

¹ Instances of such bodies of inquiry are the Commissioners on Public Accounts, 1780-1786; Select Committees on Finance, 1782, 1786, 1791, 1797, and subsequent years; Commissioners of Military Inquiry, 1806; and the Select Committee on Public Expenditure, 1811.

Anson,
Con.,
ii. II.
147
Cp.
Pub.
Inc.,
p. 810

accounts' did not, moreover, give the actual expenditure of departments, but merely the issues from the exchequer in the form of imprests to the accounting department, though an appreciable advance was made in 1822 when for the first time *balanced* annual accounts of the public income and expenditure were presented to Parliament. The appropriation accounts alone, however, give the audited expenditure. These were declared before, and passed by, the Treasury. The authority of the Treasury was unquestioned, and there was no procedure for automatically bringing the accounts before Parliament.

C.P.M.
1856,
App. 1,
p. 563

C.N.E.
Ev. 2508
(Lord
Welby)

Although many defects were remedied by these methods in connection with the estimates, and in the manner of voting them, and in securing a comparatively prompt and effective audit, yet the chief defect of all remained unremedied, because Parliament did not appreciate the fact that it was a defect at all, viz., its ignorance of the detailed expenditure.¹ The Treasury possessed the knowledge; but the Treasury owed no responsibility to Parliament in respect of it, and consequently remained masters of the situation. The House of Commons was satisfied as to the efficiency of the Appropriation Act, and believed that the executive government needed no control in order to ensure the due observance of that appropriation. The principles of appropriation were, in fact, prior to 1830 'imperfectly understood, and still more imperfectly acted on; and Parliament itself, by not insisting on the production of accounts of actual expenditure, showing the appropriation of the grants, seemed indifferent to a rigid adherence to the provisions of the Appropriation Act.' It failed to see that its control over the expenditure must be seriously defective so long as it remained unaware of the results of the audit which it had been at such pains to bring about and improve. It remained under the remarkable illusion that parliamentary control over expenditure could be effectively secured

9 C. J. 373

¹ In this connection it may, however, be noted that occasional efforts were made to secure accounts for special grants; thus the House, on 11 Nov. 1675 resolved: That the supply for building the ships shall be made payable into the exchequer, and shall be kept separate, distinct, and apart from all other monies and shall be appropriated for the building and furnishing of ships, and that the account for the said supply shall be transmitted to the Commons of England in Parliament.

by safeguards on the issue of money from the exchequer without following it further. 'The most admirable provisions respecting the preparation and vote of the budget will be useless, unless there is adequate machinery to secure conformity to the determinations of the legislature.' The true principle of an efficient parliamentary check, is that the government should be left free to do whatever it pleases with the parliamentary grants, but is made responsible for what it does.

In 1831 a preliminary though isolated step was taken towards the solution of the problem. In introducing the navy estimates of that year, Sir James Graham stated that in the two preceding years he and Mr. Hume (the member for Middlesex) had often, when in opposition, fought the estimates, but had overlooked one essential point, the insisting upon the means of knowing what was the actual expenditure. They 'had too much neglected the details of the estimates in their anxiety to effect a tangible reduction of the general sums of the votes. Had they not been so much occupied in pointing out savings they would have effected much benefit in investigating how far the actual expenditure under each head squared with each estimate. The only remedy which he saw was to lay before the House annually a balance sheet in which would be specifically placed under each head the actual expenditure.' As a result the Admiralty was ordered to present such an account to the House of Commons annually, and thus a precedent was started which laid the foundation for the act of 1866.¹ Though limited in its operations and applying to only one branch, the measure is important as evidencing the first occasion on which a minister appears to have seen the importance of laying before the House a return of actual expenditure. Great, however, as this advance was, the proposal possessed a serious defect, no provision being made for requiring the House to pass a judgment on the account.

To the Select Committee on Public Moneys, appointed in 1856, belongs the credit of definitely exposing this defect,

¹ Appropriation on similar lines was applied to :
 War Office and Ordnance Office, 1847 (9 & 10 Vic. c. 92).
 Office of Woods and Works, 1851 (14 & 15 Vic. c. 42).
 Revenue departments, 1861 (24 & 25 Vic. c. 93).
 All supply services, 1867 (29 & 30 Vic. c. 39).

Cp. R. 1865,
 App. 1,
 paras. 16-17

Bast-
 able,
 Pub.Fin
 VI. iii. §1

R. 1865,
 App. 1,
 para. 53

C.N.E.
 App. 13
 Cp.
 C.P.M.
 1856,
 App. 1,
 p. 519

Hans.,
 3 s. ii. 954

2 & 3
 W. IV.
 c. 40

and suggesting a system for remedying it. It was only gradually, however, that the necessary steps were taken to create the system which was to give full effect to its recommendations. The essential point which was brought out was the necessity for constituting a standing committee, without which no machinery of control through audited accounts could be absolutely effective. A committee for the examination of national accounts must be set up, not by statute, but by the House of Commons itself, which possesses the supreme control in finance. The setting up of a committee by statute would entail in theory, if not in practice, intervention in its constitution and procedure by the House of Lords.¹ This constitutional objection is obviated by the appointment under a House of Commons standing order of a committee of its own members. Such a committee was approved by the House of Commons in 1861, and, as the Standing Committee on Public Accounts, was appointed in the following year and reappointed at the commencement of every session since, under Standing Order 75. In this committee, characterised by Gladstone as 'an institution well founded on the principles of parliamentary government,' is to be found the key to the success of the system of accounting now in force.

Four years later, the passing of the Exchequer and Audit Act marked an all-important and essential stage in the working out of this system, and provided the improved machinery by which the fullest benefit was enabled to be derived from the labours of the Public Accounts Committee. The effect of the act (much disliked at first, or rather more feared than disliked) was to introduce 'an obedience to regulation and a responsibility such as were not previously known.' It is to be observed, however, that the act only provides for the presentation of the Comptroller and Auditor General's reports

Hans. 3s.
clxii. 318,
&
clxvi. 329

May,
Parl.
Prac.,
p. 597.
Hans. 3s.
clxxvii.
456
C.N.E.
App. 13

R.C. Civ.
Estab.,
2 R. Ev.
10807
2 R.
1872.
T.M. iii.

10 C. J. 645
et seq.

¹ Such a case did, in fact, occur in 1691. On a bill for appointing commissioners to state the public accounts, amendments were made by the Lords, inserting the names of four additional commissioners, not being members of the House of Commons, though commoners, on the ground that, as the bill provided for the accounts being laid before both Houses, the Lords should examine them as well as the Commons and should therefore be in a position to require the attendance of some of the commissioners, and this they could only do if a portion were not members of the lower House. The Commons strenuously resisted the amendments, and a lengthy dispute ensued. A similar case occurred in 1703.

14 C. J. 386
et seq.

to Parliament. The important question of their further consideration is a matter of House of Commons procedure. With a view to securing that permanent provision should be made for this essential link in the chain, the Public Accounts Committee recommended in 1866, on the bill being referred to it, that 'it should be made a standing order of this honourable House that all reports on appropriation and consolidated fund accounts, and the treasury minutes prescribed in schedule B of the bill, be referred to the Committee of Public Accounts.'

Sp. R.
1866

This act, which Lord Morley describes as a monument of the zeal and power of Gladstone in the direction of providing a good system of economy, and in converting the nominal control of Parliament into a real control, was, 'in its peculiar field, an epoch-making statute,' as is shown by the striking contrast, from the point of view of financial regularity, in the public accounts before and after that date. As evidence of this, the Public Accounts Committee in 1896 called attention to the comparatively few cases in which excesses had occurred on the civil service and revenue votes during the preceding nine years, as compared with prior years, but it notes that the real improvement in the public accounts cannot be shown by mere statistics. Both the auditor's reports and the experience of the committee showed that there had been also 'a remarkable diminution of controversy on first principles and the disappearance, to a great degree, of impatience of scrutiny.'

Life of
Glad-
stone,
ii. 61
3 R.
1896, 16

Idem

The system thus inaugurated, or, it would be more correct to say, gradually built up, has fully justified its promoters because it is based on the essential principle that parliamentary control depends, not on complicated checks imposed before expenditure takes place, but on early audit of the expenditure after it has been incurred, and by an examination by Parliament itself of the results of that audit. 'It is a great mistake to suppose that security is to be obtained by a multiplicity of checks. On the contrary, mistakes and frauds are more likely to occur in proportion as accounts are more complex and difficult to be understood.' The examination of past expenditure is the best means of informing the House of Commons how to criticise future expenditure, and how to control the departments generally. The greater the knowledge the more effective the criticism, and the stronger the control.

C.P.M.
1856,
App. 1,
p. 520
C.N.E.
Ev. 1703

C.P.M.
1856,
App. 1,
p. 570

These fundamental truths were clearly set out by Sir William Anderson in 1854. After pointing out that no effectual control over appropriation could exist at the time of issuing the money from the exchequer, and that the best, if not the only means of bringing under the control of Parliament the expenditure of every department of the state consisted in an effective and uniform system of public accounts, and an independent audit of expenditure upon vouchers *after payment*, he said: 'Let the system be based on confidence in the government, and let the controlling and responsible department of the state have full freedom of action; simplify the machinery; make the system of public accounts as comprehensive, uniform, and exact as possible; and extend the control of the audit board, not to obstruct the current business of the government, but to verify the regularity of the whole of their accounts, and of their financial proceedings.'

C.N.E.
App. 13

The reform brought about by the act of 1866 was of the greatest administrative importance. It converted a nominal parliamentary control into a real one, for the knowledge that irregularity will without fail be brought to light enforces a very salutary restraint upon ministers, civil servants, and officers alike.

Power and Influence

The Public Accounts Committee, designed to guarantee financial regularity and audit, exercises great influence over the departments; yet it possesses no direct power, other than the power to call for documents and to require witnesses to attend. Its power is indirect, and lies nominally in the potential results of its reports. Actually its power lies in the publicity which it is able to give to the questions it investigates, and in the moral effect on departments of its criticism. 'The effect of criticism on all human beings is to make them more careful than they would be without it.'

Parl.
Deb. 5 s.
xxii.
2155
C.P.M.
1857.
App. 3,
P. 569

No system, however perfect, can be relied on as a practical check if there is a declared and persevering effort made to evade its provisions and escape from its restraints, but a consciousness of the existence of a power of interference tends of itself to avert the necessity for its exercise. It is perhaps this known latent power of the committee, no less than the

STANDING COMMITTEES

III

actual occasions of exercise of its functions, which has wielded so great an influence over the departments. Its duty, under the terms of reference, is to report to the House, and it is the business of the Treasury to write minutes on its reports. Yet, notwithstanding the value of such reports, and of the treasury minutes thereon, there is no actual guarantee that they will ever be discussed by Parliament, nor indeed do the present rules of procedure afford any fitting opportunity to the House of regularly discussing any of the matters contained in them. Technically, the committee is not guaranteed a hearing of its reports in the House of Commons at all, though intermittently since 1905 it has been the usual practice to allow one day in the year for the purpose; nor is there any obligation on the part of the Treasury to adopt them, though, if it withholds effect from the resolutions of the committee based on a point in the Comptroller and Auditor General's report, it is still within his power to refer to the matter again in a subsequent report. In theory, the failure to make provision for a discussion of the reports in the House would appear to be a weak link in the chain, but in practice no inconvenience results. It would, however, be more in consonance with the dignity and the importance of the committee if the House of Commons were to insist on a consideration annually, as a matter of course, of the reports of the 'proceedings of a committee which investigates the whole of the public accounts of the Empire, which has before it the officials concerned, and which bases its examination of both accounts and officials upon the very able report of that essential officer of the House of Commons, the Comptroller and Auditor General.' The point was again referred to by the committee in 1916, and a recommendation made that at least one day a session should be set aside by standing order for the consideration of its reports.

While the Treasury is under no obligation to accept the reports of the Public Accounts Committee, it is required to state, in its minute thereon, the reason for any difference of opinion it may hold. The question is in such cases reserved for reconsideration by the committee in the next session. If the committee and the Treasury can then come to no agreement the final appeal lies to the House of Commons, which should be specifically informed of the disagreement. 'Where the action of the Treasury has been challenged by the report

C.N.E.
Rep.,
P. v.
Idem,
Ev. 1020,
1030

A. Est.
Com.,
Ev. 1283

Bowles,
Nat. Fin.
in 1905.
p. 13

2 R.
1916, 78

C.N.E.
App. 13

R. 1882,
16

of a Committee on Public Accounts, the attention of the House of Commons should be specially directed to the fact by those who represent that department, when any vote or resolution is under consideration which affects the subject upon which the difference of opinion has arisen.'

3 R.
1891, 8

Similarly, in cases of disagreement between the Treasury and an accounting department, the point at issue may be left to the consideration of the committee to decide as to whether a payment may be passed or should be reported to the House of Commons for disallowance.

C.N.E.
Ev. 1020

The admitted influence exercised by the committee and the important position it has obtained form therefore a striking commentary on the way in which it has performed its work during the past half-century, achieving its results in spite of the absence of direct powers of enforcing its reports or recommendations. It has no power, even after the most minute examination and on the clearest evidence, to disallow any item. It can only call attention to it, and express its opinion that it should be disallowed. It has been stated indeed, that nothing has a greater deterrent effect on a department than the fear of having to go before the Public Accounts Committee, and that the accounting departments stand more in awe of this committee than of the House of Commons itself, probably because there is less chance of escaping its close scrutiny. The chairman of the committee expressed the same opinion to the House. 'There is,' he said, 'a great deal of human nature in the world, and fear is one of the greatest helps in keeping men straight. The fear of the Public Accounts Committee, and the very searching examination that takes place there, does a great deal to keep in the path of rectitude the members of the civil service.'

Idem,
Ev. 2096

Idem,
Ev. 1017

Parl.
Deb. 5 s.
xxxvii.
424

Advantages over Committee of Supply as a Body of Scrutiny

C.N.E.
Rep.,
p. v.
Cp. Est.
Pro. Ev.
298-301
& 306

But apart from the actual manner in which the committee has established itself as a permanent and vital link in the chain of financial control, a committee of this description possesses many advantages over the House of Commons in Committee of Supply for the purposes of detailed financial scrutiny, and is therefore far more effective for economical purposes.

In the first place, its proceedings are usually devoid of party feeling. The chairman is by universal practice chosen from the opposition. Members are nominated to serve on it who have shown their interest in financial questions, even though, as opponents of the government, they might during the investigations of the committee obtain further facilities for criticising its policy. It is recognised that the question of public accounts is a national and not a party question, and, as such, investigation is made in the public interest and from a financial, not a political, point of view. Discussions in the House itself on financial questions, on the other hand, are apt to follow party lines, and the real issue is liable to be obscured.

Again, such a committee is able to obtain, if necessary, the evidence of the executive officers themselves, of the administrators, of those who have spent the money. The House of Commons, on the other hand, must rely on the statements of ministers who, however well informed, have not that direct personal knowledge of transactions which is able to be supplied by the witnesses before the committee. The examination of the latter may suggest lines of research which are able to be followed up by the committee in a manner which would not be practicable in the House. Further witnesses can be summoned or documents called for with facility, thus enabling any point to be threshed out more fully and more rapidly than would be possible under the more cumbersome methods of parliamentary procedure. If necessary, evidence may be taken on oath, but in practice this is not adopted by any select committees except in very special cases. It is certainly true that the House still retains the power to send for and examine at the Bar any persons it requires, but such procedure is nowadays limited to the case of those whose conduct has been brought before it on a matter of privilege. The system of conducting inquiries by a committee of the whole House has long since passed into desuetude. Such a tribunal is ill adapted to that close and consecutive examination which is essential when dealing with the public accounts. Moreover, its functions are deliberation and not inquiry. But even in its deliberations its powers of close examination and thorough investigation are most limited. 'One of the most helpless exhibitions,' says Bagehot, 'of helpless ingenuity and wasted mind, is a committee of the whole House on a bill of many clauses, which

C.N.E.
Ev. 1017

34 & 35
Vic.c.83.

May,
Parl.
Prac.,
pp. 64,
424, 431

Idem,
p. 383

Bagehot,
Eng.
Con.,
p. 110

Cp.
C.P.M.
1857,
App. 1,
p. 526

eager enemies are trying to spoil and various friends are trying to mend.' The practice of laying accounts before Parliament, although valuable to individual members and upon particular occasions, when the subjects to which they refer are under discussion, is of little use as a uniform and reliable check upon public departments. The formality of presenting accounts to Parliament is in practice valuable only in that it brings them to the official cognisance of the House, and enables it to refer them for consideration to the select committee for report. In regard to economy and scrutiny the influence of the Public Accounts Committee is more regular and efficient than that which is or could be exercised by the House of Commons in Committee of Supply, of which it has been stated that the pre-eminent characteristics are waste of public time and inability to prevent waste of public money, and its increasing value as a check on wasteful expenditure was admitted by the Committee on National Expenditure of 1903.

C.N.E.
Ev.
1348-9

Est. Pro.
APP. 2

C.N.E.
Rep. p.v.

In yet another respect the committee possesses an important advantage over the House of Commons as a body of scrutiny, an advantage which has been intensified in recent times by the changes in the rules of procedure, necessitated by the press of parliamentary business. Large parts of the estimates are now annually withdrawn from discussion in the House of Commons by the method of guillotining all votes in supply which are outstanding on a given day. Millions are voted undiscussed, on the recommendation, theoretically, of the government, but actually of the responsible minister. Such estimates have undoubtedly been prepared by the department on the lines of policy settled by the government and have been approved by the Treasury, but the House of Commons itself, which has had no voice in their preparation, is debarred by time from criticism. No part of the expenditure can, however, be withdrawn from the purview of the Public Accounts Committee by any such device. The Committee does actually on the appropriation account what the House of Commons does theoretically on the estimates, and is able to do it more thoroughly and to more purpose. For even if it were possible to allow a full discussion in Committee of Supply, it would have no practical effect so long as the government retained the confidence of the House, since the estimates once introduced are

Idem,
Ev. 1017

Idem,
APP. 7

Idem,
Ev. 1017

considered a capital measure, on the carrying of which the government stakes its existence. Such discussion, moreover, would be on proposed expenditure and would naturally lean towards the criticism of policy. The Public Accounts Committee, on the other hand, deals with the actual ascertained expenditure, and is able the more usefully to devote its time to those special points which the accomplished fact suggests might repay investigation. The fact that this is a *post mortem* examination does not detract from its value. 'The effect of financial criticism, like the effect of a financial audit, is the prevention of waste. You can never save much by auditing an account. All you can do is to prevent the same kind of waste going on, and you can exercise such moral check upon a man that he will not incur wasteful expenditure.'

C.N.E.
vol. ii.
Ev. 41-2

Finally, the Public Accounts Committee possesses the great advantage of being served regularly and continuously by a great public department, under the Comptroller and Auditor General, who is able by personal attendance at its meetings to assist its labours in a manner in which his reports alone could not assist a committee of the whole House. A principal permanent official of the Treasury also attends every meeting. The committee is thus able to obtain accurate knowledge collected by trained officers.

C.N.E.
Ev. 1017

The Comptroller and Auditor General has been described as to a large extent the acting hand of the committee. 'He guides the Public Accounts Committee in their labours,' he detects the points of question, presents them with such information concerning them as he has obtained, and leaves the committee to pursue them further, to consider them and to report on them. 'A committee would probably never be able to detect any official extravagances or scandals unless guided by an official bloodhound who is in their service,' and with such powers as the Comptroller and Auditor General possesses. To the thorough manner in which he does his work the committee is indebted for a large measure of its own usefulness. To his views as a parliamentary officer, the committee naturally attaches great importance, and would hesitate to override a strongly expressed opinion on a financial principle, while, if he were further supported by the Treasury, the opinion would be irresistible.

R. 1910,
Ev. 554

C.N.E.
Ev. 1863

Cp. 4 R.
1894. 42

In short, then, the proceedings of the committee offer a simple and satisfactory method whereby Parliament can, through its nominees, more usefully and conveniently sift to the bottom any point in the public accounts which calls for attention, than by attempting to undertake the work itself in committee of the whole House.

Functions

It has already been mentioned that the actual powers of the Public Accounts Committee are strictly limited, and that the influence it possesses is derived from its methods and the interpretations which it has placed upon the intentions of the House as to its scope and purpose. It may therefore be advisable to examine more fully what its functions are and how it carries them out.

Cp. May,
Parl.
Prac.,
p. 597

It is appointed for 'the examination of accounts showing the appropriation of the sums granted by Parliament to meet the public expenditure.' Its functions are, however, considerably wider than those suggested by the bare terms of this reference. The public accounts are already examined for the House of Commons under the Exchequer and Audit Act by the Comptroller and Auditor General, himself an officer of the House of Commons, the scope of whose examination will be discussed in the following chapter. It is obvious that the examination to be undertaken by the Public Accounts Committee, also on behalf of the House of Commons, must be of a different kind and not merely a duplication or verification of the Comptroller and Auditor General's work.

C.N.E.
Ev. 1017
& 1058

In the first place, in dealing with the purely accounting point of view, it necessarily reviews the Comptroller and Auditor General's report and investigates any irregularities brought to notice in that report. In this respect its examination amounts to an enlarged revision of that report, supplementing it by oral examination both of the accounting officer and of other officers concerned in the expenditure. In point of fact the committee is primarily guided in its line of investigation by the Comptroller and Auditor General's report, as to the subjects it selects for consideration, though it is not necessarily restricted to the ground covered by that report.

The first business which it deals with is the examination of the cause of and justification for expenditure in excess of provision, which will necessitate an excess vote. The committee considers that it is of great importance that the attention of Parliament should be specially directed to all cases in which an excess of expenditure has been incurred beyond that sanctioned by Parliament. It is, therefore, very desirable that the excesses should be reported on by the committee before they are voted in Committee of Supply, in order that attention may then be drawn to any excess involving a question of principle, and that the vote for such excess may, if desirable, be submitted by itself in Committee of Supply. It is an unwritten law and the universal practice that no excess vote can be taken without having been previously submitted to this committee. No alternative remains at this stage but to recommend that an excess vote be taken; but if it can be shown that the probabilities of an excess were known in sufficient time for a supplementary estimate to have been put forward, the department would be severely censured. The known fact that the committee does not deal leniently with excesses, exercises the strongest deterrent effect on the departments against willingly or knowingly exceeding parliamentary provision. Having dealt with any such excesses on the year's work, the committee makes its first report to the House, thus enabling the excess votes to be taken before the end of the financial year following that in which the excess occurred.

The committee then proceeds to deal with the accounts of the different departments in order and makes reports from time to time, either on each department or on the accounts of several together according to circumstances, taking generally as its line of investigation the Comptroller and Auditor General's reports. Whether in dealing with subjects originally suggested therein, or in taking a fresh line of its own, the functions of the committee extend, however, beyond the formality of the expenditure to its 'wisdom, faithfulness and economy.' It should not only act as a check upon extravagant, irregular, or unauthorised expenditure, but also, within limits, upon unwise methods of management.

Apart from all cases of excesses which the Comptroller and Auditor General is under obligation to report to it, and

R. 1877,

52.

2 R.

1891, 6

C.N.E.

Ev. 1017

which it first deals with as mentioned above, the committee also examines those cases of over-issues or irregularities which, though not creating an excess on the vote, are brought to notice in the report of the Comptroller and Auditor General. After investigation by the examination of witnesses, it is able to arrive at a decision as to the course to be adopted.

Cp. R.
1874,
120

It may either :—

- (1) Recommend for disallowance, in extreme cases ; or,
- (2) Content itself with recording its disapproval of unsatisfactory expenditure ; or,
- (3) Recommend for disallowance on technical grounds, which will enable a charge to be made later, as for instance in the case of a payment irregularly made for stores not delivered within the year.

A. Est.
Com.,
Ev. 1282

Technically, the committee cannot itself make a disallowance as it has no executive powers. It can merely make a recommendation, on which the Treasury or Parliament will act. The usual course is for the Treasury to give administrative effect to recommendations made in the reports of the committee by minutes which it passes upon them. In practice, a recommendation would be acted on unless the Treasury considered that the circumstances justified a reconsideration.

R. 1877,
79

Disallowances recommended by the committee and enforced should only be subsequently removed by the direct action of Parliament in the form of a vote or resolution, according to the circumstances.

Cp. Parl.
Deb. 5 s.
xxxvii.
402-5
Cp. R.
1911;
Ev. 2361
C.N.E.
Ev. 1075

The committee is, on the other hand, in no way concerned with questions of policy in the broader sense. With the policy of the method of expenditure it is only concerned in a limited degree. It might, for instance, discuss the propriety of expenditure in one way rather than in another, or the propriety of the compromise effected by a department, which often arises. Even in such cases, however, it will be on debatable ground, and the tendency will usually be to restrict rather than to widen the scope of its enquiries. In all matters which are more definitely determined by the settled policy of the government, the Public Accounts Committee does not attempt any enquiry. It regards it as a rule to be carefully observed that no expression of opinion should be given on points of general policy or on such matters as, e.g., colonial

3 R.
1892, 11

administration. Such matters are beyond the strict province of accounts and of audit. An opinion to the same effect was agreed to in 1909. 'The policy under which money has been expended in accordance with the decision of Parliament is not subject to review as a matter of account, and as a general rule the account records of the department do not furnish such information as would enable a correct judgment to be formed upon the economic results of that policy.'

5 R.
1909, 19

'Though expenditure must mainly depend on policy, and policy must be, and can only be, elaborated and proposed by the government of the day, and on its proposal accepted or rejected by Parliament, nevertheless, in expending the money necessary to carry out that policy, there is a large field for the vigilance of the House of Commons in combining the most efficient with the most economic methods.' For between policy, which is the domain of Parliament and the cabinet, and audit strictly interpreted, there is a middle field which may be called merit. Many things are fairly described as necessary expenditure, but the question whether there is extravagance or not is frequently not a question of policy at all and would not be covered by audit. The chief obstacle to discussing merit will generally be found in determining the question as to the extent to which administration is involved. The reasons for the limitation in the functions of the committee as regards policy are twofold. In the first place a discussion on questions of policy would imply the right, whether exercised or not, of approving or disapproving of that policy, and might be set up as such by a department in its defence. Any system, however, which would tend to relieve ministers of their responsibilities in this respect would unduly diminish the control of the executive, and might also diminish the carefulness of the department. There would consequently be insuperable objections to any attempt on the part of the House of Commons to delegate questions of policy to a committee. Ministerial responsibility is an underlying constitutional maxim, and no intervention between the minister and the House of Commons, to which alone he must answer, would be consistent with its satisfactory working. The amount of the estimates or the amount of any particular grant are matters of policy, and it would be entirely outside

C.N.E.
Ev. 1030

Idem,
Ev.
1354-5

C.N.E.
Ev. 1046

the scope of the committee to question either, or to investigate the grounds on which they were based. This is true generally, even when the policy is common knowledge; but it may sometimes be the case that items have been inserted in an estimate on grounds of policy based on confidential documents. As the minister could not be called on to divulge these to the House in order to justify his insertion of the items, still less could the department be called on to produce them to the committee for discussion.

C.N.E.,
Ev. 223⁸

May,
Parl.
Prac.,
p. 547
C.N.E.,
Ev. 1017
Hans. 3s.
cccxli.
1518

3 R.
1888, 8

3 R.
1890, 1

1 R.
1890, 4

3 R.
1888, 7

The form or arrangement of the estimates, on the other hand, are recognised as being within the purview of the committee, since this has a definite and important bearing on parliamentary control which it is one of the functions of the committee to safeguard. Official alterations are restricted to such rearrangements as involve no question of principle. The effect of changes in form are discussed elsewhere. It is only the attitude of the Public Accounts Committee that is now under consideration. This attitude was clearly defined in 1888 and confirmed in 1890. In the former year the committee held that proposals to alter the form of the estimates and number of the votes should in the first place be laid before the House of Commons, so as to enable the House to examine them, and, if it should think fit, to refer them to the committee before an important change was adopted. It was further pointed out that, if changes of form were held to require the committee's judgment, it seemed only reasonable that these should be submitted to it before being actually adopted. If this were not done the usefulness of criticism by the committee would be materially lessened; for it must either give what can be little more than a formal sanction to the *fait accompli* or else, if approval is withheld and a return to the previous arrangement is insisted on, the accounts of that year based on the new form of estimate already adopted must always remain an exception to those of preceding and succeeding years. The committee subsequently impressed upon the Treasury and the departments the advisability of postponing new forms until the House of Commons or the committee had been given an opportunity of expressing an opinion upon them.

3 R.
1890, 1

The Treasury is the department responsible for authorising

changes of form, but, except in the case of immaterial changes, it should neither authorise a change nor permit one to be adopted until the committee has had an opportunity of considering its effect. On the proposal to change the form of the Post Office estimates in 1910, the Treasury stated that, while 'entirely approving the proposed alterations, following the usual practice with regard to important changes in the form of estimates, they desired to submit the matter to the Public Accounts Committee before giving the final authority for the changes proposed.' The line here adopted was the same as had been taken in 1905 on a proposal to amalgamate the three Post Office votes, the Treasury forwarding to the committee a letter from the Postmaster General urging the proposal together with a memorandum from the Comptroller and Auditor General setting out the advantages of its acceptance. On the committee recommending the amalgamation 'the Treasury approved of it, and gave instructions' for the estimates to be prepared accordingly.

3 R.
1888, 7

R. 1911,
App. 3
Cp. also
2 R.
1912, 3;
2 R.
1913, 5;
2 R.
1905

Idem,
T.M.

It will be observed that this question, though having a direct influence on the subsequent accounts, is not automatically referred to the committee. The recommendation is that it should be referred either to the House or the committee. The result is, undoubtedly, the same as reference to the House would be followed in all important cases by a transfer of the reference to the Public Accounts Committee for report. In practice the recommendation is usually forwarded by the Treasury directly to the committee. In 1890 the changes in form, which had in point of fact been already made before being brought to the notice of the committee, were reported by it to the House in the 1st report of that year, being thus brought before Parliament for the first time. After being the subject of debate they were referred to the committee by resolution of the House and were there considered as if the changes had not been made, but had merely been submitted as a scheme for the future.

Hans. 3 s.
cccxli.
1518-
1534
3 R.
1890, 2

When such a reference is made to the committee it is careful to limit its inquiries strictly to its proper functions 'which relate to the accounts and to the maintenance of due parliamentary control over expenditure'; it 'does not desire to deal with any questions relating to the voting of the estimates

1 R.
1890, 5

3 R.
1890, 1

in Committee of Supply. These seem to it to be outside the scope of its duties.' This point is again emphasised in the committee's 3rd report in 1890. When the estimates come before it, as is only the case when changes in form are proposed, the committee deals merely with the effect which such changes may have on parliamentary control. It undoubtedly wishes to make it clear that it carefully avoids any action which may seem to commit it to accepting responsibility for the policy involved in the estimates in any way, and abstains from any criticism which might be considered as trenching upon policy.

1 R.
1906, 9

The powers of the committee are, moreover, not only limited in respect of the policy on which the original estimates are framed, but equally so in regard to changes of policy during the year, which may have a very material effect on the expenditure as compared with parliamentary appropriation. If excess expenditure is attributed to a change of policy it must be accepted; but the committee may rightly make inquiries as to whether such change of policy could not have been foreseen, schemes worked out and decisions given, in time to admit of provision being made in the estimates, or, failing that, the matter brought to the notice of Parliament in a supplementary estimate. If 'by the excuse of "a change of policy" any department can shake itself clear of parliamentary control,' the scrutiny of the expenditure of subordinate officers, the criticism of errors of estimate, and, in short, the work of the Public Accounts Committee, will be to a large extent useless.

The position taken up by the committee on this point of policy is typical of its attitude generally of careful abstention from the assumption of powers which it does not legitimately possess and which it could not correctly utilise. Such limitations have the effect of increasing the importance and value of its work within its recognised sphere, on which all its efforts can be concentrated, and of adding greater weight to its decisions.

The purpose, as distinct from the amount of a grant, is obviously a matter for consideration, because this must be known in order that the correct appropriation may be proved. The accounts have to be reported on as to whether the money has

been applied to the purpose for which it was provided by Parliament.

Similarly in the case of receipts—which, equally with expenditure, have to be examined by the committee—no discussion would be in order as to the policy of their amount. This principle has been definitely admitted in a discussion on colonial contributions. ‘The question of the amount in this case is a matter of policy, and not of accounts. It is not, therefore, one for the Public Accounts Committee to discuss.’ It is for the government to settle, in consultation with the colonial authorities, what contribution each colony should make towards the Imperial expenditure. The committee, on behalf of Parliament, is solely concerned with seeing that that contribution, whatever it may be, has been received. Such a limitation would obviously not apply to cases in which no policy was involved, the determination of the correct amount to be received being rather a matter of business or administration. In such cases the committee might justifiably investigate the basis of the arrangement on which the department had arrived at its estimate, the effect of which might be a receipt of less amount than the circumstances justified. The committee again brought out this point, as to its limitations, in 1897 when discussing the question of the remission of death duties on the English estates of foreign sovereigns. ‘It is not,’ it says, ‘called upon to formulate an opinion on the question of the propriety, in view of international comity, of securing the transfer without payment of duty (of the property of the late Emperor of Russia); but when such transfer was decided on, whatever steps were necessary to make the proceedings regular, and to secure an adequate record of them, should have been taken.’ The criticism is directed not against the policy, which resulted in a reduction of receipts to the exchequer, but against the methods by which it was carried out.

To take another illustration: it was decided in 1914 to send relief to the inhabitants of St. Kilda. Such a matter was solely one of policy, and the necessity for it was entirely outside the functions of the committee to discuss; but the authority under which such help was given was a matter of account, coming within the Comptroller and Auditor General’s audit of authority, and therefore within the purview of the committee.

R. 1912,
Ev. 2362

2 R.
1897, 17

R. 1915,
Ev. 618

The second reason for limiting the functions of the committee, where questions of policy are concerned, lies in the fact that closely allied to policy, and often inevitably bound up with it, is the question of secrecy, which is equally respected by the Public Accounts Committee. The reports of the committee, together with the evidence taken, are normally published *in extenso*, and, consequently, it would not, in the public interests, insist on the production to it of evidence of a secret or confidential nature which could not subsequently be published, though an exception has been made during the sessions held in 1916, certain evidence being taken *in camera* and documents produced confidentially, owing to the continuance of the war.

2 R.
1916, 1

C.N.E.
Ev. 644-
6

And finally a further point may be mentioned as to which the examination of the committee should be, and necessarily must be, limited. The public accounts—especially in connection with the army, navy, and post office, include many classes of technical expenditure, over which neither the committee, nor indeed the House of Commons itself, can have any opinion as to its propriety. The utmost the committee can do is to watch such expenditure as closely as possible, and to call upon the departmental experts for explanations when such appear to be necessary and can be usefully given. Generally speaking, however, the responsible officers must be relied on to avoid waste, and the committee is prepared to accept their undertakings in this respect.

The Question of withholding Information

The range of operations of the committee is necessarily dependent in no small measure on the extent to which a department is justified in withholding information. It may, therefore, be convenient at this stage to review the question generally.

Information in connection with accounts may be required either for the purpose of testing the accuracy of the accounts—that is to say, for the verification of computation, appropriation, authorities, and regulations; or with a view to investigating the propriety of the expenditure; or, finally, information may be required not directly connected with the accounts, but relating to the system. Information under the first head

Cp. 2 R.
1892, 28

cannot be withheld by a department. The Comptroller and Auditor General has a statutory right of access to all accounts, papers, and documents bearing on the accounts from this point of view ; and since he is under obligation to report to the House of Commons, and his reports are laid before the Public Accounts Committee, it follows that this committee may claim a similar access. Nor is it conceivable that a department would wish to withhold information on this point, nor that it would gain by reticence.

E. & A.
Act,
§ 28

An apparent exception to this right may be thought to be the withholding of information as to the manner in which sums are spent on secret service or in the case of certain grants in aid. The exception is more apparent than real ; for in those cases the grant is made by Parliament, on the understanding that the expenditure is at the discretion of the grantees and not subject to audit. The Comptroller and Auditor General's duties are therefore limited both as to the audit he himself carries out, and also as to the report he is required to make to Parliament, to seeing that the grants in bulk have been paid to the proper persons. The withholding of information in such cases is consequently strictly in accordance with the intentions of Parliament, which grants the money and asks for no account as to how it is spent.

Cp.
Todd,
Parl.
Gov.,
ii. 245-6

In no other circumstances can information required for testing the application of the grants be withheld. It follows, therefore, that payments for services of a confidential nature, of which the particulars ought not to be divulged, should be charged to the vote for secret service, or, on active service, to the vote for field intelligence. In each of these cases no audit takes place, and a certificate is given in lieu to the effect that the amount stated to have been spent has been spent and on the proper objects. This certificate is given by the responsible minister, in the case of the civil secret service vote, and by the general officer commanding in the field, in the case of field intelligence, and is accepted by the committee as ' answering all reasonable parliamentary requirements.'

2 R.
1879, 60.
T.M.

2 R.
1888, 15

Idem, 16

When we come to the question of the examination of propriety, we are on more debatable ground, and are at once confronted with questions of policy and administration, or

that still more debatable ground which lies on the border-line between audit and administration. In matters of policy—which are, generally speaking, the decision of the government—there is rarely any inclination to dispute the claim of a department before the committee to silence, if it is alleged that publication would be prejudicial to the public interest. If a department informs the Public Accounts Committee that expenditure, although unusual and apparently extravagant, was warranted by reasons of high policy which it would not be desirable to divulge, the committee would not press the matter further. It is probable that it is not bound not to do so, except at its own discretion; but the exercise of such a right, with a view to obtaining a statement of what the high policy is, would be of little or no assistance since it cannot criticise policy itself, nor when reporting to the House. The House of Commons itself can do so, and technically it can undoubtedly use every means of information which may seem needful, and claim from a minister all information which he possesses on a matter before it. While, however, 'it is necessary that Parliament should be informed of all matters which are essential to explain or defend the policy of the government, it is equally necessary that a minister should be able, upon his own responsibility, to withhold from the public such information as he may judge could not be afforded without detriment to the public service.' In practice, therefore, questions are never pressed if the minister claims the privilege of silence on grounds of public policy. The remedy of the House, if it considers that this is being abused, lies in a vote of want of confidence.

Information may also be reasonably withheld for military reasons, if disclosure and publication would be detrimental to the public service; and in this description may be included not only information relative to policy and operations, but also, in certain cases, that relating to administration or organisation. In some cases, where questions of secrecy arise for reasons other than those of high state policy, the claim of the department to silence may be equally effective. It would not be called upon to justify administrative action taken for the preservation of state secrets. Thus in the contract for sale of obsolete battleships, a breaking-up clause is inserted. The financial effect of such a clause is that lower prices are

C.N.E.
Ev. 1048

Cp.
Redlich,
H. of C.,
ii. 39, 41

Todd,
Parl.
Gov.,
i. 129;
ii. 158

May,
Parl.
Prac.,
p. 248

realised by the sale than would otherwise be the case. The reason assigned for this clause is the need for secrecy. The committee accepts this as closing the door to any discussion on the advisability of the insertion of the clause. 'As regards secrecy,' it says, 'nothing more is to be said if that is the admiralty view.' The committee is entitled to ask about the financial effect of such a policy, but would not query its advisability.

Cp. R.
1913, Ev.
2877-
2926
R. 1912,
Ev. 3132
-3

This attitude the committee is always careful to maintain.

A member, inquiring as to the reason why the progress of the manufacture of guns and ammunition was pushed on so fast in 1912, suggested that it might be 'an indiscreet question,' the answer to which might properly be withheld. On the same footing would be placed questions as to the army war reserves. These are definite reserves of stores and armament which the army has to keep, and certifies that it has, but what that reserve is practically the War Office alone knows. It can be readily understood that its nature and extent are subjects which in the national interest should not be divulged. By arrangement with the War Office, the Comptroller and Auditor General sees that the stores, etc., are in existence, and a certificate is added annually to the appropriation account to the effect that the reserve is complete, but nothing further is demanded by the committee. Neither the Public Accounts Committee nor the Comptroller and Auditor General could criticise the composition of the stock, nor how fast reserves should be provided—questions of secrecy apart—for that is essentially a matter of military and government policy which cannot be dealt with on the basis of a certificate in the accounts. The Comptroller and Auditor General is merely concerned with the schedule of the stores.

R. 1913,
Ev. 3102

R. 1910,
Ev. 558-
563

R. 1910,
Ev. 1020

A somewhat different consideration is involved when a department wishes to withhold information on what may be termed commercial or business grounds. In acquiring a site or negotiating for the purchase of land, it might be inconvenient if the administration had to defend in Parliament in advance proposals for such services as building a factory, laying out a torpedo range, or forming a new garrison in one locality rather than in another, or others of a like nature. If, for instance, land which the government desired to purchase suddenly came on the market, the taking of a supplementary

1 R.
1876, 13

R. 1913,
Ev. 854

R. 1910,
Ev. 291,
1320
R.D.
Est.
Com.,
Ev. 153

estimate for the purchase might defeat its own object. The necessity of having to reply to questions would render the negotiations difficult and inevitably raise the purchase price for the land required. The reasonableness of withholding information in such circumstances is admitted by the committee, but with the proviso that the suspension must be only temporary; for once the transaction is completed the need for secrecy ceases. It follows that in such cases the information is, as a rule, withheld temporarily from the House of Commons only; for when the matter comes before the committee, arising out of an item in the accounts, the need for secrecy will probably have passed. The committee will only be concerned in seeing that Parliament has been duly informed, and that new items of expenditure, which were on these grounds incurred with treasury authority, but without formal parliamentary sanction, have subsequently received that sanction by being specifically brought to the notice of the House of Commons. Considerations of a similar nature influenced the committee when dealing with the question of the rendering of accounts in respect of farms administered by the Woods and Forests Department. The commissioner contended that the publication of the accounts required would prove extremely prejudicial to the administration of the land revenues, and the committee, accepting his view, decided not to press the demand.

3 R.
1893,
55-58

Apart from reasons of policy and secrecy, a department may claim to withhold information on the ground that the point at issue is one of administration. An essential point of difference between such cases and those previously discussed lies in the separate functions of the Public Accounts Committee and the Comptroller and Auditor General, for while the former may at its discretion discuss administration within certain limits, the Comptroller and Auditor General has no statutory power to do so. It may be, therefore, justifiable to withhold information from the latter which the former is entitled to obtain. The point, so far as the Comptroller and Auditor General is concerned, will be dealt with more fully when that official's functions are more directly under consideration.

Intervention in Administration

Since one of the functions of the committee is to act as a check on unwise methods of expenditure, it undoubtedly possesses the power, if necessary, to intervene in matters of administration and to examine the systems under which the departments work. Such intervention, however, is rare, and indeed has been on more than one occasion explicitly waived. In 1894 a case was referred to the Public Accounts Committee, although 'a question of administration rather than one of authority.' And again, more recently, when a member raised a question as to the methods adopted at a state-aided university, the chairman said: 'Your criticism will appear on the notes, but I think it is rather a question of administration. I do not think it is a matter which comes under our review. The Comptroller and Auditor General has reported upon the accounts, and there are no financial errors.' The principle here laid down makes it clear that even though the committee may not feel satisfied with the administration, and may be of opinion that it has involved extravagance or waste of public money, interference is generally inadvisable. A policy of interference, even though capable of effecting a saving here and there, would, in the long run, be detrimental to the public service, and result possibly in increased extravagance all round. The best way to foster economy in the departments is to interest the departments themselves in economy. The head of the department can much more easily put his finger on the weak administrative points in the expenditure of his department than an outsider who does not know the details of the work. The importance of fostering such a spirit in the department cannot be over-estimated in the national interests, for, as Burke pointed out, a good system of economy is itself a great revenue.

It follows, therefore, that a general control to secure economy would be more effective if directed to trying to get good men in the department, who can be relied on to work the departmental system efficiently, rather than to rely on a detailed examination of the accounts for the purpose. Questions of internal administration—such as alterations in the organisation of a department—are therefore more correctly and wisely left

4 R.
1894. 22

R. 1911,
Ev. 1404
-5

C.N.E.,
Ev. 335-
7

Life of
Glad-
stone,
ii. 61.

C.N.E.
Ev. 381

to the decision of the department itself, of which the responsible minister alone can be the best judge and for which he must answer, if required, directly to the House of Commons.

C.N.E. Recommendations as to alterations in the reorganisation of a department, or as to the administrative steps necessary to ensure an efficient system, are beyond the functions of the committee, but it is justified in satisfying itself that the organisation is satisfactory. Consequently, while it would not interfere with the administration itself it would be justified in calling attention to weak points in it, leaving the department to remedy them. It acted in accordance with this policy when it, in 1911, 'emphasised the necessity of constant revision of regulations, and of seeing that an officer is fully acquainted with the regulations, before he is allowed to undertake the responsibility of a post.' Similarly, the committee abstains from expressing an opinion as to whether a contractor should be struck off the list, as that is a matter for the decision of the responsible minister. Relying on this admitted principle, a department may justifiably withhold information on matters of administration. It must be understood, however, that this exemption does not extend to questions of system, with the result of which the committee is concerned, though it may sometimes be difficult to draw the line between the two. The system of paying and accounting for wages, and the constitution of proper vouchers, are matters on which the committee look to the Comptroller and Auditor General to examine and report upon. Instances of fraud in the payment of wages are frequent; but from the very nature of the case direct evidence of proper payment is all but impossible. Circumstantial evidence is the best available, and this consists in a good *system* of payment which renders fraud improbable by reason of the number of persons concerned in the preparation of the pay-sheet and the subsequent payment. The Public Accounts Committee is therefore essentially concerned to satisfy itself that the system is satisfactory though the determination of the system is solely a matter of administration which must be arranged by the department. Or, to take another instance, the methods of stocktaking may be a matter of administration; but if a doubt arises as to what department should carry it out,

2 R.
1907, 2
Cp. 3 R.
1907, 11
3 R.
1911, 18
Cp. 3 R.
1908, 11
2 R.
1890, 14

2 R.
1883, 57
& 64

Dicksee,
P. 23

a question of system is involved, and the committee would be justified in satisfying itself of the wisdom of the course adopted. When the Admiralty proposed, in 1890, to draw up a scheme in connection with the annual survey of stores, the committee said that it looked to the Comptroller and Auditor General to report, after experience of its working, as to the adequacy of this scheme. His duty was to report on an accomplishment, not to assist the department in working out the scheme; for that the department was responsible. The committee was only concerned with the result. In such a case not only should the particulars and papers showing the result not be withheld, but the matter should be specifically brought before the Public Accounts Committee. The papers and discussions on which the scheme was founded might, however, be withheld, if necessary, as matters of administration—as was actually done in 1891 in connection with the scheme for the transfer of the provision of naval armaments from army to navy estimates. The committee on naval warlike stores made two reports embodying recommendations connected with the transfer, and the Public Accounts Committee was desirous of the reports being laid before it. The government, however, considered that, on administrative grounds, this course was open to objection and withheld the reports. But while precluded from examining the evidence on which certain changes were made, the Public Accounts Committee was fully justified in examining and criticising the resulting system.

And so, too, with all important changes which may directly or indirectly affect the accounts or the system of control. If a change necessitates statutory authority it is automatically brought to the notice of the members of the committee, as members of Parliament, and in such cases the only question to arise will be as to whether notice of the intention to make the change should have been given to the committee before the matter comes before Parliament, when it may be too late on grounds of expediency and convenience to withdraw. If an important change is carried out by administrative action alone, and it has not been previously discussed by the Public Accounts Committee or Parliament, the departmental order

5 R.
1890, 19

3 R.
1891, 15

1 R.
1907, 19
Cp. 2 R.
1906, 10

should be specifically brought to the notice of the committee. Since, however, the latter does not normally have any means of expressing its opinion on departmental orders before they are issued it must always be a matter for consideration whether in important cases it should be consulted before a final decision is come to, and secondly whether the mode of promulgation is such as to bring the matter readily under the cognisance of Parliament and the Public Accounts Committee. The decision must rest with the executive as to whether action should be taken in any specific case on its own responsibility or whether it prefers first to consult either the House or the Public Accounts Committee. In coming to such decision it would naturally be guided by precedent and the known wishes of the committee as to the points on which it wishes to be, and considers that it should be, consulted.

An exception to the general rule appears in the case of proved negligence, resulting in loss or extravagance. When such a case is brought to the notice of the committee the department is required to show that it has taken the necessary steps, by disciplinary action or otherwise, to prevent a recurrence. Such action may be, and generally is, purely a matter of administration. The question as to whether the amount involved is large or small is not of so much consequence to the committee as to know that there is some one to look after such cases, and whose duty it is to ascertain on whom the blame rests for the loss through maladministration. The point upon which it requires to be satisfied is as to whether some one is responsible or not, and as to whether the system in force is being adequately carried out. Thus, when an irregular practice in connection with the method of issuing stores was brought to its notice it 'trusts that the Admiralty will take care that their (the Admiralty's) instructions on this subject are obeyed in future.' Similarly, when a case of gross carelessness was reported, the committee expressed surprise that no disciplinary action appeared to have been taken before the matter was investigated by it many months after the occurrence. The committee, however, is in no sense the punitive authority. It is solely concerned with the question of seeing that the public will be safeguarded in the future. It therefore does not require to know the name of

R. 1913,
Ev. 2268

2 R.
1910, 19

R. 1913,
Ev. 2281

R. 1910,
Ev. 324-
6

4 R.
1889, 18

3 R.
1912, 21

a delinquent, but merely that the head of the department has inquired into the origin of the mistake and taken such steps as he considers advisable in the matter. What those steps are the committee is entitled to know, and may express an opinion as to their adequacy. Thus in 1911 the committee observed that 'the disciplinary action which was taken (in a case of error of accounting) seems to your committee to have been sufficient for the occasion.' On points of discipline, however, the committee would, unless the circumstances were very exceptional, hardly be disposed to question the decision of the department. Referring in 1907 to 'grave irregularities, which were very properly made the subject of severe disciplinary measures,' the committee remarks that on the latter it 'offers no criticism.' In the same year, however, when an officer was reprimanded by the War Office for a serious irregularity, which was in effect a falsification of accounts, but without fraudulent intent, the committee inquired why such an irregularity, which in civil employment would have been probably visited with dismissal, should in the military service be punished only by a reprimand. On the War Office stating that a reprimand is a very serious punishment the committee 'accepts the decision on the point of discipline,' but it further expresses the opinion that similar practices in future 'should be punished with the severest penalty.' Again, in reviewing the disciplinary action taken in a case of fraud on the revenue by the employees of a private firm, the committee felt 'compelled to say that from the point of view of a possible recurrence of similar frauds the penalties incurred in this instance, both by the actual perpetrators and by those whose special duty it was to have frustrated them, seem inadequate to the long series of offences disclosed. Although they do not suggest that the matter should be reopened, they feel bound to put on record their opinion that the recovery of the money lost did not meet the full requirements of the case, and that if the department was satisfied as to the absence of all complicity on the part of the firm, they should have insisted, in the public interest, on some measure of punishment being meted out to those who were guilty.' The Treasury emphatically endorsed this view. The committee may also express its opinion as to whether the

R. 1912
Ev. 348Cp. R.
1914, 54 R.
1903, 83 R.
1911, 3;Cp. R.
1911,
Ev. 2891 R.
1907, 52 R.
1907, 422 R.
1913, 13*Idem.*
T.M.

4 R.
1899, 15

departmental censure has fallen upon the right officials ; but evidence as to this may possibly only arise out of the investigations of the committee. If, when the committee has expressed an opinion, no action is taken, it has no power to compel any administrative action to be taken, and can only again call attention to the matter.

R. 1915,
Ev. 308

The impersonal attitude adopted by the Public Accounts Committee, as mentioned above, in the case of delinquents is also applied to the recipients of emoluments. On a question being asked as to the name of a recipient of extra remuneration the chairman observed that it was not usual to mention the name of an official. The committee is concerned with the system, not with the individual.

To summarise the accepted principles, so far as the Public Accounts Committee is concerned, a department is never justified in withholding information on matters of accounts or audit ; it may refuse information absolutely on a plea of high policy, or the need of secrecy, subject to the reservation that in the case of secrecy for commercial reasons disclosure must be made as soon as the need for secrecy has passed ; it may refuse information on matters of administration, subject to being over-ruled if the committee wishes to intervene. Though questions are bound to arise from time to time in which there may be some doubt as to either the justifiability or the advisability of the withholding of information the general principles are well understood, and disagreement in any particular case will probably be due to the difficulty of deciding whether the point involved is one of policy, administration, or accounting.

Examination of Treasury Action

The functions of the Public Accounts Committee which have been so far dealt with are, in the main, those whereby it examines the actual accounts before it with a view to recording its opinion, in the first place, of their correctness as accounts, and secondly, as to their 'wisdom, faithfulness, and economy.'

There remain to be mentioned two further functions. The

first of these is constitutionally important, though, under modern conditions, it is a function which does not require to be frequently exercised. It is the duty of the committee to examine the executive action of the Treasury as regards its compliance with the law. In former days, when the Treasury was uncontrolled, such a function would have been invaluable. The fact of its existence at present may exercise a controlling influence on the Treasury to a certain extent, but in far greater measure the necessity for the exercise of this power is obviated by the 'very proper feeling and high traditions of the Treasury.' The Treasury is not above the law, but its position as the central controlling power over finance may at times justify acts and decisions which are not only extra-statutory but even illegal, but which it may be inconvenient in the interests of the public service to defer until Parliament has been consulted. If an exceptional payment which it is desired to make would be admittedly irregular or illegal, it would be more desirable that it should be specially brought before Parliament in an estimate than approved by the Treasury under its extra-statutory powers. Illegal acts can only be justified on the grounds of urgency, and subject, as a natural corollary, to subsequent ratification by Parliament, whether in the form of a vote or merely the implied ratification which is given by the absence of objection on the part of Parliament when the facts are placed before it. The committee is in such cases concerned in seeing that Parliament is informed, and expressed a strong opinion on the failure of the Treasury in this respect in 1897. 'When the Treasury decided to countenance what was not only "extra-statutory" but actually against the law, and by executive act to dispense with a payment to the exchequer which they had no power to remit, they should have likewise communicated the facts of the case to the Comptroller and Auditor General, who could, if he thought necessary, have brought them under the notice of Parliament.' The views of the committee were expressed still more strongly in 1886, after a consideration of the action of the Treasury in various cases in granting pensions not in accordance with the law. The Treasury considered that public convenience, or the urgency of some particular case, justified a departure from the strict letter of the law. The

C.N.E.
Ev. 1017
Cp. 2 R.
1900, 18
R. 1913.
Ev. 388

C.N.E.
Ev. 1023

3 R.
1893, 52,
& T.M.

2 R.
1897, 17

committee, however, could not accept this view or allow that the Treasury had discretionary powers. 'It is Parliament, and not the Treasury, which ought to decide whether the circumstances of any particular case are such as to require exceptional treatment, and it appears to the committee that in straining the law for the purpose of meeting the exigencies of a particular case, the Treasury is usurping the functions of the legislature.' A certain latitude in this respect is now given to the Treasury in respect of the army and navy by the dispensing warrant and order in council.

In questions of financial principle rather than statute, the committee is prepared to concede to the Treasury a somewhat more free hand, in order to enable it to deal with cases of an exceptional character, but subject in each case to being able to justify its action. You may lay down a principle, but the main thing to be done is to treat individual cases as they arise. In order to secure equity and obviate hardship, therefore, it is but reasonable that some discretionary power should be vested in the department of central financial control.

Matters of Financial Order and Principle

Finally, the Public Accounts Committee possesses a most important function, the discussion of points of financial order and principle. The committee was designed in order to guarantee financial regularity; and financial regularity, as distinct from audit, can only be secured by a system of recognised principles. The detailed examination of questions involving principle and system has therefore been a leading and recognised feature in the work of this committee; and even though its considered opinion, resulting from such discussion, has no legally binding effect on either the Treasury, the Comptroller and Auditor General, or the departments, the natural tendency would be to accept it. The Comptroller and Auditor General has stated that he would not revert to anything upon which there had been a distinct decision given, except under peculiar circumstances, though, if he thought that such a decision had been given hastily without a full knowledge of the facts, he would, with all due respect, bring the matter before Parliament in his report. Similarly the Treasury agrees that the opinion

2 R.
1886, 46
Cp. 5 R.
1895, 12

Cp. 3 R.
1894, 62;
& 2 R.
1895, 35

R.C.
S.A. War,
Ev.
21750

A. Est.
Com.,
Ev. 1286

of the Public Accounts Committee on points of financial order ought on every occasion to receive the most respectful attention from the departments concerned. It regards an expression of opinion of such importance that, even if unconvinced, it would generally defer to the committee. Thus, in dealing with the question of the desirability of votes of credit, the Treasury stated that they would 'be glad to be guided by the opinion of the committee,' and again that they preferred 'to submit their own judgment to that of the Committee of Public Accounts, and to accept their strongly expressed opinion.'

If, however, the question appears to involve important considerations which the Public Accounts Committee may possibly not have realised, the Treasury would suspend its decision until it had had an opportunity of laying before the committee the reasons which led it to differ. Such an opportunity would arise in the treasury minute on the Public Accounts Committee's report, and the question would automatically come up for consideration at the meetings of the committee in the following session. If the latter then still adheres to its original opinion, the Treasury in ordinary cases yields, but if it thinks the point at issue is of sufficient importance it would endeavour to bring the question before Parliament in order to obtain a final decision. The policy of the Treasury in this respect was explained in a minute of 1882. 'When the Committee of Public Accounts repeat a recommendation, my Lords consider it their duty either to defer to the recommendation or, if they think that the question has not been sufficiently considered, to submit a carefully prepared argument against it for further and probably final decision of the committee.'

The attitude of the Public Accounts Committee towards the ignoring of its observations has, however, been clearly shown on more than one occasion. In 1871 the committee stated that 'having upon two occasions in past years made a recommendation, they think it right to observe that no official action seems hitherto to have been taken in reference thereto,' and again, in 1886, it expressed regret that a recommendation of the previous year's committee had not been complied with. Again, in 1911, the committee 'expressed dissatisfaction at finding that no progress had been made

Cp. R.
1915,
Ev. 968-
972
3 R.
1894, 28,
T.M.
2 R.
1879,
91-93,
T.M.

2 R.
1884,
51-53,
T.M.

R. 1882,
80, T.M.

6 R.
1871
Cp. R.
1882, 77
2 R.
1886, 70
3 R.
1911, 15

4 R. towards the settlement of an important matter ' as to which it
 1909, 17 had made a recommendation two years earlier. In view of the
 Cp. 2 R. present influence on a department of the Public Accounts
 1893, 8, 9; Committee's reports, it is extremely unlikely that any such
 & 2 R. notice would now pass unheeded.
 1895, 23

Many important constitutional and scientific principles have been discussed at length before the committee since its inception and have been agreed upon, some at once, others only after years of discussion. The settlement of these principles by the Public Accounts Committee, in conjunction with the Treasury, has enabled a sound and regular system of public accounting to be built up within the past half-century. Probably every principle of considerable importance likely to arise in connection with the existing system has now been settled ; but small questions of detail and scientific accounting will inevitably continue to arise from time to time, and to call for settlement. For the discussion of such questions this committee is peculiarly suited. It has greater opportunities and more leisure to take up such points, small perhaps in themselves, but important as matters of principle.

Such decisions, moreover, are accepted by the Comptroller and Auditor General, though an officer entirely independent of the Public Accounts Committee and the Treasury. ' The extent,' he has pointed out, ' to which the work of the Comptroller and Auditor General goes, has been really defined by the various decisions of the Public Accounts Committee, and to those decisions he, as in duty bound, would as an officer of Parliament submit.'

A. Est.
 Com.,
 Ev. 1143

General Review

The Public Accounts Committee has now become a permanent feature in our financial system. Comparatively early in its history, testimony to its value was given by Disraeli, who declared that it was of immense utility in bringing the entire revenue and expenditure of the country under the control of the House of Commons ; in pointing out abuses in the management of the public finances, and in suggesting remedies, and furthermore, in investigating and reporting to the House its opinion on disputed points of account between the Treasury

and any department or functionary entrusted with the collection or expenditure of public moneys. The results it has achieved have fully justified the foresight of those responsible for its original appointment. The opinion has even been expressed by a well-known authority that 'the control of Parliament, exercised through the Public Accounts Committee and that great officer of Parliament who is known as the Comptroller and Auditor General, is the only obstacle that now stands between the taxpayer and the most unbridled extravagances.' The development of its lines of action has followed the necessities of the times. In earlier years it was 'mainly concerned with questions of forms of account and classification, questions of salary and extra remuneration,' both as to treasury authority and information of Parliament, and other questions of treasury control. In later years the proceedings of the committee included inquiries into the merits of expenditure without criticising the policy which determines it, leading to the closer definition of rules governing the placing and regulation of contracts, the receipt and custody of stores, and the propriety of all departmental expenditure.'

Bowles,
Free
Trade
Speech,
5/7/07

C. &
A.G.,
Memo.

The general terms of reference have contributed in no small measure to the success of those results by enabling the committee to put its own interpretation upon them as its experience might suggest. It has thus been enabled to determine its functions in such a manner as to use its labours to the greatest advantage, while at the same time adapting them to the recognised functions of the departments in a way that might not have been possible had the terms of reference been more rigid. Striking testimony to the value of the work of the committee was borne in 1888 by the Assistant Comptroller and Auditor General, who said that it 'had almost made the law, so to speak, upon financial matters under the Exchequer and Audit Act.' The decisions of the Public Accounts Committee form, in fact, a kind of common law which is binding on all departments, in practice if not in theory. In this respect the history of this most important committee offers a further example of the manner in which so much of English constitutional procedure has been built up by precedent and experience, rather than by direct legislation. The elasticity of the terms of reference has been taken the utmost advantage

A. Est.
Com.,
Ev. 1093

R.C. Civ.
Estab.
2 R.
13353

C.N.E.,
Ev. 1017

of by the committee, and yet with such circumspection that at no time has it been accused of encroaching upon the prerogatives of others. 'With so wide an horizon, so considerable a freedom in action, and so great opportunities in its method of inquiry, its capacities for public use are great.' To the manner in which those capacities have been exercised, the success of the present financial system is largely due.

II. THE ESTIMATES COMMITTEE

Considerations leading to the Appointment

Important as were the results achieved by the Public Accounts Committee, they were primarily and directly concerned with the approved expenditure, and to seeing that the intentions of Parliament had been carried out in the proper manner. The question of whether the provision made by Parliament was or was not excessive was only touched upon indirectly. From the public and parliamentary point of view this is equally, if not more, important. When the estimates have been agreed to, the opportunities of effecting economies are comparatively small; but if the spending power of departments can be limited and reduced in advance, the saving to the public is definite and certain. The extent to which such savings can be effected depends upon the amount of antecedent control which can be exercised over the estimates before final approval.

The estimates are in their main features dependent upon policy for which the government is responsible, and are prepared in pursuance of that policy and put forward on the responsibility of the minister and the accounting department with the approval of the Treasury. Outside Parliament, therefore, there are three sources of control. In the first place, the cabinet is responsible for the main lines and extent generally; in the second place, the Treasury is responsible, on the one hand, for seeing that the estimates are in accordance with these lines, and, on the other hand, for the detailed review of the estimates from the point of view of economy; and finally, there is the departmental control, which, though not independent, is in many ways the more thorough, as it

is exercised with first-hand knowledge. But, on the other hand, it must be remembered that, as regards economy, the officials have not the same interest therein as the elected representatives of the taxpayers.

Direct parliamentary control could formerly only be exercised in Committee of Supply which, as has been previously explained, was superficial at the best, while, owing to the conditions of parliamentary procedure and practice, it was almost reduced to a formality. This lack of control by Parliament itself had long been recognised, but the difficulty of overcoming it had been extreme as compared with the adoption of measures for securing control over the actual expenditure, and over the exchequer issues. Parliament had endeavoured to ameliorate the position by appointing select committees on estimates at different times,¹ but recognised the comparatively small effect which they were able to achieve, and accordingly, in 1903, it appointed a select committee to inquire 'whether any plan can be advantageously adopted for enabling the House, by select committee or otherwise, more effectively to make an examination, not involving criticisms of policy, into the details of national expenditure.'

Parl.
Deb. 4 s.
ccx. 855

This committee, after pointing out the reasons why the examination of the estimates by the House of Commons itself leaves much to be desired from the point of view of financial scrutiny, and the advantages possessed by a select committee for this purpose, recommended as one of its suggested expedients the creation of an 'Estimates Committee,' to be appointed continuously in the same way and to possess the same powers as the Public Accounts Committee. It was further suggested, though these recommendations were not carried out, that 'in order to combine and unify the machinery of financial control and dovetail the Estimates Committee on to the Public Accounts Committee, a proportion of members be appointed to sit on both,' and that the Public Accounts Committee should each year select a class, portion, or branch of the estimates for examination by the Estimates Committee in the following year.

C.N.E.
Rep.
p. viii.

¹ E.g.—three select committees were appointed in 1888 to consider army, navy, and revenue departments estimates respectively, following a similar committee in the previous year on army and navy estimates.

Hans., 3 s.
cccxxiii.
1181 ;
cccxiv. 1713

Parl. No immediate result, however, followed, and it was not until
 Deb. 5 s. eight years later that the question was again raised seriously
 xxii. in the House, during the debate on the army estimates. This
 2116 was followed up by the presentation to the Prime Minister
 et seq. of an influential memorial signed by members on all sides
 Idem, of the House, mainly in consequence of which the govern-
 xxxvii. ment decided in 1912 to appoint experimentally a standing
 360 committee on the estimates.
 et seq.

Difficulties inherent in an Estimates Committee

The difficulties of the position and the necessary restrictions which must be placed on such a committee and which must inevitably limit its scope and possible sphere of usefulness were fully recognised by Parliament, and it is important that they should be realised in order that the status and functions of this committee may be appreciated.

The most obvious way for securing parliamentary control over the estimates is that a select committee should examine them in detail before they are presented, and while they are still in a stage where reductions can be made on non-party lines, without such proposals being considered as motions adverse to the government, as is the case when the estimates have been presented to the House as the policy of the government. Any procedure of this sort, however, strikes at the root of the fundamental principle of ministerial responsibility. 'There must be no committee,' said the Chancellor of the Exchequer, 'that will divest the executive of its responsibility. That is, there must be no committee which is to be a substitute for House of Commons responsibility; and there must be no committee that will accept responsibility for the policy it is examining.' The same point has been made by another recognised authority, who declared that the adoption of a proposal to submit the estimates to a committee for preliminary examination and approval before presentation to the House 'would diminish the proper responsibility of the executive for the public expenditure, and would interfere with the constitutional relations between the government and the House of Commons. The duty of the House of Commons is to decide whether the expenditure which the

Idem,
 xxxvii.
 367

Est. Pro.
 App. 2

various departments propose is absolutely needed for the efficiency of the public service, and to see that all money is wisely spent and that the nation gets the full equivalent for the outlay.' The latter duties are *post mortem*, and may safely be delegated to the Public Accounts Committee without the breach of any constitutional principle being involved. The former duty is pre-natal and must be exercised by the House of Commons itself.

By the English arrangement of examining the estimates, 'ministerial responsibility is increased, as the proposals which form the ensemble of the budget are altogether the work of the cabinet, whose liability is undivided. The committees of continental countries, though they appear to secure fuller deliberation, are really a screen for the original preparers of the financial proposals, and divide that liability which should be definitely fastened on the administration.' No proposals subversive of this important fundamental principle of the constitution could be safely embodied in any scheme for securing closer parliamentary control, and it was for this reason that Gladstone did not proceed in the matter when considering the possibilities of referring the estimates to a committee, to be gone into as a matter of business. On a later occasion again he made it clear that when ministers assume the responsibility of stating that certain expenditure is necessary for the support of the civil government, and maintenance of the public credit at home and abroad, it is evident that none can effectually challenge the proposed expenditure to any material extent, unless they are prepared to take the responsibility of overthrowing the ministry. No government could be worthy of its place if it permitted its estimates to be seriously resisted by the opposition; and important changes therein can only be made in circumstances which permit of the raising of the question of a change of government.

The chief danger to be apprehended in appointing a committee to examine the estimates was, therefore, the possibility of interfering with ministerial responsibility; for anything like a revision of the estimates by a committee on behalf of the House of Commons would inevitably afford a department grounds for urging that the House had implicitly accepted a

Bast-
able,
Pub.Fin.,
VI. iii. § 2

C.N.E.
Ev. 2514
Hans.,
3 s.
cxc.
1747

portion at least of that responsibility which should belong to the department itself. Such a weakening of ministerial responsibility would result in a department putting forward increased and possibly unjustifiable and less carefully revised estimates, with the knowledge that it might subsequently disclaim responsibility, while benefiting therefrom. The more the responsibility of the department is weakened, the more extravagant it is likely to be. Nor, if any failure in administration ensued, should it be possible for a department to urge that, as a select committee had revised the estimate, it was not responsible for the consequences. Any action taken to control the estimates which would result in a weakening of the sense of departmental responsibility, would have the opposite effect to that desired. A revision of the estimates by a body not responsible for the expenditure might imply the sharing of responsibility by that body. The responsibility for any subsequent surpluses or deficits, or other untoward circumstances, might therefore be placed to the charge of that body. At the same time such a step would result in delay in coming to a decision; while further, whereas now the departments accept treasury criticism, on the whole, in regard to the estimates, the treasury power would be greatly diminished if the departments had a court of appeal in the shape of a parliamentary committee.

C.N.E.
Ev. 1725

Idem,
Ev. 1010

Idem,
Ev. 518,
1010,
1035,
1297

Cp. Est.
Pro. Ev.
424-6

This danger is obviated if the estimates are first presented to Parliament and then referred to the Estimates Committee for consideration, with a view to reporting after the vote has been taken. Such procedure, while not affecting the expenditure which will take place under the estimates under consideration, would in theory have a material effect on the next estimates to be presented and thus advance parliamentary control by two years, as compared with any effect which the Public Accounts Committee's discussion on a completed account may have on subsequent estimates. Criticism of the estimates on these lines, therefore, has the effect of increasing parliamentary control, without in any way diminishing ministerial responsibility or the care of the department itself; nor would the position of the Treasury be affected at all. Moreover, this method of procedure obviates any risk of party feeling on the Estimates Committee. If the estimates were being examined with a view to being reported on before the votes were passed,

C.N.E.
Ev. 1386
-8

Idem,
Ev. 2185

the members of the committee on the side of the government might feel it their duty to get them passed in the form in which they had been presented, whereas in an examination after presentation to Parliament no such tendency would arise, provided the votes were not delayed until the report had been received. Again, too, if there were any question of a revision of the estimates by such a committee, it might necessitate their defence by the responsible minister before the committee, before he had defended them in the House, or such an occasion might be seized upon for having demands already refused by the Treasury, reviewed by the committee. The minister is and must be responsible to the House, and not to a committee.

C.N.E.
Ev. 2231
-2240

The limitations of the functions of a committee on estimates as regards policy are similar to those of the Public Accounts Committee. It is excluded from any consideration of government or departmental policy, as usually understood. This position was made clear by a statement made by the chairman of the Estimates Committee to the Financial Secretary of the War Office in 1914: "We in no way interfere with the policy of the War Office, but we do endeavour to see that, it having been determined that you should do certain things, you should do those things at as low a cost as possible, of course compatible with efficiency." The committee's report of 1913 was equally definite. 'As expenditure under vote 1 (navy) is entirely governed by considerations of general policy, the committee offer no remarks upon it.' That is to say, with the policy of what is to be done the committee is in no way concerned, but the minor policy of how it should be done, or in other words, the methods of administration adopted or proposed, may rightly be investigated by the committee within limits. In this respect the power of the Estimates Committee to intervene in administration is somewhat wider than that of the Public Accounts Committee, but it is only in administration or minor policy that such intervention can take place. 'There is a distinction between the broad lines of general policy and expenditure on the one hand, and the mere details of expenditure on the other. As to the former, the House of Commons is peculiarly competent to discuss them, and they are eminently suitable for discussion there. On the mere details of expenditure and of policy, the House is at a loss. It has not

R.E.C.
1914.
Ev. 1

Idem,
1913, 8

Parl.
Deb.
5 s. xxii.
2129.

Parl.
Deb.,
5 s. xxii.
2145

C.N.E.,
Ev. 1534

got the technical knowledge to enable it to form a correct judgment on those details. To bridge over the gap, the House has allowed to grow up in the past the principle of ministerial responsibility. The House decides the broad general lines of policy, and delegates the carrying out of that policy to a minister selected for the purpose.' The control of the former must be retained by the House itself. It cannot be delegated to any select committee. But 'it is only in considering the great basic principles of policy that any possibility of large economies will be found to exist,' and since no committee can be concerned with these, it cannot be expected that any large economies will result from the appointment of a committee of this nature. Such economies can only emanate from the direct action of the House itself. As regards the army and navy it may be regarded as an absolute fact that the estimates are governed above all things by the number of men and ships to be provided, and this is entirely a question of policy. So long as the government possesses the confidence of the House, no economy can be effected on the estimates on a large scale otherwise than by a change of policy. The closer control of the latter, that is to say, the carrying out of the policy, is the only object that can be aimed at by a committee, consistently with the preservation of the principle of ministerial responsibility. The opportunities for effecting economies in this direction may be numerous, but will never compare in magnitude with those which can be effected by modifying policy. At the outset, therefore, a committee on estimates is faced with serious restrictions as to the extent of the economies which are likely to be within its power to effect.

Appointment of the Committee

The continuously and rapidly increasing size of the estimates, coupled with the growing sense of helplessness of the House to control them, compelled the adoption of some measure to meet the difficulty, if only partially, and it was fully recognised that the proposed remedy was only partial, though it was hoped that if a beginning were made, experience might suggest further developments and a wider scope of usefulness as time went on.

The Standing Committee on Estimates was accordingly set up in 1912, and, though it was an experiment and its limitations were known, great hopes were entertained as to the results it was expected to achieve—such expectations being doubtless based on the success which had attended the labours of the Public Accounts Committee. The order of reference was 'That a select committee be appointed to examine such of the estimates presented to this House as may seem fit to the committee, and to report what, if any, economies consistent with the policy implied in those estimates should be effected therein.' The terms of reference were amended in the succeeding years by the omission of the last nineteen words.

Since the estimates are referred to it only after having been presented to the House, and its report is not made until July, when most if not all have been voted, the effect of its work cannot be immediate, and can only be seen in the estimates of succeeding years.

Causes of Small Results

It must be acknowledged, however, that the results, as far as can be at present seen, have been insignificant and have not realised the high expectations formed. This is probably due to two main causes.

In the first place, the nature of the work was new to the committee, which had to devise the best way to approach it, and to consider and draw up the lines on which it could most profitably work, in order to achieve the best results. It had few precedents to guide it.

In the second place, it was placed at a great disadvantage, as compared with the Public Accounts Committee, in not having the assistance of a skilled parliamentary officer—such as the Comptroller and Auditor General—to guide it in dealing with a mass of complicated figures such as are presented in the estimates, or to point out the direction in which its investigation might be most usefully directed. This very drawback was foretold by the chairman of the Public Accounts Committee on the motion to set up the Estimates Committee. 'If this Estimates Committee,' he said, 'is to do anything at all it must have a similar officer (to the Comptroller and

167, C.J.
109

Parl.
Deb., 5 s.
xxxvii.
421

Auditor General) of its own—an officer of the House, not an officer of the government—with a staff. I would not envy the task of fourteen members of this House, if they had the estimates thrown before them, not knowing where to look, not knowing which were really important things, and very likely groping in the dark for half a day before they found something important, simply because they had no trained adviser to guide them in their work.' It is obvious that in dealing with such complicated and technical matters as the estimates provide, a committee of members of the House of Commons must be, to a great extent, dependent on the expert opinion of those who are familiar with the details—namely, the officials of the Treasury and the accounting departments. In the case of the audited expenditure, the Public Accounts Committee is assisted by the expert advice of an independent critic in the Comptroller and Auditor General, but the Estimates Committee has no such independent criticism at its disposal. The Treasury, as the central financial authority, is in one sense an independent critic, and its aim is the aim of the committee. It would naturally assist the committee to the best of its ability, and welcome any recommendations tending to economy. It must, however, be remembered that the estimates, before being presented to Parliament, have all been approved of by the Treasury, and that such economies as have appeared to be practicable may be assumed to have been effected before such approval was given. In this sense, therefore, the Treasury, as the original approving authority of the estimates, is hardly in a more independent position than the accounting department which prepared them. If, however, a consecutive and detailed examination of the estimates could be made with such knowledge, or under such guidance as would enable an effective report to be made, such report would be of great value to the Treasury when the next estimates came forward.

C.N.E.,
Ev. 1865

Practically any amount of expert evidence can be obtained by a department for or against any proposition which it may wish to make or oppose. Experts always disagree; and a lay committee, unassisted by an independent adviser, would find it difficult in many cases to assess the merits of a scheme, or to discover weak points on the evidence and advice only

of those whose function it has already been to discover such points. One of the functions of the Estimates Committee is to endeavour to see whether, in carrying out matters of policy, it might not be possible to adopt more economic methods; but this is also precisely the function of the Treasury.

C.N.E.
Ev. 1898
-1900

On the other hand, there would be serious difficulty in appointing an officer to hold a position towards the Estimates Committee which could in any way be analogous to that of the Comptroller and Auditor General in relation to the Public Accounts Committee. The Comptroller and Auditor General himself informed the committee that he was of opinion that he could not act for it in the absence of further legislation, and that even if such provision were made, he doubted whether he could be of material assistance. Even, however, if he or another officer were appointed by Parliament, and whether at the head of another branch of the Comptroller and Auditor General's department, or of a separate department, he could but have functions of limited scope. As an officer from outside, coming in to criticise the various provisions made by the departments, he would be more in the position of a comptroller without the necessary responsibility which should attach to such an office. The Comptroller and Auditor General draws attention only to facts, where no policy is involved. It would be extremely difficult for such an official to criticise proposals without dealing with the policy.

R.E.C.
1912,
Ev. 155-
164

C.N.E.
Ev. 2275
-8

Lines of Action Adopted

In conclusion, the lines on which the committee worked during its brief career, up to the outbreak of war, may be referred to. In 1912 it dealt with civil service votes, in 1913 with navy votes, and in 1914 with army votes.

The points to which the committee mainly directed its attention were, firstly, as to the mode of preparation of the estimates and the extent of control exercised over their preparation in the department and by the Treasury; secondly, to a comparison of estimates for the same or analogous services over a series of years, and to ascertain the causes of increase; thirdly, to the structure and arrangement of portions of the

estimates; and, fourthly, to matters of internal policy and administration.

Two reports only were issued, as in 1914 the committee had not completed its labours and merely submitted to Parliament the evidence taken. Of the first report, the Treasury observes that a considerable portion of it is descriptive in character and calls for no remarks. This was no doubt inevitable, owing to the facts mentioned previously, that the committee was unfamiliar with the subject and had no expert adviser to guide it. The only definite proposal it made was one which neither the Treasury nor the departments considered practicable. 'My Lords are anxious to take all practicable steps to carry out recommendations of a select committee of the House of Commons. But it is clearly impossible for them to press proposals which they themselves think undesirable against the unanimous opinion of the responsible departments concerned.'

R.E.C.
1912,
T.M.

Idem

The investigations of the committee in many respects were directed to points which are also taken up by the Public Accounts Committee, and it is perhaps inevitable that there should be a certain amount of overlapping, for many subjects affect both committees, though nominally from different points of view—namely, the proposed expenditure and actual results respectively; yet the examination into them must proceed on much the same lines, and the same evidence will be required for each. To illustrate this, a few subjects may be referred to where such overlapping has occurred.

Idem
1912,
2 & 6
1 R.
1907, 10
4 R.
1909, 1

The Estimates Committee in 1912 examined the system of making contracts and the policy of limited competition; but the Public Accounts Committee has on many occasions gone into this very question, which equally affects the amount required to be taken in the estimates and the question of whether the amount spent is the least that could have been spent consistently with efficiency.

R.E.C.
1912, 8

Again, the Estimates Committee dealt with the question of taking amounts in the estimates for works based on conjectural figures, and thus increasing the size of the estimates—as the result may prove—unnecessarily. But the same point necessarily comes before the Public Accounts Committee if a surplus appears on the account, and the latter committee is

therefore equally concerned to ascertain the policy and methods of the department in preparing the estimates which has resulted in causing a surplus. The treasury minute on the Estimates Committee report, giving effect to the recommendation, merely repeats an instruction which has been given on more than one occasion, when the same point was raised by the Public Accounts Committee, to the effect that a note should be made that the estimate is provisional or not yet settled.

R.E.C.
1912, 8
T.M.

If the Estimates Committee, in a comparison of the same vote or sub-head over a series of years, finds that it has repeatedly had a surplus, it is obviously concerned with the reason, as a *prima facie* case is made out for a reduction. So also is the Public Accounts Committee concerned with this question, and has made the same observation as the Estimates Committee to the effect that such occurrences suggest that deliberate overestimates may be made with a view to supplying funds for deficits on other votes or sub-heads.

Idem,
1912, 6
& Ev.
1045-50.

In one direction the Estimates Committee has shown a tendency to go further than the Public Accounts Committee. It has queried the justifiability of rates of pay given for the work done and the size of staff allowed for particular work, thus trenching more closely upon administrative questions than the Public Accounts Committee usually does. A rate of pay as approved by the Treasury and embodied in a royal warrant has always been accepted by the Comptroller and Auditor General as conclusive, and therefore in this direction the Estimates Committee is on ground which has not hitherto been directly touched by the Public Accounts Committee. The proportion of cost of staff to works, however, is a question which the Public Accounts Committee has dealt with, and in expressing a hope that it might be possible to reduce a charge in future it is making a suggestion as to future estimates, which is only distinguishable from a similar suggestion which might be made by the Estimates Committee in being made at a later period. The extent to which its activities could be extended in this direction cannot, however, be wide, for such questions are matters of administration which are properly left to the decision of the department and the Treasury. As with appointment and dismissal, so with remuneration: it should be left to the government to determine the amount of

Idem,
1913, 12
& 24

1 R.
1906, 10
Cp. 1 R.
1907, 6
2 R.
1908, 14

Todd,
Parl.
Gov.,
i. 174

2 R.
1913, 48

pay to be allotted to all public servants.' So, too, in the case of a redundant staff, the function of the Comptroller and Auditor General is to see that the staff is authorised. With the development of the discretionary audit, however, it is probable that even such a point as this might now be brought before the Public Accounts Committee, and the possibility of it is clearly suggested by the query raised in 1913 by the Comptroller and Auditor General as to whether certain boats and crews at a dockyard were fully employed.

The question of the arrangement and structure of the estimates and the advisability of dividing up sub-heads or giving more detailed information of them, are points considered by the Estimates Committee, which have received the frequent attention of the Public Accounts Committee, and necessarily so; nor has any suggestion been made that the question of proposed changes in the form of the estimates should be referred by the House of Commons to the Estimates Committee for consideration rather than, as at present, to the Public Accounts Committee.

General Review

Though it is, perhaps, premature to express a final opinion as to the effect which the work of the committee might eventually achieve—as the committee only completed its work in 1912 and 1913, its sittings in 1914 being suspended on the outbreak of war—yet from a general review of its work it is difficult to arrive at any other conclusion than that, in the main, it covers but little ground that is not already covered by the Public Accounts Committee, especially in view of the tendency of the latter to increase its range of inquiries still more into the sphere of departmental policy and administration. Though the Estimates Committee may be justified in intervening more in this last respect—that is to say, in the internal affairs of a department—than the Public Accounts Committee, yet the danger of undermining departmental responsibility, by too much interference, cannot be lost sight of. If, therefore, on the one hand the sphere, beyond which the Estimates Committee cannot safely go, be eliminated, and on the other the ground already covered by the Public Accounts Committee

were also to be removed from the purview of the Estimates Committee, the intervening sphere is so reduced as to be comparatively insignificant ; while, further, it is to be remembered that that sphere is specially covered by the Treasury as the central financial authority. Excluding policy, there is probably not a large field between extravagant expenditure on the one hand and economical expenditure on the other ; and, moreover, the expenditure in which no policy is involved is the very expenditure which is most carefully administered and over which the Treasury has most direct control.

C.N.E.
Ev. 2085

Although, then, the Estimates Committee in theory secures parliamentary control over the estimates—so far as it can be secured by any body other than the House itself—the apparent advantages and the possible results of its work are reduced to a minimum, because of the proportion of similar ground covered by the Public Accounts Committee and by the Treasury. It is interesting in this connection to compare the proceedings of the Estimates Committees of 1887 and 1888 with those of the Public Accounts Committees of that period, in order to see the extent to which there occurred then overlapping of the same class of evidence. Even in the case of the advantage which is nominally secured by the examination of the Estimates Committee of a particular year's estimates, two years before the Public Accounts Committee examine the expenditure of the money provided on those estimates, the benefits are more apparent than real ; for the expenditure of any department is, as a rule, of the same type from year to year, and the review by each committee must be mainly a review of the application of continuing principles. It would therefore be only in the case of new classes of expenditure that the examination in this respect by the Estimates Committee would be actually in advance of that of the Public Accounts Committee, and the probable results to be achieved in such cases would be proportionately small, as it is these very items which would have been most recently approved and therefore scrutinised by the Treasury.

C.N.E.,
Ev. 456

As the Estimates Committee was constituted, as regards its functions and powers, during its existence as a standing committee, it is doubtful whether the results which it would be able to attain and which would not be otherwise attained,

Est. Pro.,
Ev. 722

would ever be of sufficient importance to justify its revival in future on quite the same lines. As against this deduction which is necessarily based on inconclusive evidence, it is to be remembered that it has been placed on record that the results of the Select Committee on Army Estimates of 1888 were far from insignificant. 'Some very remarkable evidence was given, and in connection with that committee some very great changes have been made both in an economical direction and in simplifying the way of presenting the expenditure to Parliament.' Nearly thirty years have elapsed since then—years of progress and settlement. The development of the Public Accounts Committee had not reached its present pitch. The unwritten financial code, and the judge-made law of the Public Accounts Committee, were only in the process of being formed. Control over the departments was tightening, but there was still ample room for improvement. It may be, therefore, that the committee referred to secured its results mainly because there were at that period still many grounds for criticism which would no longer exist under the more fully developed system of to-day; and because it was able to take up questions which the Public Accounts Committee had not then had the time to touch upon. It would be unsafe to argue that, because an Estimates Committee of thirty years ago achieved important results, a similar committee of to-day could expect to be equally successful.

The subject has been dealt with in some detail because of the great importance attached by the House of Commons to finding a method of securing closer control over the estimates. The most serious and apparently insurmountable bar against finding a satisfactory solution of the difficulty is, and must be, the danger of interference with ministerial responsibility, and the impossibility of touching upon policy. Whether the House of Commons will be able to solve the problem in a manner satisfactory to itself or whether it must rest content with the control exercised by the Public Accounts Committee, the Treasury, and the departments, is a question which the future alone can decide.

CHAPTER III

THE COMPTROLLER AND AUDITOR GENERAL

- I. STATUS AND RELATIONS WITH THE TREASURY: General Position—Status as Auditor General—Status as Comptroller of the Exchequer.
- II. OBLIGATORY AUDIT: General Remarks—Accountancy Audit—Appropriation Audit—Administrative Audit or Audit of Authority.
- III. DISCRETIONARY REVIEW: Powers and Limitations Generally—Intervention in Matters of Administration—Interpretation of Royal Warrants and Orders in Council—Reports on Irregularities—Cash Balances.
- IV. THE AUDIT OF GRANTS IN AID AND MISCELLANEOUS ACCOUNTS: Grants in Aid—Miscellaneous Accounts.
- V. STORE, EXPENSE, AND MANUFACTURING ACCOUNTS.
- VI. THE POWER TO DEMAND INFORMATION: General Principles Involved—The Rights of the Accounting Department—The Comptroller and Auditor General's Point of View—Cases Illustrating the System—Special Considerations Involved.
- VII. THE PRESENT EXTRA-STATUTORY FUNCTIONS OF THE COMPTROLLER AND AUDITOR GENERAL.

I. STATUS AND RELATIONS WITH THE TREASURY

General Position

THE success of the Exchequer and Audit Act of 1866 is perhaps not due so much to the improved machinery of audit, which it provides, as to the manner in which it ensures that the results of that audit are utilised. The act requires the Comptroller and Auditor General to report both on the account of issues from the consolidated fund with reference to the acts of Parliament which have authorised the grants, and also on all appropriation accounts, such reports being laid before the House of Commons. The subsequent action is in the hands of the House, which, as has been already seen, fully appreciates its responsibilities and provides in the Public Accounts Committee a most effective machine for the consideration of the reports. The value of the reports, and

E. & A.
Act, §§
21, 22,
27, 32

the consequent usefulness of the discussion on them, depend, firstly, on the manner in which the Comptroller and Auditor General discharges the duties specifically laid upon him by the act ; secondly, in a considerable measure, on the interpretation placed by him upon the intentions of Parliament as implied by the act ; and thirdly, on the attitude taken up by Parliament, or by the Public Accounts Committee, on its behalf, towards his reports, 'Even if the conditions of a proper audit are established, it requires the existence of a sound constitutional sentiment in the legislature to make them effective.'

Bast-
able,
Pub.
Fin.,
VI.iii. § 7

R.C. Civ.
Estab.,
2 R. Ev.
13956

Cp. also
R. 1865,
App. 1,
para. 50

2 R.
1916, 78

Anson,
Con., ii.
II. 158
Cp. R.C.
Civ.
Estab.,
1 R. Ev.
5867

The fact that this important and far-reaching act of Parliament has remained practically without amendment for fifty years is evidence of the care and foresight with which it was originally drafted by Mr. Childers.¹ In 1888 the Comptroller and Auditor General bore testimony to the fact that, as framed, and as judicially interpreted by the Public Accounts Committee in its decisions, which form almost a code of financial procedure, it was quite sufficient to enable his work to be done to the satisfaction of Parliament. Many changes and developments have occurred since then, however—as is only to be expected in a progressive state—and however useful and workable the act may be still, it is possible that useful amendments might be made. 'It is well worth the consideration of the House,' the Public Accounts Committee declared last year, 'whether, in quieter times, a special committee should not be appointed to inquire whether improvements in the act could be suggested in the light of past years.'

The Comptroller and Auditor General is, in his capacity as Comptroller of the Exchequer, a ministerial official—he ministers to the needs of the Treasury. In his capacity as Auditor General he is solely a critical and quasi-judicial official. He reports to Parliament the outcome of his investigations and the errors he has discovered, but has no administrative or executive power whatever outside the department of which he is the head.² 'The Exchequer does not exercise any authority

¹ Sect. 16 was repealed by 38 & 39 Vict. c. 45, § 6, and Sect. 17 by 52 & 53 Vict. c. 53, § 2.

² Prior to 1866, the Audit Office possessed certain executive functions—such as the taking of legal proceedings against accountants for the recovery of outstanding balances, or unadjusted disallowances ; but the acts conferring such powers were repealed by the Exchequer and Audit Act, § 46.

over the administrative departments further than to guard against the illegal application of the public money. The constitutional functions of its officers are to provide for the proper keeping and proper appropriation of the public money.' The duty of making the work effective devolves upon Parliament, directly or indirectly. The beneficial results of the Exchequer and Audit Act are due to the fact that the spirit, as well as the letter of it, has been appreciated by all those who have been concerned in its administration. In a general review of the working of the act, after it had been in force for thirty years, the Public Accounts Committee laid stress upon this point of view: 'For the Exchequer and Audit Act,' it says, 'the public are indebted to the late Mr. Childers and to Sir William Anderson; but the credit for carrying the act into complete operation, and of extending its application in many directions, belong to those who have come after them.' Some consideration of the status of the Comptroller and Auditor General is therefore necessary with a view to showing what his powers actually are. These are partly statutory and partly derived from usage backed by the support of the Public Accounts Committee. His limitations, apart from those natural to auditorial functions, are determined by the general interests of the public service.

H.C.
313/1831
quoted
in C.P.M.
1856,
p. 569

3 R.
1896, 16

The Comptroller and Auditor General, although not an officer of the House of Commons in name, is in intention one of the most important officers acting on behalf of it. He is not an officer of the government of the day. Appointed by the Crown, he holds his office during good behaviour. He can only be removed by the sovereign on an address from both Houses of Parliament; but he is responsible to the House of Commons alone, on which he is dependent not only for guidance as to what duties he should perform, but for the means of performing those duties with effect. Consequently, he is independent of all departments, including the Treasury. His salary, moreover, is a charge on the consolidated fund, and is thus not dependent on an annual grant. His position is, in fact, as nearly as possible analogous to that of one of his Majesty's judges, and his office is intended to bear somewhat of a judicial character. This important underlying principle of the position was originally asserted in 1806 by Lord H.

C.N.E.
Ev. 1016

Idem,
Ev. 813-
4

C.P.M.
1857,
App. 3,
p. 590

R. 1865,
App. I,
para. 78

Petty, to the effect that the audit board should be composed of officers of independent authority, holding during good behaviour, acting judicially, and placed beyond the political and party influences of the day. No such position of independence existed, however, prior to 1866. The audit office up to that date was regarded essentially as one of the departments of the government, and the business of controlling its strength, resources, and organisation, of determining generally what accounts should be sent to it for audit, and of revising such accounts after audit, rested exclusively with the Treasury. The office neither had, nor was intended to have, any independent power of reporting on the public expenditure to any other authority than the Treasury. Such a position would be incompatible with the functions of the Comptroller and Auditor General, as the office is now constituted; for he acts not on behalf of the Treasury, as the former audit office did, as a check upon the transactions of treasury accountants, but on behalf of the House of Commons, as a check upon the pecuniary transactions of the Treasury itself, of the public departments, and of the executive government generally. When the nature of such duties, which require impartiality and fearlessness, is considered, this feature—the independence of his position—is of the highest importance. He is able to draw attention to irregularities in the accounts, and thus possibly bring discredit on the executive without any danger of his position being jeopardised or his future power restricted. It has been argued that, as his appointment is actually made on behalf of the Crown by the First Lord of the Treasury—who is normally the head of the very government which will most resent and chafe under a jealous questioning of the acts of expenditure—he will therefore feel that he is not altogether a free agent; while, the officers of his department being appointed by the Treasury, it is further contended that they must necessarily be under treasury influence, and would hesitate to criticise treasury action. The Public Accounts Committee has also expressed the opinion that he would have a higher and more independent position in the eye of the several departments of the state, if his reports were presented by him directly to the House and not through the medium of the Treasury. For the same reasons it has been urged that there were objections

C.N.E.,
Ev. 1013
-5

1 R.
1870, 26

Idem

to the account of the vote for the Exchequer and Audit Department being presented by the Treasury.¹ Such objections are plausible in theory, and might have been advanced in all seriousness in former days when the personal influence of the Crown was unduly exercised and the Treasury was free and uncontrolled. They can have no weight under the present high conceptions of political duty held by ministers and of the high standard of the modern Treasury. The office of Comptroller and Auditor General has never been considered a reward for political services, nor is it conceivable that it would ever become one in view of the important duties which that official is required to perform: not for the government which appoints him, nor for the party in power, but for the House of Commons. Any attempt to lower his status and reduce his usefulness by making the appointment on political grounds would be vigorously resisted by that House. Gladstone, indeed, when about to create the first Comptroller and Auditor General, considered the post to be of such importance and independence that he offered it to a man of the great political position of Cobden.

C.N.E.,
Ev. 1234

Idem,
App. 13

Status as Auditor General

The question of audit and examination has now become almost an exact science, and, the objects of the Treasury and the Comptroller and Auditor General being identical, there is practically never any friction. Points of disagreement will necessarily arise, and may have to be decided by the Public Accounts Committee on behalf of the House of Commons, but the object of the Treasury in such cases is never to secure a departmental victory in order to diminish parliamentary control, or to press a view which is opposed to the interests of the public service. Since the passing of the Exchequer and Audit Act no instance has ever occurred of the government or the Treasury attempting to hamper the Comptroller and Auditor General, or to restrict his operations. Such objections as have from time to time been raised to his work

C.N.E.,
Ev. 1344
-8

¹ In the audit of and report on the appropriation account of the Exchequer and Audit Department, the auditor of the civil list is associated with the Comptroller and Auditor General, thus obviating the technical objection to an officer auditing his own accounts. ^{4 R. 1889, 35, T.M.}

have been those of the departments, when of opinion that he was trenching upon matters for which they alone were responsible. Both the Treasury and the Public Accounts Committee look upon the Comptroller and Auditor General as their greatest support. The closer and more extensive his inquiries, within his proper limits, the better they are pleased, for their control and investigation is proportionately assisted. While, however, the Comptroller and Auditor General is virtually and in principle independent of the Treasury, this independence differs somewhat from his independence of the War Office and Admiralty, which is absolute. The Exchequer and Audit Act prescribes a limited subordination to the Treasury in certain cases. He has no power of disallowance, other than with the concurrence of the department concerned, without reference to the Treasury. If any objection to any item arises in the Comptroller and Auditor General's examination, and is not answered by the department concerned to his satisfaction, it is to be referred by him to the Treasury, and the Treasury determines in what manner the item in question shall be entered in the appropriation account. Such action on the part of the Treasury in its capacity as the department responsible for financial regularity, tends rather to support the Comptroller and Auditor General against the department concerned than as a check on that official. It would still, however, be within his discretion to refer to the matter in his report, in which case the question might be reopened by the Public Accounts Committee.

C.N.E.,
Ev. 1131

E. & A.
Act, § 31

It is to be observed that this power of the Treasury only extends to giving a decision on a matter in dispute referred to it. The Treasury has no power to make or increase a disallowance against the will of the Comptroller and Auditor General; nor is a disallowance made by him effective until endorsed by the Public Accounts Committee. He merely recommends for disallowance. While, then, it is certainly true that the Comptroller and Auditor General cannot enforce a disallowance in the accounts without the concurrence of the Treasury, and would usually not make one without having ascertained the views of that department, yet his powers are not, in practice, diminished by this form of dependence on the Treasury; for the latter would act with the full knowledge that its action might subsequently have to be justified to the Public

Accounts Committee. Except in such cases in which a decision is reserved to the Treasury by statute or otherwise, it has no control of any kind or influence over any decisions which the Comptroller and Auditor General may come to. C.N.E.
Ev. 765-
9

In accounts other than appropriation accounts, the accountant has a definite right of appeal to the Treasury against a disallowance made by the Comptroller and Auditor General, and the Treasury has the power to relieve him of the disallowance wholly or partly. Such a decision must be accepted by the Comptroller and Auditor General as final. With comparatively few exceptions such accounts do not concern Parliament, nor do they come before the Public Accounts Committee; and the fact that the Comptroller and Auditor General is, to this extent, dependent on a treasury decision in dealing with them in no way affects his independence of the Treasury, so far as the accounts of parliamentary grants are concerned. E. & A.
Act,
§ 43

In the case of certain duties which the Exchequer and Audit Act requires the Comptroller and Auditor General to perform at the discretion of, or under the direction of, the Treasury, the relationship can scarcely be described as one of dependence in any sense of restriction. Certain classes of expenditure cannot be incurred by a department without treasury approval, and the Treasury may require the Comptroller and Auditor General to ascertain whether such expenditure is supported by the necessary authority and to report to it cases in which that authority has not been obtained. 'If the Treasury shall not thereupon see fit to sanction such unauthorised expenditure, it shall be regarded as being not properly chargeable to a parliamentary grant,' and must be reported as such by the Comptroller and Auditor General. It will be obvious that the exercise of this power, so far from restricting the Comptroller and Auditor General's examination, requires it to be still closer; while there can rarely be disagreement between the Treasury and the Comptroller and Auditor General as to the merits of a disallowance in such a case, for when treasury authority is necessary, and is not obtained, the Comptroller and Auditor General could not certify the expenditure to be correct. On the other hand, if treasury approval is given and the account thereby becomes technically correct, and must be accepted as such by the Comptroller and *Idem.*
§ 27

Auditor General, he will still be enabled to bring the question before the Public Accounts Committee, if he considers it desirable to do so. The occasion for this would, however, only arise if the approval of the Treasury were given under its extra-statutory powers and it were considered that the effect of it was to contravene existing statutes. The Comptroller and Auditor General would never be disposed to criticise the exercise by the Treasury of its statutory powers, nor probably could he correctly do so. The necessity for having to justify its action to the Public Accounts Committee would therefore have a restraining effect on the Treasury, even when exercising its legitimate, but extra-statutory, functions as the approving authority; and it would hesitate to insist on the retention, as one of its own items, of an expenditure which the Comptroller and Auditor General disagreed with, unless it was satisfied that he was exceeding his recognised duties. Thus, though in a sense the objects of the Treasury as the approving authority, and the Comptroller and Auditor General as the auditor, may be antagonistic, in practice there is little likelihood of friction, and if there were the Comptroller and Auditor General—so far from being dependent on the Treasury—would, either through the potential or actual support of the Public Accounts Committee, overcome treasury resistance.

Again, in the examination of appropriation accounts, although, in the case of services placed in Schedule B of the Exchequer and Audit Act, the Comptroller and Auditor General is expressly authorised to accept the departmental examination within certain limits, he may be required by the Treasury, when it so desires, to scrutinise vouchers in greater detail. But he has full powers to examine all vouchers in the fullest detail if he thinks it necessary. This clause in the act, therefore, merely requires him to exercise that power in certain cases in which he is not under a statutory obligation to do so otherwise. The only grounds on which such a requirement could restrict his activities in other directions would be those of lack of time and staff. Since the Treasury is the department which authorises his establishment and appoints the staff, it would be incumbent on it to meet such objections by making the necessary increases to the staff to enable its own requirements to be complied with. It can hardly be doubted that he would

E. & A.
Act,
§ 29

Cp. 2 R.
1888,
132, T.M.

receive the strongest support from the Public Accounts Committee in the improbable event of the Treasury showing any disinclination to allow him the requisite staff to enable him to perform efficiently his statutory duties in addition to those imposed on him by the Treasury. So, too, in the case of the accounts of services other than those enumerated in Schedule B of the act, the examination of which is governed by section 27, the Comptroller and Auditor General may be directed to specially scrutinise expenditure with a view to seeing that treasury authority has been given where such authority is necessary. The imposition upon him of work of this nature extends his activities and demands a closer audit from a special point of view, but in no sense narrows his independence. For the same reason, the power of the Treasury to require him to examine and audit various accounts, other than appropriation accounts, in no way acts as a restriction on him, for the Treasury must provide such additional staff as this work may necessitate. Nor in carrying out this particular work is he in any way subordinate to the Treasury. It is true that the Treasury can prescribe regulations for the examination of these accounts, but such regulations are drawn up for his guidance and would not restrict his labours as an auditor. The Treasury cannot withdraw any item or question relating to appropriation accounts from the purview of the House of Commons if the Comptroller and Auditor General sees fit to call attention to it in his report. This point was admitted by the Treasury as long ago as 1876, when it declared that 'if the First Lord of the Treasury, or a Secretary of State, should order expenditure contrary to act of Parliament, or to the established rules of the service, or of the department over which he presides, the fact is certain to be made known to Parliament by the independent auditor in his report upon the appropriation account of the vote to which such expenditure is charged.' Nor, under modern conditions, is it likely that it would wish to do so even if it had the power. Parliament pre-supposes unity of purpose and action between the Treasury and the Comptroller and Auditor General, and experience has proved its anticipations to be well founded. While the Comptroller and Auditor General in the exercise of his primary function is independent of the Treasury he is, so to speak, one

3 R.
1876,
App. 1,
para 8

C.N.E.
APP. 7

of its most important instruments, ensuring that treasury directions, respecting expenditure, are duly obeyed. The harmonious action and mutual support of the two departments are absolutely essential to efficient financial administration.

A vital feature in the position of the Comptroller and Auditor General is that his independence of the accounting departments should be recognised and maintained. This maxim is fully admitted and is operative. The only possibility of restrictions arising can be in the case of new legislation which may not sufficiently safeguard his status. An instance of this occurred in connection with payments under the Old Age Pensions Act 1908. The Treasury contended that the act must be interpreted to mean that the local pension committee, or the central pension authority, was constituted the final judge as to whether the conditions of a claim justified the grant of a pension, and consequently that, so long as the allowance remained operative, the correctness of its charge against the vote could not be questioned. This view was strongly resisted by the Public Accounts Committee, which stated that it could 'see no evidence in the Old Age Pensions Act that Parliament either intended to, or in fact did, repeal or render nugatory any part of the Exchequer and Audit Act 1866, and so deprived itself of the right of scrutinising to the full the propriety of any payment made out of sums granted by Parliament.' If the treasury view, which was supported by an opinion of the law officers, were correct the result would be that neither the accounting officer, the Comptroller and Auditor General, nor the Public Accounts Committee would be able to disallow any payment which the local committee or central authority had passed. The effect would therefore be that the act did 'set aside the statutory duty of the Comptroller and Auditor General under the Exchequer and Audit Departments Act, of investigating on behalf of Parliament the conformity of a payment with the intentions of Parliament in making the grant, and that Parliament has in fact estopped itself from following up payments under the act by setting up an authority other than itself as to the proper disposal of moneys granted by it.' The constitutional question raised was therefore one of great importance as affecting the statutory functions of the Comptroller

Cp. 2 R.
1875, 35
-40

3 R.,
1909, 2

5 R.
1909, 22

and Auditor General. By amendments embodied in the Old Age Pensions Act 1911, and by administrative regulations issued by the Treasury, it has now been provided that questions may be raised at any time as to the qualifications of pensioners, and that therefore points raised by the Comptroller and Auditor General may be referred back by pension officers to the pension committee or the central authority, and to this extent the rights of the Comptroller and Auditor General are safeguarded.

C. &
A. G.
Memo.
25

Status as Comptroller of the Exchequer

The foregoing considerations deal with the auditorial functions of the Comptroller and Auditor General. In his capacity as comptroller of exchequer issues the relationship between the Comptroller and Auditor General and the Treasury is that of interdependence, with definite powers of control conferred on the Comptroller. The Treasury cannot obtain supplies without the concurrence of the Comptroller and Auditor General, nor can the latter issue money at all by himself. It is by joint action between the two that money passes from the exchequer to the Paymaster General. The powers of the Comptroller and Auditor General, however, are strictly limited and defined, and he possesses no initiative and can take no action, until he receives a requisition by the Treasury for a credit on the exchequer account.

C.N.E.
Ev. 889

Acts of Parliament authorising payments to meet permanent charges on the consolidated fund to all intents and purposes make a permanent grant of the sums so authorised to the Treasury, which is therefore in a position to make its requisition without further formality; but such requisitions can only be for amounts which Parliament has enacted to be charges on the fund. In the case of payments for the supply services, which are granted annually to the Crown, a royal order under the sign manual, countersigned by two Lords of the Treasury, must first be obtained before the Treasury can make a requisition on the Comptroller and Auditor General.¹

Idem.
Ev. 1017

¹ In 1811 Lord Grenville, as auditor of the exchequer, refused to make an issue of £500,000, though required to do so by the First Lord and four other Lords of the Treasury, for want of the due authority of the Crown, which, in consequence of the incapacity of George III, could not be obtained.

May,
Con. Hist.,
i. 215
Anson, Con.,
ii. 11. 145

R. 1912,
Ev. 1075

Before complying with the requisitions the Comptroller and Auditor General is obliged to see that they comply with the act or acts of Parliament involved, and that no issue is made in excess of the grant of Parliament; while in the case of consolidated fund charges he is particularly careful to see that issues are 'made in strict accordance with the provisions of the various statutes by which they have from time to time been authorised.' This is the essence of his report on the consolidated fund account. His power of issue is not normally a control of discretion*at all. He simply sees that the act referred to in the schedule of the proposed issue gives the power, limits the amount, and fixes the time. These three conditions being fulfilled, his discretion is at an end. His power is limited by acts of Parliament, and no pressure or influence which the government or the Treasury could bring to bear on him could have any effect.

R. 1913,
Ev.
1176
C.N.E.
Ev. 1299

4 R.
1903, 10

A somewhat unusual point arose in 1901 in which there was a doubt as to the legality of issue of money from the exchequer. Consols were created under the loan fund of that year, the Committee of Ways and Means having passed a resolution on 29th April that the principal and interest of the loan should be charged on the consolidated fund. The act, however, did not receive the royal assent till 17th August. In the meantime the interest on the consols had become due on 5th July. As on that date the act establishing the loan had not finally passed, the Comptroller and Auditor General contended that the consols were not public debt, and that he had, therefore, no authority to issue the interest from the exchequer. The contrary view was held by the Treasury, but it would have been within the rights of the Comptroller and Auditor General to refuse to issue, and his action in doing so would have been justified by the opinion of the law officers subsequently obtained. In view, however, of the doubt as to the position, and the inconvenience of a refusal, he permitted the issue on 4th July, subject to the condition of the opinion of the law officers being obtained. The passing of the act eventually legalised the earlier issue. Though, in this case, it is true that there was an exercise of discretion, yet the intentions of the House of Commons were quite clear, and the only point in dispute was as to the technical legality of the issue,

due to a failure to present the bill for royal assent at a sufficiently early date.

It is therefore evident that the apparent financial inconsistency of uniting in the same person the dual office of 'Comptroller General of the receipt and issue of his Majesty's exchequer and Auditor General of public accounts,' as is his full title, does not in fact possess any drawbacks or objectionable features, though *prima facie* somewhat illogical, in that the officer controlling the issues is, in a sense, the auditor of his own acts. His duties in this capacity are infinitesimal as compared with his duties as an auditor and yet they are of singular importance, for his correct performance of them is a guarantee to Parliament that no money issues from the exchequer other than that which Parliament has itself authorised. In the department of the Comptroller General, if anywhere, says Low, the embodied spirit of the British constitution abides; there are enshrined the long results of the struggle which placed the control of public funds beyond the reach of arbitrary power. In his capacity as comptroller of the exchequer, as in that of auditor, he is a check on the Treasury and is in no way under its influence. His position is, in practice, as independent as it is in theory, and he is thus able to carry out his duties to Parliament with the free hand which Parliament intended he should have.

C.N.E.
Ev. 1012

Cp.
C.P.M.
1857,
App. 3,
p. 569
Gov. of
Eng.,
p. 30

Cp. Pub.
Inc.,
p. 830

II. OBLIGATORY AUDIT

General Remarks

Before considering the nature of the audit effected by the Comptroller and Auditor General, it may be useful to briefly examine the meaning of the term generally and the principles on which it is based. When applied to a cash account the term is usually understood to mean a test applied to the account for the purpose of ascertaining whether the whole of the money which ought to be credited in the account has been brought to account, and whether it is properly accounted for. It is, however, impossible to define the exact nature of the test which constitutes an efficient audit; for different classes

R, 1865,
App. 1,
para. 61

of accounts are tried by different tests, varying in degree according to the nature of the account and the purpose of the audit. Attempts to define the precise nature of the process which is supposed to constitute an efficient audit are impracticable—or, it would be more correct to say, impossible—for they aim at fixing a process which shall be equally applicable under varying circumstances and to satisfy varying conditions. Were the only parties to be considered the accountant and the auditor, the case would be entirely different. There is, however, a third party to be considered whose importance in the scheme of audit is greater than either—the party on whose behalf the accounts are audited; and, since he is the principal, he is entitled to the controlling voice as to the direction the audit should take and the extent to which it should be carried, but subject to the knowledge that the auditor will modify his certificate as may be necessary to make it applicable to any restrictive conditions imposed on him. It is therefore important that the auditor should be fully acquainted in advance with the requirements of the party whose accounts he is to audit, and for whom expressly the audit is to be carried out. The receipt of such instructions enables him to carry out his audit without any unnecessary expenditure of time or power. Having a complete knowledge of all that is necessary to make his audit effectually answer its particular purpose in each case, he knows what matters need not be investigated at all, what matters might be lightly touched upon, and what matters should be minutely sifted.

R. 1865,
App. 1,
para. 62

The audit of the Comptroller and Auditor General is in conformity with these principles. So far as appropriation accounts are concerned, he audits them on behalf of Parliament and he receives his instructions from Parliament, either directly in the Exchequer and Audit Act, or indirectly through the Treasury on matters where Parliament has delegated such power to the Treasury to act on its behalf. The report on the audit of these accounts is therefore made to Parliament, on whose behalf the audit is carried out. This is equally true of the audit of authority as of the appropriation audit proper; for though the effect of the check in the case of the former is to maintain the administrative authority of the Treasury, yet the object in applying it is a purely parlia-

Idem,
para. 72

mentary one, namely to ascertain what expenditure has been authorised by the Treasury in order to determine what expenditure is properly chargeable to the parliamentary grants. Of accounts other than appropriation accounts some are similarly audited on behalf of Parliament, such as accounts covered by the Army and Navy Audit Act 1889, though the instructions as to the method of audit are left to the Treasury to issue. The Treasury, however, only acts as the agent of Parliament, and the report is made to Parliament. In the case of other accounts Parliament not only leaves the Treasury to issue the instructions as to audit but also to control the accounts. The audit is therefore carried out on behalf of the Treasury itself and the report is made to it alone and not to Parliament.

The definite statutory functions of the Comptroller and Auditor General, as Auditor General, are prescribed by the Exchequer and Audit Act. Some of his most important duties, however, are derived not from the letter of the act, but from the liberal interpretation which he, with the concurrence of the Public Accounts Committee, has placed upon the enactment that he is to report on the accounts. His functions may therefore be classified under two heads—the obligatory audit and the discretionary review; and it may be convenient to deal with them under these two aspects: firstly as regards what the act orders him to do; and secondly, as regards his equally recognised but more discretionary powers.

The duties which must be performed by the Comptroller and Auditor General under the Exchequer and Audit Act in connection with appropriation accounts are, generally speaking, of three kinds: an accountancy audit, dealing with computation and voucher—that is to say, an investigation of the smaller details to see that no blunders are made in arithmetic, and that the proper receipts in all cases have been obtained: an appropriation audit, of which the object is to make certain that expenditure is charged to the proper head of account, so as to ensure parliamentary control: and an administrative audit, or audit of authority, to make sure that a particular payment was authorised. His work, that is to say, consists not only in the verification of the accounts to see that no improper expenditure in the ordinary sense has been incurred, but also in inquiries into the application of

R.C. Civ.
Estab.
1 R. Ev.
10243

Bast-
able,
Pub.Fin.
VI. iii. § 7

the funds and its conformity with the directions of Parliament or other authority which has the power delegated to it of issuing instructions.

C.P.M.
1857.
App. 2,
p. 547

The duty generally of an auditor of public accounts is to pass in review the accounts of an accountant after those accounts have been completed; to ascertain whether the rules laid down for the guidance of the executive officers, in respect of the receipt and expenditure of public money, have been duly observed; and to point out and record any deviation from those rules that may have been remarked in the course of the examination of the account under consideration, thereby not only discharging his primary duty, but indirectly benefiting those whose accounts he audits if immediate attention is paid to the points raised. Those responsible for administration should therefore welcome the assistance afforded by a thorough system of audit.

Cp. 2 R.
1892, 39

The auditorial functions proper of the Comptroller and Auditor General are necessarily in many respects similar to those of the auditor of commercial accounts. His functions are, however, wider in an important respect; for while the private auditor is only indirectly concerned with considering in detail the legality of the acts of those responsible for the conduct of a commercial business, the most important duty of an official auditor is to scrutinise the various transactions with a view to seeing that they are not *ultra vires*. The particular duty of the Comptroller and Auditor General in this respect is, as mentioned above, to see that the expenditure has been applied to the purpose or purposes for which the grants were intended to provide, and further that it is supported by the prescribed authority.

Accountancy Audit

As an auditor in the narrower sense of the term, his objects are identical with those of the private auditor, namely:—

Dicksee,
p. 7

- (i) The detection of fraud,
 - (ii) The detection of technical errors,
 - (iii) The detection of errors of principle,
- and the measure of success of these objects will depend on the system in force. If the system is a good one, there may

be little for him to find ; but that is no evidence that the auditor is unnecessary. If he were not there, errors and waste would probably creep in. His presence is a safeguard that the system is carried out. 'The greatest cause of bad debts in ordinary business is laxity of accounting.'

Audit generally may be either 'continuous' or 'completed,' that is to say, it may be carried on regularly throughout the year, closely following upon the transactions, or it may be postponed until the books are closed. Again, it may be effected solely by the outside auditor, or else by an internal audit staff, subject to the check of the outside auditor. The ideal audit is that which is secured by a continuous audit, carried out either by the external auditor, or by the staff itself under a good system of internal check which the external auditor can rely on. The continuous audit possesses many incontestable advantages and is the system adopted in all the principal public departments, while in the case of several the examination of the Comptroller and Auditor General is continuous as well as that of the departmental staff, for he has his own staff in them all the year round. Facilities for continuous audit are specially legislated for, the Comptroller and Auditor General being given 'free access, at all convenient times, to the books of account and other documents relating to the accounts' of the several accounting departments 'in order that the examination may as far as possible proceed *pari passu* with the cash transactions.' The value of the point was again emphasised in 1888 when the Public Accounts Committee reported that it was an important matter that the audit should follow as closely as possible upon the transactions of the account, and with this view every effort should be made to expedite the delivery of the periodical and appropriation accounts, and more particularly accounts of special expenditure provided for by a vote of credit, or by supplementary estimates when they replace a vote of credit. Everything that advances the work of the Comptroller and Auditor General tends to give Parliament more ample and full control over expenditure. Under the present system of continuous audit by him, where in force, he is obtaining information all the year round ; but though the final form of the appropriation accounts is one which has probably solved a certain

C.N.E.
Ev. 682

R. 1913,
Ev. 1601

Dicksee,
PP. 12-
14

E. & A.
Act. § 28

2 R.
1888, 51

2 R.
1881, 64,
& T.M.

number of questions which would otherwise arise, generally speaking, the sooner he receives the completed accounts from the departments, the more time he will have to prepare his report.

4 R.
1899, 11

Promptness in accounting is second in importance only to accuracy. In this respect there is probably now little room for improvement, though in the case of departments which receive accounts from all quarters of the globe it is obvious that the audit of foreign accounts cannot be as early as in the case of home services, nor in the case of war accounts is it reasonable to expect, or possible to obtain, completed accounts with the same regularity as in normal times.

2 R.
1890, 4

Army pay lists were for a long period rendered quarterly. In 1877 the system of half-yearly pay lists was introduced but was again changed in 1888, monthly accounts being substituted. The previous system was open to the serious objection of the long interval during which public money was not accounted for and the delay attending the recovery of disallowances, whereas at the present time audit follows closely on the payments. A paper is annually appended to the army appropriation account with a view to informing Parliament of the accounts of the year which have not been received in time to be included in the appropriation account, but the numbers and importance of these in peace time are nowadays so small that they furnish a favourable commentary on the promptness with which accounts are now secured from the most distant quarters. 'No audit, however searching and complete in other respects, can be considered to furnish that check over the public expenditure which it is the sole object of an audit to provide, if any considerable interval is suffered to elapse between the period when the expenditure is incurred, and the period when the accounts are finally passed, or a demand is made for sums disallowed.' The present system in this respect differs in remarkable degree from that of the end of the eighteenth and early in the nineteenth century, when it was no uncommon event to find enormous sums unaccounted for until long after the resignation of the responsible official.¹

T.M.
3/12/41
H.C. 160
1856,
P.P.,
xxxviii.
253

¹ The commissioners of 1781 record as instances of delay, among others, that the final account of Lord Holland for £46,000,000 was delivered seven years after his resignation, and that of Mr. Townsend for £2,000,000 was

The duties of an auditor are to see that the accounts are fully and properly audited; but he is under no obligation to check every figure, if he is satisfied that the system, under which the accounts he is auditing are kept, provides checks upon which he can rely. In such a case it would be both waste of energy and time to do work which has already been safely and effectively done. His duty is to satisfy himself that the system has actually been carried out in its entirety, and this he can do by checking fully sections of the work at unexpected times. 'The larger the undertaking the more its opportunities of internal check, and consequently the less necessity for the skilled auditor to check every detail.' The essential feature in this method of check lies in the ignorance of the accountant as to the particular section to be checked at any particular time. In the case of the several public departments which have finance branches of their own, the Comptroller and Auditor General has a valuable support to his work which relieves him of a mass of detailed audit which would, otherwise be necessary, while in the other cases he is able to rely largely on the systems of accounting in force as providing an internal check, which obviates the necessity of a detailed audit. Such an internal check moreover possesses the important advantage of causing any irregularities to be corrected at once. Dicksee, P. 42

When an audit is conducted by one independent set of auditors on the spot, it is not worth the expense to send another set to cover the whole ground again, provided that the result of a test audit is satisfactory. The Comptroller and Auditor General is, however, at liberty to carry out his audit where and when he chooses. In former days it was carried out centrally alone, but the later tendency has been to send representatives to outlying districts to audit on the spot those accounts or portions of accounts which from an administrative point of view it is more convenient to deal with in that manner. He has also visited some of the colonies and other Imperial possessions, thus being able to inspect and examine the books 5 R. 1895, 36

delivered eleven years after his resignation, while in 1806 Lord H. Petty stated in Parliament that accounts still under examination amounted to £169,000,000, and no accounts had been delivered for £209,000,000 for the army and £101,000,000 for the navy. (Compare 4 R. *Pub. Accts. Comms.*, 1781; Anson, *Con.*, ii. II. 161; *Pub. Inc.*, p. 1156; *C.P.M.* 1857, App. 3, § iv.; Cobbett, *Parl. Deb.*, vii. 300.) 1 R. 1908, 15

from which the accounts rendered are prepared. The assistance thus afforded to distant branches of the services both conduces to efficiency and provides Parliament with an assurance that the local financial procedure is regular. Again, just as the army accounts on active service are examined on behalf of the accounting officer in the theatre of war as far as possible, so also the Comptroller and Auditor General now follows up the expenditure with his audit on the spot, thus bringing the expenditure and audit closely together, a principle important at all times but particularly so in the case of war expenditure.

Cp.
C.N.E.,
APP. 13

Cp. R.
1865,
App. 1,
para. 68

Dicksee,
P. 97

E. & A.
Act, §. 29

3 R.
1876, 9 ;
& App. 1,
T.M.
4800/76,

The Comptroller and Auditor General is entitled to see every voucher if he requires to, for the voucher constitutes the evidence which enables him to ascertain, first whether the money taken credit for has been actually paid away, and, second, what the nature of the service is to which the money paid away has been applied, but he cannot be expected to satisfy himself as to every irregularity and defect, for that would be doing the whole business of the executive departments over again. 'The test of an auditor's competency is in his ability to judge of the correctness of items by an exhaustive testing—not necessarily of the items themselves, but of their totals.' This recognised principle in auditorial work has been specifically applied to the Comptroller and Auditor General by the Exchequer and Audit Act which allows him the option, in the case of the army, navy, and such other services as the Treasury may direct, of admitting vouchers 'as satisfactory evidence of payment in support of the charges to which they relate, after satisfying himself that the accounts bear evidence that the vouchers have been completely checked, examined, certified as correct in every respect, and that they have been allowed and passed by the proper departmental officers.' The extent to which such an option should be carried was the subject of frequent discussion between the Public Accounts Committee and the Treasury during the years 1862 to 1876, and in the latter year the Treasury stated that 'a test audit was the best solution of the difficulty of giving to Parliament a guarantee that all its grants had been properly applied, without involving unnecessary repetitions of labour or unnecessary interference with the current business of administration.' It accordingly, under the powers conferred

on it by the act, requested the Comptroller and Auditor General to apply a test audit to the War Office accounts on the following principle, which would satisfy the essential requirements of an independent audit.

1. Each year a vote or sub-head to be selected for examination, the scheme so regulated that once in six years or so every head would be brought under detailed audit.

2. Castings and computations to be accepted on the certificate of the departmental examiner, provided there was no reason to question them.

3. Royal warrants and regulations to be accepted as the governing authority of the War Office unless it appeared they were contrary to statute.

4. Treasury authority to be asked in cases where previous treasury sanction should have been obtained.

5. The authority of the Secretary of State to be accepted in all cases as sufficient, where not at variance with statute, royal warrant, or regulations, and where it does not require treasury sanction.

A similar test audit for the navy was instituted two years later, namely in 1878. 2 R.
1878, 21

This system ensured the expenditure under all heads being brought under the Comptroller and Auditor General's review in detail during the cycle, while at the same time he was in no way restricted in following up the expenditure under other votes than those under special consideration at the time, which might incidentally be brought to his notice and might appear to demand closer investigation. The report of the Comptroller and Auditor General informed Parliament of the heads which he had particularly examined under this system during the year.

During the South African war period this system was temporarily abandoned in favour of a general scrutiny, and at its close the two systems were carried on side by side until 1906, when the original arrangement of 1876 was permanently modified, the Comptroller and Auditor General being of opinion that a scrutiny of every vote, coupled with an examination in detail of such accounts as the scrutiny might suggest, was best calculated to meet modern requirements and conditions.

The test audit has, therefore, since then been directed to

Army
Apprn.
Acct.
1904/5,
C. &
A.G.R.,
para. 55
3 R.
1906, 10

an examination on these lines, instead of (as before) to the examination of the whole of only a few votes. The modification increases the opportunities for usefulness of the Comptroller and Auditor General, without diminishing his control, by bringing a wider area of the accounts under his direct review every year, while relieving him of the detailed examination which could safely be left to the departmental officers. It therefore tends to increased efficiency. Moreover, by applying a roving test, the Comptroller and Auditor General can sometimes light on irregularities that escape the notice of the more detailed—and therefore possibly in some ways more mechanical—examination of the department. Up to 1899, the army and navy accounts remained the only ones subject to a test check by the Comptroller and Auditor General, but in that year the question was raised as to whether additions might not be advantageously made to schedule B of the act, with a view to relieving the audit department of work by the elimination of the detailed examination of accounts of departments which provide for a separate and independent examination of their own accounts. It is clear, from the wording of sections 29 and 30 of the act, that Parliament contemplated that a considerable distinction might properly be made between different departments as regards the amount of detailed external audit required, and, in giving the Treasury power to add to schedule B, foresaw the possibility of additions being advisable in the future. The justification for adding a department to the schedule depends upon the existence within the department of a separate, distinct, and practically independent accounts branch. This condition was fulfilled in the case of the revenue departments, and the Public Accounts Committee, having approved the extension of the system of test check to these departments, the Treasury proceeded to give effect to the proposal by the issue of a minute adding them to schedule B of the act.

R. 1913,
Ev. 2084

T.M.
4825/99
H.C.
133/99

Ten years later a further addition was made to the schedule, not in this case of another department, but of a class of payments. The Comptroller and Auditor General pointed out that the payments of old age pensions, made under the Old Age Pensions Act, would be examined by the Board of Customs and Excise and the Post Office, that is to say, by independent

8 Edw.
VII.c.40

departmental officers, and that the accounts of such payments might properly be subjected to a test audit only by himself. In this the Public Accounts Committee concurred and the Treasury issued the necessary minute, excluding, however, the accounts of the expenses of administration of the act and of special payments, which remained therefore subject to detailed audit by the Comptroller and Auditor General.

3 R.
1909, 1,
&
App. 19

The decision as to the extent of audit which should be imposed on the Comptroller and Auditor General is dependent upon the nature of the departmental examination by or on behalf of the accounting officer. Where especially, therefore, a test audit only is in force, it is incumbent on the accounting officer to make his own audit or examination as strong and independent as possible.

R. 1910,
Ev. 694-
5
Cp. 3 R.
1888, 48

The causes which led to the adoption of a test audit on the part of the Comptroller and Auditor General for army and navy accounts apply with greater force and in a wider degree to the audit of the revenue accounts, but while in the former case the test audit prescribed is such as to provide ample safeguard against irregularity, that prescribed for the latter is necessarily more restricted and less effective. In order to see why this should be so, some consideration is necessary of the special features which differentiate the receipt side of accounts and the expenditure side, from the auditor's point of view. An auditor can only apply his check to transactions referred to in the accounts rendered to him or recorded in the books and documents to which he has access. He has, generally speaking, no power to go behind the administration with a view to seeing whether those accounts and records are complete. If, therefore, any omission has occurred or a transaction has been concealed, it escapes his notice altogether unless by inference or indirect evidence his suspicions are aroused and lead to further investigation. So far as expenditure is concerned, there can be no inducement to suppress an item, for it is on the charge in the accounts that the accounting officer secures credit, and even if the item only represents a half truth, the full facts of the case must be brought to light on the examination of the charge which actually appears in the accounts. In the case of detailed

2 R.
1897. 2

Idem, 5

audit of expenditure no transaction involving expenditure and consequently necessitating a charge can therefore escape the auditor's criticism. The need to secure credit which guards against the possibility of omission of items of expenditure from the accounts does not, on the other hand, exist in the case of receipts, when there may possibly be temptations to suppress or omit items. The omission to bring to credit a realised receipt would enable the accountant to secure a fraudulent profit at the expense of the public, while the suppression of the fact that a receipt which was due had not been realised, owing possibly to laxity, would, while not benefiting the accountant, equally cause loss to the public. The failure to secure a credit results in as great a loss to the public as if a similar amount were misappropriated from a public grant. The facilities for discovery, however, are very different and must necessarily be so. The audit of the receipt side cannot ensure the accuracy of the receipt unless the auditor is by the side of the man who receives the cash, but it would be manifestly impossible for the Comptroller and Auditor General to superintend the administrative action of the customs so as to ascertain that in every instance the duty payable was actually recovered, and in the case of the inland revenue there is no machinery existing or possible which would enable him to state that all persons liable at law had been duly charged. Such functions belong by statute to the revenue boards themselves, and the measure of their success must depend on the system of administration and the methods by which it is applied. The appropriation accounts of the revenue departments deal with the votes only. Any test audit of the receipt side of the revenue accounts must of necessity rest upon departmental returns and the documents which accompany them. To prescribe a categorical system of audit would have been impracticable. Parliament therefore cast upon the Treasury the duty of laying down such regulations for the guidance of the Comptroller and Auditor General in his examination of these accounts as would best secure that supervision of public moneys, which should be exercised on behalf of the House of Commons as much in the case of receipts as in the case of expenditure, so far as circumstances permitted. These regulations provide that

R.C. Civ.
Estab.,
2 R. Ev.
14007

E. & A.
Act, § 33

8 E.
VII.c.

the Comptroller and Auditor General shall first ascertain that there are administrative regulations and procedure appear to be sufficient to secure a proper and effective check upon the due assessment and collection of the revenue, and secondly that he shall satisfy himself, within the limits of a test examination, that they are enforced by the department, the result of this test examination being communicated to the departments concerned as well as to Parliament in the reports on the appropriation accounts.

Such an examination, for the reasons already mentioned, is necessarily limited, not only in the sense of being merely a test audit, but also because it can only deal with the records which come before the Comptroller and Auditor General. He can only follow the revenue which has been brought into charge, and see that a charge once made upon the original records is brought to its ultimate and proper issue. The fraudulent suppression of receipts or the failure to recover receipts due, owing to laxity, have been referred to above. It, however, frequently happens that the payment of duty or other public claim may be legitimately waived by the Treasury or other authority. All such cases, which involve directly or indirectly a loss to the revenue, should be brought to notice. If they involve a charge in the accounts, that speaks for itself, but it is otherwise where a loss is dealt with quite outside the account. In such a case, in the absence of any entry in the books of the department, the Comptroller and Auditor General could have no knowledge of the facts unless specially notified to him. When, therefore, a loss is dealt with by way of write-off against revenue, a note to that effect is peculiarly needed, and it is the duty of the Comptroller and Auditor General to see, so far as he can, that such information is supplied to Parliament, while it is equally the duty of a department to notify the Comptroller and Auditor General in all cases in which payments have been waived or claims abandoned and which, not involving charges in the accounts, might not otherwise have come to his notice. Unless such notification is given, either in the form of a note in the accounts or by communication to the Comptroller and Auditor General, the House of Commons may be kept in ignorance of facts which it is entitled to be informed of. The position is clearly

2 R.
1897, 4

1 R.
1875, 66

2 R.
1897, 5

Cp. R.
1874, 75;
& 4 R.
1894, 9

2 R.
1897, 5

Idem, 10

Cp. 2 R.
1884, 29;
& 2 R.
1886, 65

2 R.
1897, 19

defined by the Public Accounts Committee in the following rule. 'Whenever a dispensing power is exercised by or with the consent of the Treasury, involving any important principle or substantial amount of money, whether by remission of loan, or waiver of right to recover overpayment, or abandonment of claim on account of revenue, a statement of the fact should be presented for the information of, and, where necessary, for ratification by Parliament.' In the case of the inland revenue department, the Treasury prepares and presents to Parliament a schedule of remissions made in the exercise of its dispensing power, or of that of the department, in favour of individuals from motives of equity or compassion—i.e. the relief from a liability which it is within the power of the state to enforce. If, however, the claim is practically irrecoverable, the department merely records the fact that, in circumstances which it cannot control, the law is not at present enforceable.

R. 1913,
APP. 5

R.C. Civ.
Estab.,
2 R. Ev.
14007

The Comptroller and Auditor General's audit of the revenue accounts is therefore more a question of testing regulations than of testing the account as a whole. The system of collection of the revenue is all laid down, and the various methods of procedure in collecting the revenue are prescribed, and the Comptroller and Auditor General takes test cases of customs and inland revenue and follows them through to see that those regulations are observed.

The foregoing remarks as to the limited power of the auditor over the receipt side of the revenue accounts are applicable in a lesser degree to appropriation accounts. Under the present system, sums received by departments are appropriated in aid of the vote, and Parliament, while authorising the gross, votes only the net sums required. It is therefore to the interest of the department to see that it secures all the receipts to which it is entitled, otherwise it will be under the necessity of asking Parliament for an additional grant to make good the deficiency in order to carry out the service of the vote. In the second place, the estimated receipts to be appropriated in aid are shown in more or less detail in the estimates and furnish general, and in some cases definite, information by which the Comptroller and Auditor General is able to test the realisation, while further the records and

books of the departments offer additional information. So far, therefore, as actual sums due to the public are concerned, the Comptroller and Auditor General is in a better position to follow them up in the case of appropriation accounts than in the case of revenue accounts. There is, however, even here a similar danger of oversight in the case of writes-off. If these do not affect the cash account under audit, the House of Commons may be kept in ignorance of them unless specifically brought to notice. It is the duty of the department to bring all such cases to the notice of Parliament. In practice this is effected by including, in notes or papers appended to the appropriation account, not only all cases in which claims have been abandoned or losses written off which affect the cash account, but also all those cases in which similar action has been taken which do not involve book-keeping entries, and which consequently would not be brought out by the audit of the accounts. All such cases must be brought to the notice of the Comptroller and Auditor General, both to enable him to ensure their being included in a note or paper, and thus brought to the notice of Parliament, and also to afford him the opportunity of examining them and reporting on them if necessary.

Appropriation Audit

We now come to the more, if not most, important part of the Comptroller and Auditor General's obligatory audit—namely, his appropriation audit,¹ which requires him to see that the grants are spent on the purposes for which they are provided. The strictly conditional manner in which provision for public services is made by Parliament constitutes one of the cardinal principles of our financial system. The money which the House of Commons has voted must be spent exclusively upon the services for which it was granted, and to secure this, audit is essential. 'There is little advantage in preventing unauthorised payments to departments if they afterwards misapply the funds received for specific purposes.'

3 R.
1896,
16; &
App. 16
C.N.E.,
App. 7
& 12
Bast-
able,
Pub.
Fin.,
VI. iii. §7

¹ The term under modern practice is used in the narrower and more technical sense. Formerly appropriation audit was a synonym for the audit on behalf of Parliament, and therefore embraced the accountancy audit as well as the administrative audit when carried out.

No grants may be exceeded without fresh parliamentary authority accorded by a supplementary estimate or an excess grant, except in those special cases in which the Treasury is empowered to exercise, temporarily, modified powers of virement, subject to final approval by the House of Commons. The money must be spent within the time for which it was granted, and no sums are chargeable against the grants which do not actually come in course of payment within the financial year, a natural sequence of this condition being that any unspent surplus must be surrendered. Every amount charged in the account must be supported by proof of payment, the Comptroller and Auditor General being the sole judge of the sufficiency of evidence of payment. And finally, public money received by a department from other sources than grants must be accounted for according to the directions of Parliament as strictly as if it were granted by Parliament. Any failure to fulfil one or other of these conditions must be reported by the Comptroller and Auditor General when he has satisfied himself of it.

C.N.E.
APP. 7
Cp.
P. 247,
foot-1,
note 2.

The audit of the appropriation accounts on these lines on behalf of the House of Commons is what is known as appropriation audit—that is to say, an examination of the accounts from the particular point of view of seeing that the expenditure by the departments follows the appropriation made by Parliament. This form of audit was first applied to the navy votes in 1832 at the suggestion of Sir James Graham, the then First Lord of the Admiralty. Extensions to other votes followed, and finally the Exchequer and Audit Act of 1866 completed the system by extending appropriation audit to all supply grants, and the placing of all public accounts of receipt and expenditure within the purview of the Comptroller and Auditor General. It is not intended to limit the discretion of the responsible departments, but to secure a revision of their accounts by an independent authority, invested with sufficient powers of investigation to detect any misapplication of the grants, or any deviation from the appropriation sanctioned by Parliament.

3 R.
1896, 16

C.P.M.
1857,
para. 6

2 R.
1881, 59,
T.M.

The strictness with which appropriation is applied is the measure of parliamentary control. Money which 'cannot be considered to have been money applied to the purpose for which the grant was intended to provide, and, as such,

admissible in the account thereof,' has been 'misappropriated.' It may have been spent on legitimate objects and on the public service, but unless Parliament had appropriated the money so spent to that service, the expenditure is technically incorrect. Misappropriation in this technical sense, as distinct from the use of the term for a moral offence, does not however necessarily entail disallowance, as a misappropriation may be authorised. It is the duty of the Comptroller and Auditor General to challenge misappropriations as between sub-heads as well as in respect of charges to the vote. The appropriation of the grants to specific purposes is the expression of the will of Parliament, which becomes law on the passing of the Appropriation Act. Deviations therefrom consequently diminish parliamentary control, even though specially legislated for in certain cases, because Parliament can only be able to give an *ex post facto* sanction to them. The importance of the appropriation audit, and the fact that it is the primary function of the Comptroller and Auditor General, preclude the possibility of its being effected by a test audit as in the case of the accountancy audit. It must be a detailed and complete audit. Every payment is checked into the books to its right head of service. This is absolutely essential, for otherwise Parliament could have no check upon the respective votes, and could never tell whether one vote was being used for the purpose of another. This audit secures fully, therefore, that the expenditure is classified to the appropriate heads under which provision has been made for it by Parliament, and thus ensures that the intentions of Parliament are carried out.¹

Cp.
Army
Fin.,
p. 61

R.C. Civ.
Estab.,
1 R. Ev.
9756

¹ The Comptroller and Auditor General gives the following certificates at the foot of the several appropriation accounts:—

Army and Navy.—I certify that this account has been examined by officers under my direction in accordance with the 29th section of Act 29 & 30 Vict. c. 39; that the examination has included a test audit as directed by para. 34 of treasury minute of 20 March, 1876, and that (subject to the observations contained in the annexed report) the account is correct.'

Revenue Departments.—The same certificate, substituting 'treasury minute of 27 March, 1899,' as the authority for the test audit.

Old Age Pensions.—The same certificate, adding 'the 27th section of the Act 29 & 30 Vict. c. 39,' as the authority for the main examination and substituting 'treasury minute of 31 August, 1909,' as the authority for the test audit.

Secret Service.—'I certify that the amount shown in this account to have

These intentions are expressed in the estimates as finally granted. The estimates consequently form the basis for his appropriation audit, though they do not directly come before him except as a guide as to what is the purport and intention of Parliament in granting the money. With regard to the estimates, as such, he has no responsibility. His functions in relation to them, as a guide to his audit, vary in degree. He is primarily concerned with part I, which defines the terms of appropriation and specifies the total amount voted. This portion he audits under the direct authority of the Exchequer and Audit Act. He is secondarily concerned with part II, which shows the sub-heads under which the vote is to be accounted for, and audits this portion under treasury regulations. He is in practice equally bound by this part since 'the plan of accounts, which is the only authority for the preparation of the appropriation account, has been committed by the Exchequer and Audit Act to the Treasury. The Treasury prepares, under that act, the form of account and books, which has to be subsequently formally sanctioned by an order in council, and the department follows that form.' In dealing with part III, which shows the details of the sub-heads in one form or another, his functions are less strictly defined, or, it would be more correct to say, are limited by the extent to which the ledger accounts kept enable his audit to be exercised. That he considers it is within his functions to question any item whatever in part III was made clear by Sir Charles Ryan in 1888. 'The Comptroller and Auditor General,' he said, 'holds, and always has held, that the estimates are before him as a whole; that, although they are divided into three parts, still, inasmuch as Parliament grants the money upon the understanding that it is going to be spent in that manner, the department presenting those estimates to Parliament cannot repudiate the responsibility for the divisions under which it presents them, and upon the faith of which Parliament grants

been expended is supported by certificates from the responsible ministers of the Crown.'

(This is the form prescribed by treasury minute of 12/4/88.)

All other cases.—'I certify that this account has been examined under my directions, and is correct.'

In the case of the Exchequer and Audit Department account a second certificate of correctness is given by the auditor of the civil list.

A. Est.
Com.,
Ev. 1092

3 R.
1888, 26

A. Est.
Com.,
Ev. 1093

Idem.
Ev. 1092

the money. Therefore, the Comptroller and Auditor General holds that the estimates are before him as a whole; that he is entitled, if he thinks proper, to question any deviation from the estimates, as shown by the figures in part III, the appendices, as well as in part II.' His powers in this respect are limited by the extent to which detailed records are kept by the department. When a department opens headings and apportions expenditure to particular heads he can, and does, follow that closely; but where a department is not required to do so by the form of the account, he cannot require it to do so. He has no power to demand the opening of ledger headings, or to require a department to furnish him in detail with evidence of the correspondence of the account with the estimate, except as regards part II. The Treasury, however, has the statutory power of requiring a department to open any ledger headings necessary, and the extent to which this power is exercised is the measure of limitation of the Comptroller and Auditor General's audit of part III.

A. Est.
Com.,
Ev. 1093

3 R.
1888, 26

His powers in relation to appendices vary, therefore, considerably according to the nature and object of each. The detailing of expenditure in an appendix, instead of the body of the estimate, has no necessary effect on the power of the Comptroller and Auditor General to check those details. If they are appendices simply and never receive the formal sanction of Parliament, he cannot check them and report on them as he does on the accounts, though he has the right to examine them as well as the matter contained in the body of the vote. Many appendices are merely given as sources of information or for statistical purposes. If there is any necessity for, or advisability of, examination and audit of the actual expenditure as compared with the figures there given, the Treasury has the power to order the department to open appropriate ledger headings, and to instruct the Comptroller and Auditor General to examine them under sections 27 or 33 of the Exchequer and Audit Act. If the Treasury requires that a particular item in part III shall not be exceeded without its authority, the opening of a ledger account is a necessity, to enable it to be seen how the expenditure under the item compares with the estimates, and, since it is the duty of the Comptroller and Auditor General to note every excess, to see

N. Est.
Com.,
Ev. 2031

3 R.
1888, 34

that it has received treasury sanction—where such can be legally given—and to report all excesses which have not been or cannot be so approved, it is obligatory on the department to keep ledger accounts corresponding not only to parliamentary votes, but also to all the sub-heads in addition to those for part III items mentioned above.

A. Est.
Com.,
Ev. 1134
1177-9

2 R.
1885, 78,
& T.M.

Considerations connected with the form of the estimates affect the Comptroller and Auditor General to a limited extent since they form the basis of the form of the accounts, with which they are closely bound up. He is, however, in no way responsible for the form, and would not be consulted by the Treasury as to any proposed changes nor as to the number of sub-heads he considers necessary. But though the Treasury is solely responsible for the form ' it is quite open to the Comptroller and Auditor General to make any suggestions which may seem to him called for in order to promote clearness of account or the better information of Parliament ' ; and such suggestions are not infrequently made by him, especially in cases where—the expenditure under two sub-heads being so nearly akin that the correct classification as between the two is difficult and troublesome—amalgamation into one sub-head is considered expedient. Here, however, no principle is involved, as would be the case if the estimates were formally referred to the Comptroller and Auditor General for an expression of his opinion as to the suitability of their form. Were this done it is true he might be able to make useful suggestions with regard to the form as affecting his control, but in doing so he would be accepting a responsibility which is vested in the Treasury, and diverting possibly responsibility from the executive government.

A. Est.
Com.,
Ev. 1252

Administrative Audit or Audit of Authority

Closely allied to appropriation audit, and necessarily bound up with it, is the audit of authority or administrative audit: the examination of expenditure with a view to seeing that it is supported by the requisite authority in each case, whether of royal warrant, or orders in council, or of the Treasury, or of the department. So unlimited is the power of the House of Commons that it undoubtedly could, if it wished, issue all

authorities to govern every item of expenditure¹; but the exercise of such a power would be entirely outside its proper or necessary functions, for Parliament is a legislative, not a governing, body. Its duty is to elect and support the executive, but not itself to discharge executive functions. It issues parliamentary authorities—such as the authority which the Crown receives from the annual Appropriation Act—to apply certain fixed sums to certain specified services, but it does not issue administrative authorities. Such duties, where financial matters are concerned, naturally fall within the sphere of the Treasury as the department responsible for financial order and regularity, to be exercised either directly by it, or under its control when exercised by the Crown as the supreme executive power, or by the accounting department, to which a measure of self-government must be allowed in matters of internal administration. All such authorities are not only recognised by the House of Commons, but demanded by it as fundamentally necessary; for ‘no public accountant is entitled to make any payment whatever without an administrative authority, and he ought, moreover, to know what is the proper authority for each payment; and the proper authority, whatever it is, is the one which he ought to have before he makes a payment.’

Cp. R.
1865,
APP. I,
69

Idem

Since the Treasury has the power to sanction payments which come within the four corners of the vote, there is practically no limit to miscellaneous spending, which fulfils this condition, even in the case of new services; but it is the duty of the Comptroller and Auditor General (under sections 27 and 32 Exchequer and Audit Act) to decide whether such expenditure is properly chargeable to the vote, and the exercise of this function is a most important one. The Public Accounts Committee has declared that questions dealing with the due authorisation of expenditure, even though relating to sums of

R. 1913,
Ev. 3120
& 3123

R. 1877.
99

¹ This is probably so nowadays, even as regards questions of pay for the army, which were formerly the prerogative of the Crown to determine. As regards the extent to which such prerogative remains, being now exercised through the responsible minister, see Clode, *Mil. Forces*, vol. i. pp. 97–104, and Anson, *Con.*, vol. ii. Part II. p. 209. See also Hans, *O.S.* xxxiv., p. 525, where the following pronouncement appears: ‘The principle of our constitutional army is that command, preferment, and honours come to it from the Crown; but the general principle is equally undisputed that for all pecuniary remuneration it is made to depend on Parliament.’

comparatively small amount, are of importance as matters of principle, and it ' regards the audit of authority as an essential part of the new system inaugurated in 1866.'

R. 1868, 4 The importance of securing this audit of authority was early recognised by the Public Accounts Committee, which considered, in 1868, that the time had arrived for the consideration by Parliament and the Treasury of the propriety of extending the Comptroller and Auditor General's audit of naval and military accounts so as to include some part of the examination as to authority previously conducted by the departmental auditors only; while previously an attempt had been made to ensure that all such expenditure should be properly authorised, by a recommendation that a special certificate should be added to the army and navy accounts.

2 R.
1867

3 R. 1876
App. 1
(15)

Cp. R.
1887, 85
Army
App. Acc.
1909/10,
C. & A.G.
R. 16

The House of Commons appropriates the grants, but the expenditure, even though made on the service for which it is appropriated, is not valid unless incurred under proper authority. The provision made by Parliament for a service detailed in the estimates is not in itself any authority for carrying out that service, if it is a service for which treasury authority is required. The audit of authority is therefore an important function of the Comptroller and Auditor General, and it is his duty to report to the House any unauthorised expenditure for which treasury sanction is unobtainable; and he would normally recommend it for disallowance, but in special circumstances he would use his discretion as to admitting charges which are unauthorised, subject to the review of the Public Accounts Committee, whose attention would be drawn to them in his report.

In order to enable this audit of authority to be properly conducted, it is essential that regulations should be as explicit as possible. Anything like a wide discretion renders the action of the audit department nugatory, and the Public Accounts Committee deprecates the insertion in regulations or warrants of such phrases as 'as a rule.' Such a limitation obviously does not extend to the delegation of power to be exercised in special cases, for it is impossible to legislate in advance for every case that may arise. For audit purposes it is essential that the regulations should make it clear who the approving authority is and the limit of his powers. The discretion is then specifically defined, and the exercise of it is a matter of

4 R.
1892, 12
Cp. 3 R.
1893, 45;
& 3 R.
1907, 10

administration. The extent generally to which treasury authority should be required was laid down in 1868 by the Treasury at the request of the Comptroller and Auditor General. Ordinary expenditure, placed under the charge of the several departments, within the limits of the totals of the sub-heads, was acknowledged to be outside the control of the Treasury; but exceptional cases—such as increases of establishment, or salary, or of the cost of a service, or for additional works or new services not specially provided for by Parliament—would require treasury sanction. The audit of authority necessitates, therefore, excesses on sub-heads being reported to the Treasury, as well as expenditure under the several cases mentioned, which has been incurred without treasury authority; but at the same time the Comptroller and Auditor General may properly report any other item of expenditure which he thinks should be the subject of special treasury sanction.

R. 1868,
App. I(4)

III. DISCRETIONARY REVIEW

Powers and Limitations generally

The functions of the Comptroller and Auditor General, in relation to his discretionary review, are less clearly defined, as from their very nature must be the case. Their range is governed more by usage and precedent than enactment, and their development will naturally be influenced by the spirit of the House of Commons and of the Public Accounts Committee, while the personality of the Comptroller and Auditor General himself is an important factor.

It was stated in the House recently, that 'the real check which we have upon expenditure in this country is that of the Comptroller and Auditor General. His one function is to examine the expenditure of the country. He is an official independent of the government of the day. He cannot be removed by the government of the day. He is there to represent the House of Commons in scrutinising the expenditure of money voted by this House. It is his duty to call the attention of this House not only to waste of public money, but to every matter arising out of his examination of finance, to which he thinks the attention of Parliament should be directed.' From this it is clear that his duties extend far beyond a mere

Parl.
Deb., 5 s.
xxxvii.
417-8

Cp.
Todd,
Parl.
Gov.,
ii. 262

C.N.E.
Ev. 756

Idem,
Ev. 757

arithmetical and appropriation audit, though such an extension of his duties has been a matter of gradual development which would not appear to have been entirely contemplated when the Exchequer and Audit Act was passed. On this point the statement made by Mr. D. C. Richmond before the Select Committee on National Expenditure of 1903 is a valuable pronouncement of the general position, and may usefully be reproduced *in extenso*. The Comptroller and Auditor General said: 'I am a parliamentary officer whose duty it is not only to certify to the correctness of the accounts as rendered, but, further, I am directed to report to Parliament. As regards reporting, I conceive I have something of a free hand. There are some points which I am obviously to report—such as any excess over a grant of Parliament, any clear irregularity, and so forth; but I have also a duty to report on the accounts, and availing myself of that opportunity I think it my duty to report anything which in my judgment, falling within my proper functions, it concerns the House of Commons to know. In the first instance, my object is to report in such a way as to assist the House of Commons in making its way through what may be a very bulky volume of accounts; but beyond that I do not feel myself debarred from calling attention to anything which has occurred in the course of my audit during the year which indicates loss or waste, or anything of that kind, which I think it is well that Parliament should know. Of course in doing so, I have to act with great care and discretion. It is not for me to criticise administrative action as such; the departments are responsible for their own action as regards general administration; but if I find the result of administrative action has been a loss or a wastefulness of public money, then I think it is not going beyond my duty of reporting, as an officer of the House of Commons, if I call specific attention to matters of that kind, even though the account itself would not disclose the facts. . . . Even if an account were in perfect order, I would in practice call the attention of Parliament to any instance of waste or extravagance.' He further considered that he had 'complete liberty in reporting, of relating relevant facts, and expressing opinions upon the conduct of departments in regard to their accounts, or upon decisions of the Treasury affecting them.'

COMPTROLLER AND AUDITOR GENERAL 191

The report of the select committee before which the evidence was given not only endorsed this view, but considered that the Comptroller and Auditor General's powers might with advantage be still further developed. It recommended the Public Accounts Committee, 'even more than in the past, to encourage the Comptroller and Auditor General to scrutinise and criticise improper and wasteful expenditure, and to indicate where censure is in his opinion required.' These are functions which, admittedly, would have to be used with caution. The criticism of conduct or wasteful expenditure, and the indication of where censure is required; are only the functions of the Comptroller and Auditor General in a limited degree. He might point out facts, but he should leave the Public Accounts Committee to draw the inferences upon them. To point out where censure is required is in effect to censure, and this might reasonably be resented by the department concerned. If censure is merited it should be given by the principal, the House of Commons, and not by the agent, the Comptroller and Auditor General. The same result can equally well be achieved, as a rule, if the latter puts the facts without comment before the Public Accounts Committee, and to this no exception could be taken by the department. It is indeed doubtful whether it is strictly within the functions of the Comptroller and Auditor General to criticise or object to expenditure as improper at all if it is properly vouched. The voucher is conclusive for him; and his power is limited to drawing attention to it, if it is evidently unnecessary expenditure. In acting thus he is clearly within his rights. By going further he runs the risk of exceeding his functions, without any corresponding gain, for it must be borne in mind that, as he attends the meetings of the Public Accounts Committee, he is always available to supplement his report by oral examination. An important instance of the exercise of extra statutory functions of the Comptroller and Auditor General in drawing attention to wasteful expenditure, although the vouchers were technically in order, occurred in 1905, in connection with the dual system of contracts adopted in South Africa for the disposal of surplus stocks at the close of the South African war. But for the report of the Comptroller and Auditor General it is possible that the effect of the administrative action of the War Office

C.N.E.
Rep.,
p. v.

Idem,
Ev. 1356

3 R. 1905, 18
4 R. 1906, 2

E. & A.
Act, § 27
C.N.E.
App. 7

Idem,
Ev. 1400
-5

in this case, resulting in 'an enormous waste of public money,' would never have been brought to the knowledge of Parliament. This practice of drawing attention to cases of extravagance is a good instance of a development of procedure arising out of the system provided by Parliament, but not specifically legislated for. But again, since he has to report on the expenditure as compared with 'the purposes for which the grants were intended to provide' there is imposed upon him the duty of considering what those purposes are, and in this the estimates, and any acts or orders in council regulating the expenditure, are his guide. The consideration of the purposes must, however, inevitably lead his investigation into the methods of expenditure and therefore into questions of extravagance. The words 'report on the accounts' probably do not legally confer a right to point out such cases to the Public Accounts Committee; but the practice is recognised by all departments, and no department has ever complained of attention being drawn to questionable expenditure even when regularly vouched.

2 R.
1888, 71
& 72;
T.M.

This accepted view of the practice which has grown up under the act is a wise one in the interests of national finance, if not carried too far. If, however, the Comptroller and Auditor General were to set up as the central authority for reviewing expenditure generally, and its necessity, it would create friction, and in the end do more harm than good. His position in this respect has been clearly defined by the Treasury, which says that he 'may draw attention to any circumstance that comes to his knowledge in the course of audit, and point out its financial bearing. As, however, he is the officer of Parliament, he will naturally have no disposition to question anything that Parliament has already sanctioned; and if he reports on a matter of administration from the point of view of its effects on the public purse, it will be for the purpose of bringing before Parliament something which would otherwise pass unnoticed. It is impossible to deny that it is always his right, and will often be his duty, to take this step; but it is equally obvious that the occasion and manner of such report must be matters of discretion.' The success of the practice, and its consequently beneficial results, are due to the moderation and tact with which it has hitherto been applied.

Intervention in Matters of Administration

To admit that it is within the province of the Comptroller and Auditor General to draw attention to apparent waste and extravagance does not imply that he has an entirely free hand in that respect. It would be impossible to draw a hard and fast line between the classes of expenditure involving extravagance to which he might legitimately draw attention and those which he should accept without question on the department's certificate ; but, speaking generally, it may be said that he should not bring forward any instance which arises out of matters which the Public Accounts Committee under its usual practice would not inquire into. The principal subjects in this category would be questions of policy and, in a lesser degree, questions of administration. As it must sometimes happen that it is difficult to judge of the extent to which policy or administration may be involved, it is within the discretion of the Comptroller and Auditor General to bring a matter forward in his report and throw upon the Public Accounts Committee the responsibility of deciding whether further investigation is justified. In the majority of cases, however, the preliminary correspondence between the Comptroller and Auditor General and the department should enable this point to be elucidated.

When, however, there is an apparent financial inconsistency in the administrative actions of the department, the Comptroller and Auditor General would be more than justified in raising a query on the point, even though ordinary questions of administration are clearly outside the range of his functions to question. It has been stated that he would, for instance, have no power to draw the attention of the Public Accounts Committee to such a matter as a redundant staff. His business is to see that the staff, whatever it may be, has treasury sanction. If he were to attempt criticism in such cases, the Public Accounts Committee would uphold the department against him. There can, however, be no clear-cut line of demarcation. Each case must be considered on its own merits. Moreover, the modern tendency is towards extending the functions of the Comptroller and Auditor General still further

2 R.
1888, 71.
T.M.

C.N.E.
Ev. 42

2 R.
1913. 41

in this direction, as shown by a query recently addressed to the Admiralty asking whether the boats and crews engaged in connection with repairs at a dockyard were fully and economically employed. A request for information of this description on administrative matters would, some years ago, have been resented by the department; yet it must be admitted that there is but little difference, if any, between a query of this nature and one directed to a redundancy of staff.

R. 1865,
App. 1,
para. 48

On the other hand, there is to be considered the deleterious effects of intervention in administrative matters not only on the accounting department, but also on the status of the audit department. This point of view was clearly put by the Secretary of the Board of Audit in 1865 on the eve of the formation of the present department. 'The whole of our experience as appropriation auditors,' he said, 'tends to satisfy us that we ought to have no further communication with the executive departments than may be necessary for the purpose of obtaining information. Whatever tends to associate us directly or indirectly with the pecuniary transactions of the government, cannot but tend to damage the credit of the reports in which we are required to submit those transactions to the judgment of Parliament. We conceive, therefore, that we should never be required to advise, to control, or to remonstrate.' Intervention, that is to say, should be rigidly excluded while action is contemplated or in process, and be entirely reserved for the completed result as shown by the recorded facts and figures.

Cp. 2 R.
1886,
69

The sole exception to this recognised principle is in the case of army and navy pension awards, which, in order to preclude any possible hardship to the recipient subsequently, are examined by the Comptroller and Auditor General directly after they are made, and prior to the first payment.

Interpretation of Royal Warrants and Orders in Council

R. 1911,
Ev. 2091

Any limitation of the power of investigation would naturally be set aside if the expenditure under review suggested a case of abuse as distinct from bad methods of administration. If the Comptroller and Auditor General became aware of such cases—as, for instance, the promotion of an officer with a view to his obtaining a higher pension—he would be clearly within

his rights in calling attention to it, even though the promotion might be in order under the regulations and solely a matter of administration. His power of interference in such cases depends upon the extent to which he is required to accept the interpretation placed upon the meaning of a royal warrant or order in council by the Treasury or the accounting department. In a treasury minute of 1876 the Comptroller and Auditor General is expressly directed to accept royal warrants and regulations as the governing authority, unless contrary to statute; and the view that he has nothing to do with royal warrants, but that his duty is limited to seeing that the expenditure is authorised by Parliament or the Treasury, has been explicitly negatived by the Public Accounts Committee.

The necessary recognition of royal warrants as governing expenditure does not, however, include an unquestioning acceptance of the interpretation put upon them by the department. Though the law officers have decided that the Secretary of State's interpretation of a royal warrant was binding on the Treasury, and the Public Accounts Committee recognises this within limitations, it is incumbent upon the Comptroller and Auditor General—and indeed his plain duty—to bring to notice any expenditure which does not seem to be covered by the terms of the royal warrant quoted as justifying it, and which has been incurred by placing upon the warrant an interpretation which may seem to him not to be a natural, plain, and reasonable interpretation. In taking such action he is invariably supported by the Public Accounts Committee, which insists that there is a limit to be placed on the power of interpretation. It is obvious, therefore, that the Comptroller and Auditor General can and must examine royal warrants; but such examination would be limited to the purpose for which it was instituted, to enable him to call the attention of Parliament to any points where there may appear to him to have been a divergence from the terms, or where treasury sanction may have been necessary. It would be no part of his duty to express an opinion upon the general policy of a royal warrant, to question its necessity, or to criticise its provisions. Nor would it be within his province to call attention to the financial effects of a warrant, provided it is not contrary to statute, unless he is of opinion that it results

3 R.
1876,
App. 1
(35)
R. 1877,
100

4 R.
1889, 5
Cp. R.
1913,
Ev. 688
2 R.
1883, 72
2 R.
1898, 8

R. 1877,
99-100,
T.M.

in the expenditure of money otherwise than in accordance with the intentions of Parliament. In such a case he would naturally and legitimately state his opinion in his report and leave the question to the decision of Parliament.

In the case of regulations framed by a department itself, a somewhat different principle is involved. The Comptroller and Auditor General accepts what the department considers to be the correct interpretation of its own regulations. Such is but natural, provided that such interpretation is not in opposition to any warrant or superior authority, or subversive of any established financial principle or rule. Such discretionary power of interpretation does not, however, give a department a free hand to interpret its rules to suit cases in other than a natural and reasonable manner. So long as a rule or regulation remains unamended the department is bound by it. 'Rules should be carefully adhered to, and where in practice it is found that some discretion is necessary in the application of the rule, such discretion should be provided for in terms with respect to that rule.' The Education Code is on a similar footing.

3 R.
1883, 18
2 R.
1884, 43
-47
2 R.
1885, 47
Navy
APP.
Acc.,
1893/4
C. & A.G.
Report
1 R.
1896, 10,
& T.M.
C.N.E.
Ev. 2567

The earliest important case in which the Comptroller and Auditor General stepped outside his strict functions and called attention to an administrative matter of which he became aware in the course of his examination was in 1895, when he pointed out that there was a considerable difference in the cost between cruisers built in private yards and those built in dockyards, while the reverse was the case in battleship construction. He suggested that it would be a good thing if the reasons of such difference were investigated. Criticism of such a nature might be extremely valuable, although outside audit, and, moreover, would be perfectly legitimate as disclosing facts which could not be dependent on policy, as might have been the case had he merely pointed to the difference in cost of production of a similar article in dockyards and private yards respectively.

Reports on Irregularities

The principle which precludes the Comptroller and Auditor General from criticising, as distinct from calling attention to, the effect of administration upon expenditure, equally precludes

him from criticising the administrative steps which a department may propose to take to prevent the recurrence of an irregularity. His duty is confined to pointing out the irregularity, leaving the department to take such action as it deems advisable. He does no more until the accounts for the period in which the charges should appear come under examination. In reporting the irregularity he would, however, be justified in referring to the effect of the steps taken by the department, and in expressing an opinion as to their probable efficacy; but such an opinion would be rather given with a view to relieving the Public Accounts Committee of further investigation than to invite criticism of the administration. A recurrence of the irregularity would inevitably raise the question of the administrative methods for investigation by the Public Accounts Committee, but even then the Comptroller and Auditor General would not be justified in criticising the maladministration. The department is responsible for its own acts and must justify them, if required, to the committee. The Comptroller and Auditor General is not the judge; though he may in a measure play the part of the prosecuting counsel before the Public Accounts Committee. The limitations of his functions in this respect were defined by the Treasury in 1884, on a suggestion made by the Public Accounts Committee that 'whenever a fraud appears upon the accounts a special report should be made by the Comptroller and Auditor General upon the circumstances, and as to whether proper precautions and guarantees have been taken.' The extent to which the committee desired that the functions of the Comptroller and Auditor General should be extended by this pronouncement was not clear, but in view of the important principle involved, and to guard against the risk of an unjustifiable interpretation being placed upon the words, the Treasury reviewed the proposal in some detail, in order to make clear the legitimate functions of the Comptroller and Auditor General and the Treasury respectively. 'The Treasury is primarily responsible to Parliament for the maintenance of financial order and regularity in all the accounting departments of the state, and in the exercise of this function it is the duty of the Treasury to lay down or require to be laid down in the various departments such regulations as provide for the exercise of proper

R. 1911,
Ev. 2433-
5

2 R.
1884, 29

Idem,
T.M.

checks and precautions. It follows that it is also their duty to ascertain, in any case brought to their notice, whether the financial regulations of the department are inadequate for the purpose of preventing irregularity, or have been neglected or laxly enforced, and inquiries of this nature have repeatedly been made. If the Public Accounts Committee intend that the Comptroller and Auditor General is to undertake the duty of investigation for which the Treasury now hold themselves responsible, he would undertake an administrative duty which the Treasury consider inconsistent with the critical and quasi-judicial character of an auditor. The same objection would apply if he were to re-investigate the case *ab initio*. . . . If the Public Accounts Committee mean that he should criticise the manner in which the Treasury has performed its duty of investigation, the Treasury agree with the Public Accounts Committee.' With this view the committee has implied its concurrence; for on a subsequent occasion, in observing upon a similar case, it limited itself to expressing the opinion that 'all cases of defalcation resulting in the loss of public money should be brought under special notice.' To such a course there can be no objection, either in theory or in practice, and indeed it is clearly the function of the Comptroller and Auditor General to see that such cases are brought to notice in the accounts. The recognition of this principle does not imply that the Comptroller and Auditor General is merely to see that the case is noted, or to note it in his report without making any inquiries what ever into its origin or the possibilities of recurrence. If he is to assist the committee he must clearly ascertain what the system is under which it has been possible for the fraud to occur, and what amendments, if any, have been made in it which may ensure that it will not recur. Although inquiries of this nature, as being inquiries into administration, would only be made at his discretion, they are inquiries into accomplished facts, and in that sense are essentially different from proposals as to what administrative action should be taken. He must guard against any action which may suggest interference with the departments while they are taking those steps for which they alone are responsible. His functions cannot properly begin until those of the departments, whose receipts and payments he has to check, have

2 R.
1897, 9

C.P.M.
1857,
App. 2,
p. 547

ceased. Any interference, direct or indirect, on his part, previously to payment being made and recorded, cannot but lessen the responsibility of the department, while at the same time rendering him incompetent to express an unbiassed opinion on acts which he would have, if not advised, at least sanctioned—if only implicitly. The executive must be given the freest possible action in the expenditure of the public money entrusted to it, on its own responsibility, subject to subsequent audit.

Cash Balances

A similar principle precludes the Comptroller and Auditor General from checking the balances in the hands of sub-accountants. As a matter of administration, it is most desirable to check balances; but such action is administrative and outside the functions of the Comptroller and Auditor General. 'The auditor tests results, and when once the machinery of accounting has been settled, he should wait for the result before he interferes. When the time for his interference arrives, he should have uncontrolled power to make any inquiry that he may consider necessary; but he should be in no sense accessory to the facts of which he will be the judge.' The power of verifying balances at any given moment is therefore retained by the Treasury in its own hands, as the central financial department, and is not delegated by it to the Comptroller and Auditor General. The exercise of this power by the Treasury does not, however, in any degree relieve departmental authorities from their responsibilities in respect of the regulation of the balances in their charge. This view is endorsed by the Public Accounts Committee, which says that, in the absence of any provision of law to that effect, it cannot be doubted that it is within the prescriptive authority of the Treasury over the public finances to provide power for verifying balances. The responsibility for the system rests with the Treasury, and the committee accepts the dictum that the verification should not be carried out by the Comptroller and Auditor General, though previously inclined to think that such verification might have been made his statutory duty. The recognition of this

2 R.
1878,
25. T.M.

2 R.
1872,
50 (1),
T.M.

2 R.
1872. 50

Cp. 4 R.
1894. 37

R. 1882,
94

principle was confirmed at a later date, when the committee agreed that 'the chief accounting authorities of a department should feel that their responsibility is unshared with respect to the balances of their subordinate accountants, and that it is undesirable that an external audit should be more than superficially addressed to the balances of the sub-accountants of a department.' A distinction must, however, be clearly drawn between the verification of the cash balances and the criticism of balances, as set forth in a balance sheet. The examination of the latter, as to their origin, amount, and clearance, comes within the sphere of the auditor's functions; but as regards these a further distinction is to be drawn between external balances, or amounts due to or from some person or body external to the departments, as well as balances of special funds under the direct control of the department, and internal balances, namely amounts due to or from departmental sub-accountants. As regards the latter, the Treasury considers that 'it is a most important principle of correct administration that the responsibility of the chief of a department for the acts of his subordinates should be complete,' but agrees that the Comptroller and Auditor General, while accepting no responsibility for them, is not precluded from bringing to notice any irregularities observed. As regards the former class of balances, his duties are more specific, and he is required to carefully scrutinise the balances on such accounts, and to call attention to any items which appear to require explanation.

Army
Apr.
Acct.
1881/2,
p. 232

IV. THE AUDIT OF GRANTS IN AID AND MISCELLANEOUS ACCOUNTS

*Grants in Aid*¹

3 R.
1896,
3-5, &
App. 16.

4 R.
1899,
T.M. 8

The nature of grants in aid, and the conditions under which they are made, necessarily modify the functions of the auditor in relation to them. They furnish an exception to the general rule that grants from parliamentary votes must, firstly, be accounted for in detail by the accounting officer; secondly, be subjected to the Comptroller and Auditor General's appropriation audit; and thirdly, be surrendered if unspent.

When money is voted as a grant in aid, Parliament, in

¹ Compare, *Grants in Aid: a Criticism and a Proposal*. Sidney Webb.

the absence of instructions to the contrary, dispenses with the condition (which applies to all other voted moneys) that any amount issued to the grantee, but not finally expended within the financial year, shall be surrendered. Evidence of the issue gives the accounting officer his full discharge, and the appropriation account is not concerned with the further disposal of the money. In such cases, therefore, what is not spent in one year is available for the service in the subsequent year or years, at the discretion of the grantee. Under certain circumstances, however, it might be considered desirable to surrender a surplus and to ask for it again later if required. Generally speaking, the making of a grant in aid implies a waiving of parliamentary control over the expenditure in detail. This is deliberately effected by Parliament for the reason that, while it considers a grant necessary, it either does not wish, or has not the means, to follow the expenditure further. In the case of ordinary grants in aid, the object is intended to be general, and no attempt should usually be made to limit its use beyond the general description of the service for which it is given. Specific appropriation would not be consistent with the making of a grant in aid at all. Whenever such appropriation can be made, it is desirable to treat the grant as an ordinary grant in order to reduce the system of grants in aid to such cases as cannot otherwise be dealt with. In some cases, however, a grant in aid may be made because the expenditure is so uncertain that it would be inadvisable to appropriate a definite sum more particularly. The detailed expenditure would then be audited as strictly as a vote which had been definitely appropriated, a note in the estimates providing for this.

4 R.
1892, 36

4 R.
1894, 15

Grants in aid should, however, be considered as exceptions to the rule in our financial system, and should be restricted as much as possible to those cases in which ordinary grants and the rules governing them are not applicable. The guiding principle under which they are made is that they should be limited to cases in which it is intended that the grant shall be handed over to the grantee by the accounting officer of the vote concerned; as a free gift and as a final payment, not subject to the normal rule of surrender of any balance unexpended within the year.

3 R.
1896,
3-5, T.M.

The extent of audit required for a grant in aid depends in each case on the terms on which the grant was made. With

Ev. 1910,
R. 2352

- 4 R. 1894, 58 regard to some, there are conditions attached by Parliament ; and with regard to others there are treasury conditions as to audit. They may be subject to audit in detail, or exempt from such audit. Publication of the accounts is not a necessary sequence of audit ; in fact there are very few cases of grants in aid where the detailed expenditure is published. In the absence of any directions to the contrary, the functions of the Comptroller and Auditor General are limited to seeing that the money has been issued within the year by the accounting officer to the grantee ; in other words, the statutory appropriation audit is confined to seeing that the accounting officer is entitled to credit for his payment. When Parliament makes an unconditional grant, subject to no restriction, no question of detailed audit of expenditure arises. Under this category would be included grants, or in effect subscriptions, to bodies such as the Royal Geographical Society, over which the state neither has nor seeks to have control. Subsidies to steamship companies are on a somewhat analogous footing, so far as the expenditure is concerned, as, though in this case the state may claim to be represented on the board, and the payment is in the nature of a retaining fee with a view to securing a definite though hypothetical object, the method of expenditure in relation to that object is not susceptible of audit by the Comptroller and Auditor General. When small grants are made to public or semi-public bodies or societies, the principle is to regard them as subscriptions and not to audit them. The question of audit is a matter for the grantees themselves. The Public Accounts Committee, however, may reasonably ask whether those who receive the grants have a proper audit of their own accounts, as Parliament has a right to know that the money it has given has been properly accounted for generally. If the grant supplies the whole revenue, as in the case of the Meteorological Office, then the Comptroller and Auditor General audits the expenditure in detail.
- 3 R. 1896, App. 16, 2 (2) The grant for government hospitality is peculiar in that, as a matter of policy and expediency, there is no account published, but the Comptroller and Auditor General audits the expenditure in detail. Provision is made by a note in the estimate for the non-surrender of the balance, which is shown among the deposit funds accounted for by the Treasury, the
- R. 1911, Ev. 382 & 392
- R. 1913, Ev. 1134
- R. 1915, Ev. 935
- R. 1911, Ev. 528
- R. 1913, Ev. 1168
- 3 R. 1910, 30, & Ev. 2493

policy approved by Parliament being to accumulate a fund. The audit of the Comptroller and Auditor General is directed to seeing that, when expenditure takes place, it is incurred on the purpose for which the grant is given. In the case of grants to government institutions such as the National Gallery, the grant in aid accounts are audited, and therefore the Comptroller and Auditor General is able to follow them up and to satisfy himself generally that they are eventually spent on the purpose for which the money was provided. They need not, however, be spent—and are frequently not spent—within the year, but may be retained until required. In all grants of this nature there must be a specific declaration, or a clear understanding as to the intentions of Parliament. Certain grants may be in the nature of grants in aid and yet not placed on the same footing as normal grants in aid. Unless there is clear proof or evidence that they are actual grants in aid the Comptroller and Auditor General is under obligation to treat them as normal grants and audit them under the Exchequer and Audit Act. He cannot in such cases accept an audit made on behalf of the grantee.

R. 1910,
Ev. 2487

3 R.
1894, 54
-5

The cases in which grants in aid are subject to the Comptroller and Auditor General's audit may be divided into three classes. In the first place special provision may be made by Parliament for the audit, in which case a note to that effect should be added to the estimate; secondly, an examination of the expenditure may be directed by the Treasury, while, further, some grants are administered under treasury regulations designed to ensure that the money is properly expended; and thirdly, the grants may be indirectly examined because the accounts of the grantees in which they appear come under the Comptroller and Auditor General's audit.

Cp. 3 R.
1896,
App. 16

R. 1911,
Ev. 385

The usual objects with which an examination is carried out are to see that the expenditure generally is covered by the purpose for which Parliament intended it; to enable future grants to be regulated on the basis of the needs of the grantee as shown by the expenditure; and, lastly, in the case of those grants of which any unspent balance is liable to surrender, to ensure that the correct amount is surrendered. The audit on these lines is necessarily more restricted in many ways than the audit of ordinary grants, and is only carried

out for a definite and limited purpose, varying in different cases according to the nature of the grant. To limit the discretion of the grantee might have the effect of defeating the purpose of the grant.

R. 1910,
App. 9

The audit of grants in aid made to colonies and protectorates is on a somewhat different footing. From 1867 to 1886 colonial accounts were audited by the local governments, subject to an additional audit by the Comptroller and Auditor General in the case of colonies receiving grants in aid from Imperial funds. In 1886, on the invitation of the Secretary of State for the Colonies, the Comptroller and Auditor General undertook the audit of the accounts of the remaining colonies and a colonial audit branch, attached to the Exchequer and

Cp. 2 R.
1906, 17

Audit Department, was formed in 1889, this branch being formally amalgamated with that department in 1906. Throughout this period, therefore, the audit of colonial grants in aid fell within the third class mentioned above—namely, that in which the accounts of the grantee were audited by the Comptroller and Auditor General. Four years later this department was reorganised, and the work was transferred from the control and direction of the Comptroller and Auditor General to that of the Secretary of State for the Colonies, who dealt with it through a colonial audit department. This department, which is responsible to the Secretary of State, audits all the accounts, both of revenue and expenditure, by local auditors whose operations are controlled and directed by a small central establishment attached to, but not part of, the Colonial Office. It is, therefore, independent of the local executive governments, and this provides an effective and convenient service, so conducted that the Comptroller and Auditor General is able generally to accept the certificate of its head in support of the accuracy of the details of the accounts of the colonies rendered to him by the accounting officer of the vote for colonial services, in evidence of the proper application of the Imperial grants in aid of the local revenues of the colonies. The acceptance of this certificate relieves the Comptroller and Auditor General of detailed examination, while at the same time giving him a free hand for further scrutiny whenever he considers it necessary. He is furnished with all the information he requires and has a controlling audit to be exercised at his discretion. The degree of scrutiny,

3 R.
1910, 21

R. 1912,
Ev. 1928

however, which he gives to the detailed expenditure is dependent on the actual conditions of the grant in each case. The Public Accounts Committee and the Comptroller and Auditor General are strictly only concerned with exchequer-aided colonies, but in practice it is not possible to confine the work of the colonial audit department to financially independent colonies and protectorates, as particular dependencies frequently pass from one category to the other. The present system, therefore, provides a convenient arrangement without limiting parliamentary control over the appropriation of exchequer grants.

Thus it will be seen that the audit of grants in aid varies greatly in extent and method, ranging from the simple appropriation audit of the expenditure of the grant as a lump sum to the detailed examination of the expenditure by or on behalf of the Comptroller and Auditor General. The determining factors are the intentions of Parliament, the nature of the grant, any special conditions attached to it by Parliament, and, finally, any special directions given by the Treasury.

A somewhat similar principle is involved in the case of grants to Territorial Force Associations for the discharge of their special functions. The intention of Parliament being to give the associations a free hand as to their administration, provided it is regulated on uniform principles; the sole idea is to control the income, in the interests of the public, but not to control the expenditure, generally speaking. The Comptroller and Auditor General, therefore, does not audit the accounts—and is in fact absolutely precluded from auditing them—but calls for them solely to satisfy himself that they have been audited, and that the regulations as to audit by the professional auditors have been complied with. His examination is merely an inspection. The professional auditors, i.e. the chartered accountants, see that the grants are expended for the purpose for which they are made. The military inspectors see that the men are properly equipped.

An account which is dealt with on similar lines is that of expenses under the Unemployed Workmen Act, 1905. A supplementary estimate is presented during the year and a grant made for contributions in aid of expenses—a note being appended to the effect that the expenditure is to be audited as provided under the act. The expenditure therefore is

R. 1910,
Ev. 775-
9

R. 1912,
Ev. 2440

Army
Appr.
Acct.,
1913-14
C. & A. G.
R. 5
R. 1912,
Ev. 2427

5 Edw.
VII. c. 18

R. 1910, audited by the Local Government Board, and the Comptroller and Auditor General is only concerned with the audit of the bulk receipts of the several local authorities.
Ev. 2483

The powers of the Comptroller and Auditor General as to the audit of grants in aid are not, however, limited in every case to the audit of the issue of the grant itself, though that may be the extent of his statutory duty. He has power to take such steps as he may deem necessary to satisfy himself of the propriety of any charge to the vote. If, therefore, a grant is made upon any condition connected with the receipts or expenditure of the grantee, the accounts of the latter are liable to be examined by the Comptroller and Auditor General, if he sees fit to do so, both on his own behalf and also on behalf of the department which administers the vote. The nature of the case may frequently require the exercise of tact and discrimination on his part in carrying out this duty. Again, it is to be remembered that certain aid grants are voted by Parliament for more or less specific purposes and, though the expenditure need not necessarily take place within the year, yet there must be evidence or an understanding that it is going to be used for the purpose for which it has been provided. If the funds voted turn out, in the event, to have been unnecessarily large, the surplus should be surrendered and the estimate for the following year's grant in aid reduced. There can be no justification in such a case for putting the money by to be spent afterwards upon services which were not within the contemplation of Parliament.

2 R.
1891, 40,
& T.M.

2 R.
1906, 13.

Miscellaneous Accounts

In addition to appropriation accounts, and the accounts of the grants in aid already alluded to, there are many other classes of accounts, which are more or less directly connected with public moneys, which the Comptroller and Auditor General audits or examines under treasury direction or under statute, or in which he makes no audit at all, accepting the audit of the independent auditors, as in the case of the accounts of approved societies and insurance committees which are audited by the National Insurance Audit Department constituted in 1912. The account of the national health insurance fund itself is, however, subject to the audit of the Comptroller and Auditor

R. 1914,
16
1 & 2
G.V. c. 55
§ 54 (5)

General by specific enactment of Parliament, as also are the Chelsea Hospital capital and income accounts, the funds of the Court of Chancery, and certain other classes of accounts—such as road improvement and development funds, loan accounts and defence accounts.

39 & 40
Vic. c. 14.
35 & 36
Vic. c. 44.
9 Edw.
VII. c. 47

In the case of various other accounts, which do not directly affect Imperial funds and which do not come before the Public Accounts Committee, the audit is made by the Comptroller and Auditor General under treasury directions and a clearance certificate furnished by him to the accountant concerned under section 38 of the Exchequer and Audit Act. Thus many departments hold deposit funds which may or may not be public money, but the balances on which are held by the Paymaster General as part of his general cash account. The War Office, for instance, administer various bequests, the accounts of which are subjected to a periodical test check by the Comptroller and Auditor General. The army prize money and legacy fund, administered by the commissioners of Chelsea Hospital, is public money but there is no annual parliamentary grant ; it is therefore different from an appropriation account, but the Comptroller and Auditor General audits it as an ordinary account. Other accounts which come into this category are those of the Treasurer and Harbour Commissioners of the Isle of Man ; the establishment accounts of the colonial branches of the Royal Mint ; and certain Channel Islands accounts.

Army
Appr.
Acct.
1881-2,
p. 217
3 R.
1902, 5
R. 1911,
Ev. 2898
C. & A.G.
Memo.
17

A further class of accounts which come under the review of the Comptroller and Auditor General are the commercial accounts of telegraphs and telephones. In accordance with a treasury minute of 7th September, 1909, these accounts have to be submitted to that officer for examination. They are printed separately from the Post Office appropriation account and reported on by the Comptroller and Auditor General. Similarly, the funds and securities of the Public Trustee are examined at the request of the Treasury. Such accounts as the revenue accounts of the customs and inland revenue, and the post office savings bank are also audited by the Comptroller and Auditor General under section 33 of the Exchequer and Audit Act.

3 R.
1910, 35

It may be said, indeed, that there is hardly any class of accounts, connected directly or indirectly with public moneys,

which the Comptroller and Auditor General may not be required to examine under parliamentary authority or treasury instructions, other than those for which the audit has been otherwise specially legislated for. The increase of the latter class of accounts, arising out of the new conditions created by modern social legislation, has raised fresh problems of account and audit which yet remain to be solved.

C. & A. G.
Memo. 16

A further duty of the Comptroller and Auditor General, which is rather one of statistics than audit, is the presentation of total cost statements of the different departments. His responsibility for its correctness is, however, limited; for he is responsible only for matters of vote and not for matters of statistics. This statement, to which further reference will be made later, is prepared not under treasury direction, but as part of his duty as the informant of Parliament at the suggestion of the Public Accounts Committee. In addition to rendering the general statement of total cost, it is also his invariable practice to call attention to the total cost of a department by mentioning certain cognate services which are provided under other heads.

R. 1911,
Ev. 1514

2 R.
1879, 35

4 R.
1889, 31

R. 1911,
Ev. 1037

V. STORE, EXPENSE, AND MANUFACTURING ACCOUNTS

The functions of the Comptroller and Auditor General in relation to store and expense accounts are analogous to, but on a somewhat different plane from, those which he exercises over the cash accounts. So far as the latter are concerned, the method of using, or date of use, of stores is immaterial. The original cost of the stores appears under date of purchase in the cash account as a final charge. Store expense accounts are therefore not an integral part of the cash account, nor, from the cash accounting point of view alone, are they in any way essential. But though a cash account may be perfectly in order as such, it does not necessarily furnish any guarantee that the stores purchased with the money provided by Parliament have been utilised in the manner intended by Parliament. 'Irregularity in the disposal of public stores is equivalent to an illegal appropriation of public money, and an audit of the expenditure of money granted by Parliament for the purchase of stores does not satisfy Parliament as to the final

R. 1887,
APP.,
P. 206

application of such money—that is, as to the proper disposal of the stores.’ The cash account shows the purchase, the store account shows the existence, and the expense account shows the use. Stores may be misappropriated as well as money, and the resulting loss to the public is the same whether the money granted to purchase the stores is misappropriated or whether the stores themselves, after purchase, are misappropriated. Audit of the cash accounts guards against the former contingency. An audit of the expense and store accounts is equally necessary to guard the public against loss from the latter contingency. It may even be more necessary, since the possibilities of loss to the public are frequently greater when stores are dealt with, owing to the fact that laxity, negligence, and fraud can more readily creep in than in dealing with cash. It is only one of the functions of the Comptroller and Auditor General to see that public money is spent correctly. His audit of the store accounts is, in the public interests, of equal importance.

Cp. R.C.
Civ.
Estab.,
1 R. Ev.
9789-90

R. 1911,
Ev. 3079

Expense accounts and storekeeping are strictly of an administrative character, however, and possibly it was for this reason rather than from want of appreciation of the importance of the question that Parliament did not in 1866 make more definite provision for the Comptroller and Auditor General’s duties in relation thereto. The only reference to stores in the Exchequer and Audit Act is in section 40, which states that ‘In all cases where the Comptroller and Auditor General shall be required by the Treasury to examine and audit the accounts of the receipt, expenditure, sale, transfer or delivery of any securities, stamps, government stock or annuities, provisions or stores, the property of her Majesty, he shall on the examination of such accounts being completed, transmit a statement thereof, or a report thereon, to the Treasury,’ and if approved, give the accountant a discharge for them. While therefore Parliament did look forward to some form of store audit by the Comptroller and Auditor General, it thought fit to leave it to the Treasury to determine in what cases it should be exercised, and what the form should be, and did not require that it should itself be informed of the result. The importance of the subject was, however, early recognised by the Public Accounts Committee and the

1 R.
1895.
App. 4

4 R.
1894, 33 Comptroller and Auditor General, and efforts were constantly directed to inaugurating and building up a system which should have the effect of bringing up and levelling the control over the stores to the same standard as that which prevailed in the case of cash.

2 R.
1879, 95 Following upon the establishment of a system of test audit of the cash accounts, previously mentioned, the Comptroller and Auditor General in 1878 raised the question of the extension of that audit to the manufacturing and store accounts of the army; but it was then decided by the Public Accounts Committee which considered the question in the following year, that the time was not ripe for entering upon the question of the extension of the duties of the Comptroller and Auditor General to the audit of stores, though its importance was recognised. The new system inaugurated by the Exchequer and Audit Act was still in the experimental stage, and the examination of the appropriation accounts of the army and navy by the application of the test audit had not been fully worked out. The question was therefore temporarily postponed; but only a year later the Public Accounts Committee again referred to it. 'Whether,' it observed, 'any independent criticism of the store accounts should be established, and if so, how far, and with what limitations it should be exercised, are questions of old standing, and of great difficulty.' Again, in 1882, the committee expressed its opinion as to the advisability of applying an independent test to expense accounts, though recognising the difficulty of doing so, in such a manner as to avoid trespassing upon administration, or relieving the department of its proper responsibility. The expense and store accounts of the army and navy were examined and reported on departmentally; but in the absence of any machinery for bringing the accounts or the departmental reports before the Public Accounts Committee and the Comptroller and Auditor General, no proof was afforded to Parliament of what Parliament had a right to know—that the stock accounts were substantially correct. The functions of the Comptroller and Auditor General under section 22 of the Exchequer and Audit Act—that is to say, in respect of the appropriation of the grants—were limited, so far as the examination of store vouchers were concerned,

2 R.
1880, 43

R. 1882,
132

COMPTRROLLER AND AUDITOR GENERAL 211

to seeing that they justified the cash accounts. He was not enabled to give a certificate under section 40 of the act. The committee suggested that expense accounts which indirectly relate to the expenditure of Imperial funds might properly be brought within the description of accounts, other than appropriation accounts, which are legislated for in section 40, Exchequer and Audit Act, and that consequently a treasury minute would be sufficient to direct the Comptroller and Auditor General to examine and audit them. That such a procedure would have been both possible and legal was not denied; but in view of the important issues involved, the Treasury expressed an opinion that it would be preferable that the powers under which the Comptroller and Auditor General should apply his audit to the expense accounts of the navy and the manufacturing accounts of the army and navy should be derived from Parliament itself, and that a bill should be introduced which would not only empower and direct him to examine these accounts in such manner and to such extent as may be laid down from time to time by the Treasury, and to report annually to Parliament the results of such examination, but which would also require the departments to prepare and render these accounts, which are of great value. 'Compiled from the wages sheets, from the notes of stores issued locally or purchased at headquarters, they show the actual purposes for which wages have been paid or materials issued. They are the necessary complement of the appropriation accounts. In the hands of an expert they open up all kinds of suggestions and hints, and so constitute a valuable weapon of financial criticism.'

R. 1882,
12

2 R.
1888,
132

Idem,
T.M.

R.C.
Civ.
Estab.,
1 R.,
para. 85

In the meantime the question of store audit had been taken up by the Treasury under the administrative powers conferred on it by the act of 1866. As a preliminary measure it was decided to deal with the case of the Stationery Office store accounts by a special and temporary arrangement 'in view of the usefulness of the larger experience in the audit of accounts of this nature which might thus be gained.' The first report on these accounts under this arrangement was made in 1886, and provided a valuable guide to the extension of the system to the larger store questions of the army and

2 R.
1883, 12,
T.M. 6

2 R.
1884,
129

navy. In regard to the army, the Treasury stated that, in its opinion, the object was that the War Office should itself examine and compile an annual account of stocks, and, when prepared, it would be for the Treasury to judge to what extent an efficient control over the stores is secured, while such an account would afford a fitting opportunity for the Comptroller and Auditor General to express his view as to what further independent audit he could do. As a result of these measures the principle of store audit was definitely established, and a treasury minute of 15th November, 1886, imposed upon the Comptroller and Auditor General the duty of the audit, the first report being submitted to Parliament in 1888. The early examinations of the Comptroller and Auditor General were necessarily of a tentative and limited character, and were directed mainly to the efficiency of the system. His first object was, as he explained in his report, to ascertain:—

R. 1887,
App.,
p. 206

Cp. R.C.
Civ.
Estab.,
1 R. Ev.
9774-8,
2 R. Ev.
14033-9
2 R.
1888, 100

1. Whether regulations exist which appear to be calculated to secure within the department an efficient control over the receipt and disposal of stores.

2. Whether the regulations laid down are duly enforced.

1 & 2 R.
1888,
T.M. 38

The securing of an efficient system was necessarily the prime consideration. The development of store audit under that system followed in due course, and has tended to secure to Parliament a control over the stores approaching, if not equal to, its control over the cash. The change was met by the departments on the whole in the spirit with which it was introduced. Store audit was a 'novel institution,' and resulted in the store transactions of the departments being for the first time subjected to external criticism, just as twenty years before, regular and systematic external criticism had for the first time been brought to bear upon the cash accounts. But while the new system inaugurated by the Exchequer and Audit Act was unpopular at first and resulted in much discussion and doubt as to the exercise of the functions of the Comptroller and Auditor General, there was no such feeling, either on the establishment of store audit, or of the audit of expense and manufacturing accounts. The publication of the first report on store audit elicited from the Treasury an expression of its appreciation of the evident friendliness of

the relations between the audit department and the officers concerned with the storekeeping.

The spirit in which these changes were met by the departments exemplifies the development of the attitude of departmental officials, in that they were learning to appreciate the fact that Parliament had a right to control every aspect of expenditure, and in the realisation of the fact that that control could only be efficiently exercised through the agency of the Public Accounts Committee and the Comptroller and Auditor General. The importance of correct store accounting was not, however, grasped as readily as that of cash accounting, and six years later the committee observed that the departments hardly yet realised to the full their responsibility in the matter, while at the same time it placed on record its 'sense of the progress which had been made.' 'Mainly,' it was stated, 'through the action of the Public Accounts Committee and the Exchequer and Audit Department, we have now got valuation accounts which we never had before, and we now know a great deal more about the value of the stores than ever previously.'

4 R.
1894, 33
Idem, 32

The principles which restrict the functions of the Comptroller and Auditor General in dealing with administrative matters in connection with the cash accounts are equally applicable to his examination of the store accounts, and the treasury minute which instituted the test audit for stores also made it clear that the functions of the Comptroller and Auditor General were restricted. The same is true of expense accounts which are strictly of an administrative character. Any report of the Comptroller and Auditor General must necessarily be of a general character, and so framed as not to trespass upon administration nor to relieve the department of any responsibility, though it may assist towards proving to Parliament that the stock accounts are substantially correct. So, too, the observations which have already been made on the subject of demanding information, and the powers of departments to withhold it, are equally applicable in the case of the store audit and the examination of expense accounts, and need not be further enlarged upon. In yet another respect there is an analogy between cash and stores. In considering the cash accounts it was pointed out that the

1 R. 1895,
App. 4
Cp. 2 R.
1872, 50,
T.M.

R. 1882,
132

verification of cash balances was a purely administrative duty and did not concern the Comptroller and Auditor General. The corresponding duty, in dealing with stores, of stock-taking is equally administrative, and on the same principle falls outside the scope of the Comptroller and Auditor General's functions. The effect of imposing stock-taking on the Comptroller and Auditor General would be to commit to him a definite part of one of the functions of administration, which properly belong not to an auditor but to the chief of the administering and accounting departments. The treasury minute previously referred to directed that 'the regulations of the departments should provide for periodical stock-taking of all stores in charge, under conditions affording a sufficient guarantee of the existence of the certified balances—that is to say, the stock should be taken and certified by boards of survey, consisting of one or more responsible officers wholly independent of the store-keeping branch, in addition to the storekeeper or his representative. It will not be the duty of the Comptroller and Auditor General at any time to take part in these surveys of stock. The duly certified statements of the properly constituted boards of survey will be accepted by the Comptroller and Auditor General for the purpose of comparison with the balance of stock remaining on charge as appearing in the stock ledgers—subject, of course, to any observations which the Comptroller and Auditor General may see fit to make in regard to the apparent efficiency or otherwise of the arrangements for stock-taking.' Such a course was stated to be in accordance with the practice in regard to the audit of the store accounts of commercial concerns.

The importance, however, to the public of a correct statement of stock was considered by the Public Accounts Committee to be so great that it was strongly disposed to recommend an extra-departmental stock-taking, and it was only in deference to the objections raised by the Comptroller and Auditor General and the Treasury that it refrained from making a definite recommendation to that effect. The arguments against such a course were clearly stated by the Treasury in its minute of 19th October, 1894. The Comptroller and Auditor General 'should do nothing that may tend to transfer responsibility for stock-taking from the administering

4 R.
1894, 38

Idem, 43

R. 1887,
App.,
p. 206

4 R.
1894, 41
& 45

1 R. 1885,
App. 4

department to his own shoulders. Therefore, he should take no action whatever which might be held to justify the inference that he in any degree accepted such responsibility. The department that administers a store service is responsible for the proper stores being procured, in point of character, cost, quality, and quantity, for their safe custody pending use, and for their being used for the right objects, so long as they remain within its jurisdiction. The public is not concerned with where the stores are, so long as the right stores have been economically bought, are forthcoming in good order when wanted, and are being economically used. It would be simply injurious to the public interest if any other department were to intervene and assume whole or joint responsibility at some particular mesh, and no other, in the web of administration.'

The Public Accounts Committee fully recognised that departmental stock-taking must be maintained with the responsibility of the departmental officers unimpaired, and accepted—though somewhat reluctantly—the view that a weakening of such responsibility would follow a test stock-taking by the Comptroller and Auditor General; while simultaneously a very serious responsibility would be transferred to the audit department, fully weighted already with its cash duties. If such a step were initiated, and anything should subsequently turn out wrong in the stock, the departmental authorities might try to cast the onus on the Comptroller and Auditor General and ask why he did not find it out. On the other hand (although stock-taking is not one of the normal functions of the Comptroller and Auditor General) the Public Accounts Committee, the Comptroller and Auditor General, and the Treasury are all agreed as to the expediency of stock-taking by officers wholly independent of the storekeeping branch, whenever that arrangement is practicable. 'The checking of store officers by an independent officer within the department is an essential factor in good administration.' In this manner a reliable result can be achieved without weakening the responsibility of the department, whose own officers would take the stock. The Admiralty, however, do not have any independent stock-taking in the service afloat, though the accounts are very closely scrutinised. The commanding officer's certificate is accepted as sufficient.

4 R.
1894, 40,
42

1, 1896,
13, T.M.

R.C. Civ.
Estab.,
1 R.
para. 98

R. 1910,
Ev. 468-
471

4 R.
1894, 39
R. 1913,
Ev. 1013

4 R.
1894, 46

1 R.
1895,
App. 4

But again, while the Comptroller and Auditor General is precluded from taking stock as a matter of system, he has not felt that he was absolutely prevented from doing so in any case in which he felt that his official position justified such action. This step would, however, only be taken in isolated instances, and for a specific and limited purpose; and this being understood, the question of departmental responsibility would not be affected. With a view to giving the Comptroller and Auditor General such measure of control over the actual stock as might be necessary in certain cases, in order to enable him to discharge his duties to Parliament, while at the same time meeting the objections to imposing upon him the actual stock-taking, the Public Accounts Committee suggested a course which it considered would ensure the desired result. It recommended that the Treasury should empower him to cause a special stock-taking to be performed in any case where, from any suspicion or apprehension of error or other cause, he might deem such a measure to be desirable or necessary. In such cases he should have the power to require that the stock be taken in the presence of himself or his officer. Thus not only would the check be absolute, but the knowledge that such a power resided in the audit department would ensure the utmost carefulness on the part of the departmental authorities in having the stores accurately reported and valued, and also in making their stock-taking as complete as possible. By this means the hands of the Comptroller and Auditor General would be strengthened without any undue responsibility being cast on him, and without the responsibility of the department being impaired. The exercise of such a power demands much discretion, as regards the extent and occasion of the demands on his part, while its success demands the ready co-operation of the chiefs of the department concerned. The Comptroller and Auditor General must of course be the sole judge of the cases in which the power should be exercised, and of the reasons by which such exercise would be justified, but as a parliamentary officer he can be trusted not to abuse or exceed the authority. In the exercise of it he is trenching upon an administrative function, and though his duty in that respect is recognised, it is still within the power of the department to protest, if of opinion that he is

going too far, and to have the case brought before the Public Accounts Committee. A somewhat different principle is involved in the case of the war reserves which are maintained by the War Office, for these quantities are kept secret. The Comptroller and Auditor General verifies the record systematically under arrangements with the War Office with a view to Parliament having an independent assurance that they are in existence. 'As regards the authorised establishment of war reserves, the nature and amounts are technical questions determined on the authority of the Army Council, and any test check by the Comptroller and Auditor General is therefore limited to the verification of the store record of what is stated to constitute a reserve.' The question of the correct composition does not come within his province. Further, though it rests with the Army Council to say when they will lay down a reserve, yet if a scale has been laid down, a shortage from the authorised quantity of an article which has never actually been completed should be shown as a deficiency. So also in the case of departments generally. The proper amount at which a reserve of stores should be maintained must be left to each department to determine, from time to time, as a matter of administration ; but the Comptroller and Auditor General, though he cannot question the policy of the department in this respect, may usefully call attention to any material differences of such reserves at the end of the financial year as compared with the previous year, for such a point might have a direct bearing on the cash account of the store vote or sub-head. Parliament, in fact, requires to be satisfied, through its own officer, not only that the stock stated to exist does exist, but also that the full amount authorised exists, or that a shortage is explained.

The Comptroller and Auditor General's audit of store accounts is, as in the case of cash accounts, limited to a test examination. In the conduct of this he has many opportunities of observing the effects and defects of particular methods of administration in their bearing on the receipt, custody, and issue of stores. He is therefore in a favourable position to supply the Public Accounts Committee with highly beneficial criticism of those methods, and at his discretion, and with the concurrence of the department concerned, may make

5 R.
1909, 11

2 R.
1910, 31

R. 1912,
Ev. 2716

2R.1888,
79

1 R.
1895,
App. 4

suggestions directly to the department without impairing the responsibility of the administrator. Moreover, although he does not himself take stock, the reports of all the stock-taking officers are open to him and his officers, and he can comment freely on them in his reports, criticise the regulations under which they are made, and express his opinion as to how far such regulations are fitted for their purpose and have been observed. Discrepancies in the accounts may be small and perhaps unimportant, taken individually, but by their number and frequency they may tend to show both weakness in accounting and imperfection in the departmental examination. The functions of the auditor are, therefore, not only beneficially exercised in the discovery of serious errors himself, but indirectly by their influence on the departmental accounting. While not in the slightest degree relieving the department of the duty of most constantly and carefully supervising its officers and their system of store accounting, the check of the Comptroller and Auditor General has the effect of keeping the department up to the mark, ensures that its system is carried out, and enables him to satisfy Parliament that this is so. The knowledge possessed by a department and its officers that its acts with reference to store transactions would be subject to an external and wholly independent criticism, exercised on behalf of Parliament, would tend to prevent fraud, extravagance, and waste. So far from trusting to any action of the Comptroller and Auditor General for the discovery and adjustment of error, the department should rather regard his inspections as opportunities for establishing proof of the efficiency and accuracy of its system.

If the fact of stores having ceased to be serviceable remains undiscovered for some time, and therefore is not noted in the accounts, the fault lies in the method of inspection, not in the accounts. The latter would be a correct record of the stock, but not of its quality, and the loss to the public would be concealed. It is, therefore, equally important that Parliament should be satisfied through the Comptroller and Auditor General of the soundness of the system of inspection as of the accuracy of the store accounts, and he would be justified in calling attention to cases which might come to notice of obsolete

4 R.
1894, 44

2 R.
1898, 18

R. 1888,
App. 9

Army
App.
Acct.
1884/5,
C. & A.G.
Report

4 R.
1889, 13,
T.M.

or unserviceable stores, or even to what might appear to be an excess of stores beyond normal requirements, if the stores were of such a nature that loss might occur through deterioration. Such points would, however, require to be dealt with with discretion as they would inevitably be involved with questions of administration and policy.

Cp. 2R.
1907, 29

Another aspect of the store audit to which the Comptroller and Auditor General's examination is necessarily directed is that of depletion of stocks, which is closely connected with the control of Parliament and the Treasury. The appropriation account is no guide to the adequacy of stocks. Though the store votes may show 'savings,' the real value of such 'savings' cannot be determined without reference to the condition of the stock account at the commencement and end of the financial year. A surplus may be shown in the appropriation account, as between expenditure and grant, which so far as the cash account is concerned is absolutely correct, but which may in fact have been obtained by an exhaustion of stores or stock in hand. The store and expense accounts, therefore, serve to check the appropriation accounts. As far as the cash transactions are concerned, a department is restricted by the Appropriation Act, but that act does not touch the issue of stores from stock, and therefore it is within the power of a department to, in effect, increase its annual spending power by using up those stocks which Parliament had intended to be kept in reserve. Any undue depletion of stock would be brought to the Comptroller and Auditor General's notice in the store records, and it would be his duty to report on it, if of opinion that the action was due to illegitimate motives. As a rule, no considerable depletion not estimated for, and no considerable diminution of an increase of stock that has been estimated for, should be deliberately incurred without warning to the Treasury and the furnishing of an explanation.

2 R.
1881, 77

Cp. 4 R.
1892, 62

2 R.
1898, 20
-22, T.M.

A natural sequel to the examination of the records of the stock in existence is a verification of its value, when information of this nature is prepared for the information of Parliament. When valuation statements are inserted in or presented with the appropriation accounts, it is especially important that Parliament should have some independent assurance of their approximate correctness. From an audit point of

R. 1910, view, store values are not necessary, but, if given in an appropriation account, the Comptroller and Auditor General considers it necessary to examine them for this purpose. This is similarly secured by a test examination, instances being taken by the audit department to see that the rates are accurately valued into the stock accounts. The audit does not guarantee that the whole has been accurately valued, but relies for a practically sufficient assurance on the same principle of test which is applied to other branches of audit. The absence of errors in the instances taken is presumptive evidence of general accuracy. The discovery of errors would lead to further tests with a view to ascertaining whether they were isolated and casual mistakes, or whether they were a sign of bad accounting generally.

An important development in the sphere of store accounting and audit has taken place within the last few years, on the initiative of the Comptroller and Auditor General, who recommended that museum and art gallery exhibits should be put on the same footing as stores. The question was raised by the report of thefts, which resulted in an investigation of the system by the Comptroller and Auditor General, and, on his report, by the Public Accounts Committee. It was then brought to notice that in no case was there any systematic survey of stock in the national museums or galleries, either by the custodians or by any independent officers, and that no procedure existed for reporting to the Treasury and Parliament any losses that might occur. In view of the very valuable nature of the articles upon charge in the museums, the subject was one of such considerable importance to the public that it only required to be brought to notice to be remedied. In the case of the big spending departments, all losses by fraud or theft have automatically to be brought to the notice of the Treasury, and all those above a certain amount (£25) are noted for the information of Parliament in the case of the army, navy, and Post Office, whereas hitherto no information had been afforded to Parliament of any losses occurring of valuable exhibits. The committee accordingly recommended that definite rules should be laid down as regards reporting additions and writing off deficiencies of such exhibits as in the case of other stores, and further that, while the stock-taking would not fall within the range of the Comptroller and Auditor

R. 1910,
Ev. 556

4 R.
1894, 32

2 R.
1912, 5

R. 1912,
Ev. 70

2 R.
1912, 5

COMPTROLLER AND AUDITOR GENERAL 221

General's duties, it was essential that the results of the stock-taking should be subject to his review. The stock-taking should, moreover, be independent of the actual custodian. Although losses of this nature may not directly affect the public purse, because they must often be irreplaceable, yet in the interests of that wider public which derives an intellectual profit from such exhibits, this step is one of the greatest importance, for the initiation of which the nation is indebted to Sir H. J. Gibson.

R. 1912,
Ev. 2026

Thus it is seen that store audit proceeds on the same general lines and is guided by the same principles as the cash audit, with this important difference, that in the case of the stores there is, generally speaking, more necessity for the Comptroller and Auditor General to extend his inquiries into matters of administration more often than in the case of the cash accounts, and consequently the greater discretion is perhaps necessary.

Closely allied to the store accounts are the manufacturing and shipbuilding accounts, which have already been briefly alluded to. The proposal of the Treasury that these should be audited by the Comptroller and Auditor General under the direct authority of Parliament, rather than under its own administrative action, was carried into effect by the passing of the Army and Navy Audit Act of 1889, 'an act to make provision for the audit of the manufacturing and shipbuilding and other like accounts of the army and navy.' This act marks a further important step in the increased scope of parliamentary control. It is complementary to the Exchequer and Audit Act, and its intimate connection therewith is shown in clause 2, which enacts that it is to be 'construed as one with the Exchequer and Audit Act of 1866, and this act and that act may be cited collectively as the Exchequer and Audit Department Acts 1866 and 1889.'

52 & 53
Vic.
c. 31

The act requires annual accounts to be rendered by the navy showing the distribution and cost of labour in the dockyards and manufacturing establishments, and by the army for the several ordnance factories and manufacturing establishments. These accounts must be examined by the Comptroller and Auditor General on behalf of the House of Commons, and

laid before the House, together with his reports thereon. The act does not, however, prescribe the method or extent of examination, but, following the policy of Parliament in 1866, it leaves it to the Treasury to determine not only the form of the accounts but also the manner in which the Comptroller and Auditor General is to examine them. The expense and manufacturing accounts of all the home dockyards were subjected to a test examination in 1889-90 for the first time. Although the labour and cost of preparation of such accounts is great it is justified by 'the unique character and importance of the shipbuilding programme and the expedience of having the means of comparing the cost of dockyard shipbuilding in different yards with that of contract shipbuilding.'

Concurrently with this step the Admiralty spontaneously introduced in its estimates for 1888-9 distributive statements and a programme of shipbuilding 'in the hope that parliamentary control could in future be exercised over the use as well as upon the purchase of materials, and over the particular services upon which labour is employed.' It desired, in fact, to place the navy expense accounts as nearly as might be on the same footing as appropriation accounts, 'by presenting for parliamentary approval an estimate under the different heads of expense accounts, which the executive officers of the board will be bound to follow, and by which the Comptroller and Auditor General will test the accounts.' The insertion of these statements in the estimates in the form of a vote, vote B, was intended to secure binding parliamentary sanction in the same manner as vote A secures parliamentary control over the numbers. It was not, however, found practicable to submit vote B for approval by resolution of the House of Commons, or to embody it in the Appropriation Act, but Parliament has given an indirect sanction to it by the Army and Navy Audit Act 1889, which constitutes it the standard by reference to which the Comptroller and Auditor General is to examine the expense accounts of the Admiralty. The logical consequence of this arrangement was that the Admiralty deliberately subjected its action indirectly to statutory restraint as well as directly to treasury control, while at the same time it enabled the Comptroller and Auditor General to give Parliament, more clearly than he otherwise could have done, the assurance that

1 R.
1985,
App. 4
Cp. 5 R.
1890, 7,
T.M.

3 R.
1891, 45
3 R.
1895, 20,
T.M.

5 R.
1890, 16

3 R.
1888, 27

2 R.
1889
Cp.
Navy
Esti-
mates;
1889/90
H.C.
36/1911,
p. 222,
foot-note

money and stores had been used for the purposes defined in the programme for the year. The work of the Comptroller and Auditor General under the Army and Navy Audit Act, so far as these accounts are concerned, is therefore more clearly defined and assisted, as his audit is based on an estimate which has been sanctioned by Parliament. It is important, therefore, that if a supplementary estimate is put forward for additional expenditure under the shipbuilding vote, a supplementary programme should also be rendered.

2 R.
1898, 21

So, too, in the case of the ordnance factories accounts, there is a definite and binding estimate to guide the Comptroller and Auditor General in his audit. This, however, results from a different condition; for while, on the one hand, the money for shipbuilding is provided by Parliament under another vote of those estimates in which the programme is inserted, the money for carrying on the ordnance factories is derived from their customers. The factories are self-supporting, and having no need to ask Parliament for grants to support them, might be independent of parliamentary control. To guard against this, they are required to demand a token grant of £100 every year, to obtain which a detailed estimate of incomings and outgoings has to be prepared, the token sum being shown as the balance between the two. Thus, in granting this token sum, Parliament secures control over the whole, and the Comptroller and Auditor General's audit follows an estimate which is as binding on the department as the other parliamentary estimates. As regards the manufacturing as distinct from the appropriation account, the cost results set out in the production statement are the point to which the Comptroller and Auditor General's audit is ultimately directed, and if these results are proved to be substantially correct, a standard is established by which Parliament might hope, by comparative test with outside prices, to judge of the economical working of the army manufacturing establishments. In other words, the chief aim of the examination is 'to see that the cost results truly represent the cost of production, and this object is effected by tracing the allocation of the value of the labour expended and materials issued, from the earliest records through a necessary series of abstracts into the cost ledger.' The commercial footing of the ordnance factories, which make

5 R.
1890, 11

R.W.O.
Org.
App. IV.
(B) 4

goods and sell them at cost price, renders expense or manufacturing accounts necessary in their case.

The army clothing factory is, however, on a different footing in that its cost is directly chargeable to army funds. The factory accounts, therefore, merely set out the statistical results of the manufacturing operations for which provision is made from those funds. A similar class of accounts of which the Comptroller and Auditor General makes a test examination as to the correctness of credits for proceeds of sales, are those of prison manufactures.

3 R.
1891, 37
2 R.
1885, 36

VI. THE POWER TO DEMAND INFORMATION

General Principles Involved

The proper fulfilment of his duties by the Comptroller and Auditor General is necessarily dependent on his being supplied with full information. He must be informed not only of the intentions of the department, as agreed to by Parliament, but also of all departmental and inter-departmental action which bears upon the carrying out of these intentions, and further and more particularly of all special action taken during the year which was unforeseen, or not specifically provided for, when the estimates were presented to Parliament. He has statutory right of access to all documents relating to the accounts, and is directed to immediately communicate to the department his objection to any item therein. But apart from raising such objections to items which may appear *prima facie* to be improper, his functions as an auditor obviously necessitate his asking for information on many other points. His observations are made in the form of audit notes, reference sheets, queries or letters, according to the relative importance of the point raised. It is incumbent on the department to reply to these to the best of its ability: not only to enable him to complete his investigation, but also to enable him to place the complete facts of the case, if necessary, before the Public Accounts Committee. Since he can only deal in his reports with the facts, so far as they are disclosed in the explanations which are given in reply to his inquiries, it is on all accounts desirable that he should be furnished with the fullest possible informa-

E. & A.
Act, §§ 28
& 31

R. 1887,
118

tion.' Moreover, it is very important that he should, whenever possible, be furnished with the information for which he asks in time for him to use it in his report on the account concerned. It would be a mistake on the part of a department to reserve its answers to queries until the Public Accounts Committee takes evidence upon them, for, if this is done, the time of the committee may be occupied in inquiries which might have been saved had the replies been received in time to be dealt with in the report. The Comptroller and Auditor General is under obligation to send his report to the Treasury for presentation to Parliament by a certain date, and the departmental authorities should endeavour to furnish replies to the observations in sufficient time to admit of his report being complete and comprehensive.

2 R.
1894, 70,
& T.M.

E. & A.
Act,
Sch. A.

The carrying out by the Comptroller and Auditor General of his extended examination is dependent in some measure on the right of a department to withhold information from him, and on the extent to which that right is exercised. The general question of the right to withhold information has been previously discussed ; but a more detailed consideration is necessary, with special reference to the functions of the Comptroller and Auditor General, because it is principally in the relations between that official and the departments that disputes on the point arise, and have in the past often assumed an acute form. Generally speaking, the Public Accounts Committee has from its inception supported the Comptroller and Auditor General in his efforts to obtain information. In 1875 the committee expressed an opinion that the Comptroller and Auditor General is entitled to look to the accounting officer of every department for the information which he requires, and that the officers of departments should be ready at all times to afford information to him through their respective accounting officers. In the forty years since then this feeling has been gradually strengthened, and has latterly been very strongly expressed by the Public Accounts Committee, with the result that the Comptroller and Auditor General has now little difficulty in obtaining the information which he requires and can legitimately demand. It is an undoubted fact that he had far less access to the accounts and the documents relating to them thirty or forty years ago than at the present time.

1 R.
1875, 39
Cp. 4 R.
1892, 8

R. 1910,
Ev. 554

The Rights of the Accounting Department

The accounting departments, however, have definite rights in the matter, and it is rather in respect of the manner in which those rights are exercised that the Public Accounts Committee has expressed its criticisms than in any denial of the rights. Briefly, 'a department is bound to show what it has spent, and for what purpose, and on what authority. If questioned why the money was spent, with due authority, in one way rather than in another, the department may refuse to answer the question, but must be prepared to justify such refusal to Parliament.' It is obvious that information which may be legitimately withheld from the House of Commons may be withheld from the Comptroller and Auditor General. A plea of high state policy or secrecy would effectually bar him from further investigation. It is in questions of administration that the disinclination of a department to give information is most generally seen, and the refusals are mainly based on principle. While the Public Accounts Committee may, at its discretion, investigate questions of administration, the Comptroller and Auditor General legally and technically is on a different footing, and has no such power. He is not, and cannot be, a revising authority. He has no power to recommend a disallowance in cases of waste or extravagance if the vouchers are in order. He has strictly no authority to query or trench upon matters of administration. He is not the statutory authority for investigating abuses, for criticism, or censure. His statutory powers are audit and report, and, in going outside those functions, he cannot claim access to papers or documents as a right. He must request, and if refused he has no redress until he makes his report. This view of the position is clearly in accordance with statute and usage, and has always been recognised as such. In a minute written in 1898, the Treasury says that its opinion upon questions of this kind has been frequently expressed—namely, that where the information is outside the purview of section 28, Exchequer and Audit Act, although the Comptroller and Auditor General may rightly ask for it, yet the accounting department may legitimately withhold it, or the papers

2 R.
1888,
71 & 72,
T.M.

T.L.
29/3/98
quoted
in 2 R.
1898, 13

containing it, but must be prepared to defend its refusal, if necessary, before the Public Accounts Committee.

On principle, therefore, a department has the right to refuse, and may be justified in refusing a reply to the Comptroller and Auditor General on an administrative matter. The waiving of a principle, which has been judiciously laid down and accepted, is a step which no individual or body should be asked or compelled to take, except on solid grounds. It may be the focus from which important considerations emanate, or a wheel in the system—the removal of which may throw the machinery out of gear. The justification, therefore, of requiring one department of the state to forego its right to stand by a principle can only be found in showing that it is to the interest of the public service generally that it should do so. Precautions must, moreover, be taken to guard against any undue extensions arising out of any innovation due to the waiving of the principle, whereby the public service would eventually lose more in one direction than it would gain in another. Such an eventuality would clearly arise if the inquiries of the Comptroller and Auditor General on administrative matters for a definite and limited purpose were further extended in such a manner as to interfere with the administration itself; for then the balance of the system would be disarranged and the proper relation of the Comptroller and Auditor General to the departments would be disorganised. The Comptroller and Auditor General would be undertaking duties which it would not be proper for him to discharge, and which it was never contemplated that he should perform; while the departments would both be hampered in their administration and also relieved of their proper responsibilities. 'A great executive statesman and the departmental officers under him must ultimately be responsible for the administration of the department, and the risk of stopping their administration and arresting it in its course is a very real one,' which has to be considered in connection with any proposal to extend the powers of the Comptroller and Auditor General to enable him to deal with the 'merit' of expenditure. If, then, the departments are to be expected to waive this principle—and the exercise must be left to their discretion to decide on the merits of each case

Cp. W.O.
Org.,
Ev. 3196-
3200

C.N.E.
vol. ii.,
Ev. 94

as it arises—it will only be with a view to enabling the Comptroller and Auditor General to discharge a definite and limited duty.

The Comptroller and Auditor General's Point of View

In the early days it was recognised that if the Comptroller and Auditor General went outside his statutory functions, a department could, without question, refuse on principle to accede to his request, and thus practically remove the case to the Public Accounts Committee for consideration. The gradual development of the Comptroller and Auditor General's position, as he came to be recognised not merely as an auditor with statutory functions, but as the guide and assistant of the committee with extra statutory functions, was necessarily accompanied by a change of attitude. The development was both encouraged by the committee and admitted by the departments, with the object of increasing parliamentary control through the Public Accounts Committee, and of facilitating the work of that body by enabling questions to be threshed out, whenever practicable, in advance, thus enabling the Comptroller and Auditor General to make a full report on those matters which it became necessary to report, while at the same time enabling him to exclude from the report matters which the prior investigation made by him showed to be in order. In either case the time of the committee is saved. Everything that advances the work of the Comptroller and Auditor General tends to give Parliament more ample and full control over expenditure.

C.N.E.,
Ev. 1127
-8

2 R.
1888, 72

3 R.
1895, 32

It may be difficult to draw a distinction between questions bearing directly on audit matters and those which may trench upon the department's administrative functions; but it is recognised that it is the duty of the Comptroller and Auditor General to call the attention of Parliament to any facts which appear to him to indicate an improper expenditure or waste of public money, and it necessarily follows that, to perform his duty satisfactorily, he is fully justified in asking the department for explanations in certain cases, even though the query may be as to an administrative matter. In such cases the information is sought not so much for the sake of the audit department as

for the information of Parliament. Before, therefore, refusing information unreasonably, a department should regard the matter from the Comptroller and Auditor General's point of view. This officer's duty is to report to Parliament; and it has always been maintained, and without objection on the part of departments, that he does possess the power of bringing to notice any abuses of which he may become cognisant in the course of his audit, even though the accounts themselves may be in order. This being so, it is, as the Treasury says, 'desirable that the Comptroller and Auditor General should receive such explanations as may be proper in order that the question may be laid before the Public Accounts Committee for consideration in a complete form.' Again, 'it is essential that the preliminary work of the Comptroller and Auditor General should be well and thoroughly done, or the committee may fail in its subsequent work, and therefore in its final object of securing and enforcing parliamentary control.' If this is not done it rests with the committee itself to make the examination, thus involving considerable waste of time in taking evidence which might have been obtained by the Comptroller and Auditor General.

3 R.
1912, 4,
T.M.
2 R.
1888, 71,
T.M.
C.N.E.,
Ev. 1017

On the face of it, therefore, it is evident that, from the point of view of general convenience, a department cannot justify the refusal of the information to the Comptroller and Auditor General solely on the technical ground that it is not a matter of audit, unless the department is prepared also to refuse the information absolutely to the Public Accounts Committee on grounds of public policy. If the latter line were adopted and the Comptroller and Auditor General so informed, he would doubtless proceed no further.

Cases Illustrating the System

In illustration of the attitude of the Public Accounts Committee towards the action taken by the accounting department in dealing with queries of the Comptroller and Auditor General which trespassed upon administrative matters, it will not be out of place to refer in some detail to some specific cases which have particularly occupied the attention of the committee at different times.

1 R.
1896, 10,
& T.M.

One of these has already been briefly alluded to. The Comptroller and Auditor General directed attention, firstly, to the relative cost of shipbuilding in dockyards and in private yards, and, secondly, to the relative cost of building the same class of ship in different dockyards, and he invited the Admiralty to furnish any explanation of these differences it might think it desirable to offer. There was no question of the expenditure not being in order or not satisfying audit requirements. The question was put with a view to elucidating the reason why the public was paying different prices for similar articles, during the same period, when both were produced under the same system—namely, in government dockyards; and, secondly, why, when different systems were adopted, the cost should be higher for one class of ship in the dockyard than in the private yard, while it was lower for another class of ship. The differences between the cost of similar ships are matters of much public interest, and the efficacy of the system under which such variations occurred was clearly a matter on which Parliament was entitled to satisfy itself. The Public Accounts Committee, therefore, held that the Comptroller and Auditor General was acting within his duty and function as a parliamentary officer in asking for this explanation, and also that the information ought, if possible, to be rendered for the information of Parliament. In view of the important principle involved, the Admiralty demurred to giving any explanation, holding that the question was solely a matter of administration on the one hand, while on the other the question of the utilisation of private yards was a matter of policy. The question was allowed to stand over until the following session, and in the interval the question was discussed between the Admiralty, the Comptroller and Auditor General, and the Treasury. As regards the question of comparison between dockyard and contract ships, the Admiralty pointed out that it was without the necessary information to furnish a reply, and the Comptroller and Auditor General accepted the Treasury view that it would be inexpedient to publish comparisons. With reference to the comparison instituted between the cost results of sister ships built in the dockyards the Treasury admitted that the questions raised were not, strictly speaking, within the primary objects of audit under

the Army and Navy Audit Act of 1889, and was therefore of opinion that in accordance with the recognised principle it rested in the discretion of the department as to whether answers should be furnished or not. This view was endorsed by the Public Accounts Committee which, when the Admiralty urged that for administrative reasons it was not desirable to make known details which alone would explain the differences, stated that it recognised that the ultimate judge of the expediency of publishing such matters must be the department of the Admiralty, upon which must rest the responsibility of withholding the information requested. While, however, upholding the objections of the department in this case, it affirmed that 'the course taken by the Comptroller and Auditor General was completely justified by the circumstances and in obvious discharge of his public duty.'

The second case to be mentioned occurred in 1897 when the Comptroller and Auditor General on receiving from the Admiralty in the ordinary course an accepted tender, asked to be furnished with the rejected tenders. The Accountant General replied to the effect that for administrative reasons the request could not be complied with, and his attitude was supported by the Lords Commissioners of the Admiralty, to whom the matter was referred. They stated that 'as, in their opinion, unaccepted tenders are not necessary for audit purposes, as defined by the Exchequer and Audit Act, and their production would be extremely undesirable on grounds of public policy, they were unable to furnish them as requested.' It is to be observed that the considered reply of the department in this case embodies a plea of secrecy on grounds of public policy, and such a plea is normally accepted. Here, however, it is not urged that the case in question is an exceptional one, but rather that the practice of disclosing rejected tenders generally is contrary to public policy. An attempt to establish a new principle is, in fact, involved; for the Admiralty had themselves not objected formerly to allowing the Comptroller and Auditor General to see rejected tenders, while other departments had never attempted to withhold them. The issue was therefore of some importance because it obviously concerned the relations between the Comptroller and Auditor General and all government departments. Such being the case, the Comp-
2 R.
1898, 13

Cp. A.
Est.
Com.,
Ev. 1182
-8
2 R.
1898, 13
Army
Appr.
Acct.,
1886-7,
p. 208
H.C.
39/1888

troller and Auditor General, though willing to accept the plea of secrecy on the grounds of public policy, referred to the matter in his report, thus bringing it up for the consideration of the Public Accounts Committee. The purpose of the Comptroller and Auditor General in calling for the tenders is definite and at the same time limited. He cannot demand to know why one tender has been accepted and another rejected, and if he were to do so the department would be justified, if it desired, in refusing to reply. In point of fact such questions had not, it was stated to the Public Accounts Committee in 1898, been asked by him since 1887, when he raised a question as to why one contract had been cancelled by the War Office and another made at a higher price, at the same time expressing the view he entertained of the duty incumbent upon him acting as an officer of Parliament and not of the executive government. He conceived that his functions were 'by no means confined to questions of arithmetical accuracy, or even of financial departure from regulations, but that they embrace all questions where administrative action, not distinctly sanctioned or approved by Parliament, or by legislation, appears to involve loss to the public.' He further stated that he was aware that questions might arise involving apparent interference with administration in carrying out on these lines an audit that would not be ineffectual or practically valueless, but that if he should err in its conduct he would be open to the criticism and even the reproof of Parliament through the Public Accounts Committee. He could not, however, but consider that he would fail in the duty and trust imposed upon him, if he were to submit his judgment, in these matters, to the opinion of heads of departments whose accounts came under his review. The War Office reply, then, was to the effect that the Exchequer and Audit Act does not empower the Comptroller and Auditor General to enter upon matters of administration, and the point at issue was fully discussed before the Public Accounts Committee which supported the views of the Comptroller and Auditor General. Access to the rejected tenders is not sought with a desire in any way to interfere with or even to criticise the action of the department in the acceptance or rejection of a particular tender. Such administrative action can only be taken by the department, and on its own responsibility. The

2 R.
1888, 71
-2
2 R.
1898, 13

Treasury itself has no control over the making of Admiralty or War Office contracts. But when, as a matter of fact, a tender has been accepted considerably in excess of others submitted, the Comptroller and Auditor General should be in a position to bring the matter before the Public Accounts Committee, who would then decide whether the circumstances rendered it desirable to obtain some explanation from the accounting department of the circumstances which resulted in the acceptance of a tender far in excess of some which had been submitted, involving the public in possibly unnecessary expense.

The committee, while admitting the power of the Admiralty to exercise its right at its discretion, regretted that it should have adopted an attitude contrary to that of other departments in similar circumstances, as well as to that it had itself hitherto adopted—the more especially because, as the Treasury points out, the practice had not resulted in any harm to the public arising therefrom.

When a query of more extended scope on a contract arose in 1911, as to why tenders had been obtained in a particular manner, the War Office contended that the Secretary of State had the power to make contracts subject to the control of the House of Commons, not of the Treasury or the Comptroller and Auditor General, and that it was not prepared to admit that the Comptroller and Auditor General could become a habitual revising authority in the case of contracts. While representing that the point 'did not appear to be a matter of audit of accounts,' the War Office admitted that there were no reasons of public policy why the explanation asked for should not have been given.

A further case to be mentioned possesses somewhat different features because a non-observance of regulations is involved, whereas in the foregoing cases there is no question raised as to the expenditure not having been correctly incurred. In this case the Comptroller and Auditor General wrote to the War Office noting the discrepancy between the numbers of enrolled men in the Yeomanry and the minimum numbers provided for in the regimental establishments as shown in the estimates. He added: 'Regarding the subject from a financial point of view, the Comptroller and Auditor

R. 1912,
Ev.
2264-
2326

3 R.
1912, 4

2 R.
1892, 28

General cannot but note the considerable additional cost—probably exceeding £5,000 per annum—which is involved in the Yeomanry regiments being divided into a number of troops so largely in excess of that contemplated by the regulations ; and while he does not doubt the existence of administrative grounds for the course which has been followed, he would be glad, in view of the financial considerations involved, to be furnished with any observations on the subject which the Secretary of State may desire to offer.’ The War Office in reply stated that ‘the subject was one of administration on which the Secretary of State must decline in any way to recognise the right of the Comptroller and Auditor General to invite his observations.’ The splitting up of the Yeomanry regiments was admittedly a matter solely of administration and policy ; but since the result of that policy was to increase the number of troops beyond the numbers contemplated by the regulations, while simultaneously the number of men in the troops, as a rule, was below the minimum required, a considerable additional outlay was apparently necessitated. The inquiry of the Comptroller and Auditor General was therefore not only perfectly natural and proper, but necessary, and indeed the War Office admitted before the Public Accounts Committee that he was clearly, within his right in drawing attention to the fact that the minimum was not generally attained, as required by the regulations made by the Secretary of State and sanctioned by the Treasury. The uncompromising attitude of the department appeared therefore inexplicable to the Public Accounts Committee, which could only conclude that the inquiry was misunderstood, and was interpreted as making an administrative recommendation as to the number of troops. On the general question the committee made its attitude very clear. It regretted that ‘the inquiry was not met in the same spirit as that in which it was made, and trusted that, in performing the important and necessary work entrusted to him by Parliament, the Comptroller and Auditor General would in future be met with invariable courtesy, and furnished by the war department, as well as by every other department, with all the information which he might need to enable him to discharge his duties.’

These specific cases have been referred to at some length

because they are typical of the class of cases in which the Comptroller and Auditor General trenches upon matters of administration. While in every case the action of the Comptroller and Auditor General in making the inquiry is fully endorsed as justifiable by the Public Accounts Committee, in the first case it accepts the plea of justification put forward by the department that, on grounds of public policy, a reply is inadvisable; in the second case it admits the right of the department, but regrets the exercise of it in the particular case under consideration, and makes suggestions for a compromise; and in the last case it regards the refusal to reply as unjustifiable.

Special Considerations Involved

When dealing with the question of refusing information, there is also another point to be considered from the point of view of the department. In the sphere of accounts, any suggestions or criticism made by the Comptroller and Auditor General, and accepted by the department, are regarded as precedents for future guidance. If in matters of administration a similar course were adopted, the hands of the department might be unfairly tied by the Comptroller and Auditor General acting in his extra-statutory capacity. It is necessary, therefore, that if a department is willing to supply information to the Comptroller and Auditor General on administrative questions, with a view to enabling him to present a complete case to the Public Accounts Committee, no criticisms of his on a particular case, even if admitted in that case by the department, should form a precedent; while, further, to mark the distinction, the request for the information should be made in a special form—namely, in a letter. The department must, and is entitled to, preserve perfect freedom in its administrative sphere to act in each case as its judgment decides. The committee has agreed that this arrangement sufficiently establishes the correct procedure in questions which, while they may be regarded as touching points of administration are yet, in the Comptroller and Auditor General's opinion, such as to indicate waste of public funds.

3 R.
1912, 4

The status of the Comptroller and Auditor General, as an

officer whose reports to the House of Commons are published, introduces a somewhat different consideration, for, apart from confidential documents, there may be papers in the possession of a department which, while not secret as matters of state policy, it would be injudicious to make public. They may be required by the Comptroller and Auditor General for audit purposes, or merely in connection with matters on which he desires to report in his extra-statutory capacity. He alone is competent to say what information is necessary for the discharge of his statutory functions, and if required for audit purposes it cannot be withheld. But while it is admitted that no department has a right to refuse information, even though of a highly confidential character, to the Comptroller and Auditor General, if he requires it to satisfy himself that the expenditure agrees with the parliamentary appropriation—i.e., to enable him to fulfil his duties under the Exchequer and Audit Act—it is equally admitted that he has no statutory right to publish such information. Thus in 1914-15, when the navy appropriation account was published in an abbreviated form, the Comptroller and Auditor General had access to all records and documents bearing on the account, though not able to report to Parliament on those that were secret pending the cessation of hostilities. He is bound to afford to Parliament the fullest and best information in his power with regard to expenditure; but Parliament would not require to be furnished with information which it would not be in the public interests to make public. In the exercise of this, as in that of many other of his functions, the decision must be left to his discretion.

If the information is not necessarily confidential, but of such a nature as to make it undesirable that it should be published, the views of the department should be laid before the Comptroller and Auditor General when the information is communicated; or, if the papers are sent through the Treasury, the department can guard itself against publication without further notice by pointing out to the Treasury that the publication of them would, in the opinion of the head of the department, be injurious to the public service, and that it is his desire to be consulted before any publication is effected. Such an intimation would be communicated by the Treasury to the

2 R.
1881,
39 & 40,
& T.M.
Cp. 2 R.
1907, 32

Navy
Appn.
Acct.,
1914-15
C. &
A.G.'s
Report,
2; &
Idem,
p. 16
T.L.
30010/15

2 R.
1881, 40

Comptroller and Auditor General, and thus the department would be properly protected, while at the same time the rights of the Comptroller and Auditor General would be preserved consistently with the interests of the public service. If, however, papers are sent by the Treasury to the Comptroller and Auditor General, without any restriction, he considers that he has, without further communication, an absolute discretion to publish all or any of such papers ; but it is to be understood that the act of sending correspondence by the Treasury does not imply on their part any authority to publish it. In all other cases his practice is never to publish, on his own motion, papers of other departments without duly communicating his intention to the departments concerned.

2 R.
1881, 39

R. 1882,
9

2 R.
1881, 40

The communication of confidential information to the Comptroller and Auditor General involves a further consideration. As a parliamentary officer, he must be at liberty to produce to Parliament any detailed reasons he may have for any conclusion, otherwise a conclusion of his might be challenged and he would be unable to adduce proofs for it. If, therefore, he could only arrive at conclusions as a result of the examination of confidential documents, he considered formerly that he could make no investigation. This view was, however, subsequently modified, and in practice he receives confidential information freely to be dealt with at his discretion.

2 R.
1894, 43

2 R.
1907, 32

While, then, it is clear that the right of a department to refuse information to the Comptroller and Auditor General in matters of administration is absolute, it must be prepared to justify its refusal later to the Public Accounts Committee, and then to afford to that body the information which the Comptroller and Auditor General previously demanded, unless questions of secrecy are involved. That it ever would now refuse to reply, as a matter of principle, to a question which might, under the recognised practice, be asked is extremely improbable under present conditions, in view of the attitude taken up by the Public Accounts Committee, as shown in 1912, when it was observed, on a discussion of the question, that it was 'a bad moment to choose to erect barriers against the queries of the Comptroller and Auditor General when the House of Commons is so conscious of its own want of power that it is actually appointing for the first time in its history

R. 1912,
Ev. 2319

an Estimates Committee.' The department, however, undoubtedly still retains its right to withstand undue attempts at encroachment on the part of the Comptroller and Auditor General.

VII. THE PRESENT EXTRA-STATUTORY FUNCTIONS OF THE COMPTROLLER AND AUDITOR GENERAL

It is doubtful whether the House of Commons which passed the Exchequer and Audit Act contemplated the functions of the Comptroller and Auditor General being developed to their present degree.

The cause of the development is rather to be found in the increased interest of the House of Commons in financial questions, and in the high sense of responsibility of the Public Accounts Committee, which have created a new atmosphere; while the tactful zeal and indefatigable efforts of successive holders of the post of Comptroller and Auditor General have contributed in no small measure to the raising of that office to the dignified and important position which it has now attained. Old ideas have to be readjusted to satisfy modern conditions. The chief difficulty to be contended against is the inherent tendency of bureaucracies to regard form as of greater importance than matter. The accounting department, with its staff of permanent officials, is, in the natural order of things, more conservative, if not more reactionary, than the House of Commons, which represents the spirit of the times in an essential degree. This spirit demands closer investigation in financial matters, increased control over public expenditure. To attain these objects on behalf of Parliament the Public Accounts Committee requires the utmost support the Comptroller and Auditor General can offer, and looks to the departments to afford him every facility which he can in reason, and at his discretion, demand.

The functions of the Comptroller and Auditor General have probably now reached their fullest development, and further extensions of his powers could only be added at the expense of altering the character of his office, and so jeopardising his usefulness in his present capacity, or at the risk of interfering with the legitimate responsibility of the departments. It has even been urged that the existence of the Comptroller

Bagehot,
Eng.
Con.,
p. 193

C.N.E.,
Ev. 1079
-81

and Auditor General at present has this disadvantage, that it is calculated to remove from the heads of departments responsible for the expenditure that greater responsibility which they would feel if they had nobody to look after it, for they would then be on their honour. Such an argument is obviously unsound, as, if carried to its logical conclusion, it would mean the abolition of audit altogether. Yet there are certain limits beyond which an official in the position of the Comptroller and Auditor General cannot go without taking upon himself some of the responsibility which properly belongs to the departments. The examination of expenditure from the point of view of 'merit,' as distinct from regularity, might, and doubtless would, offer opportunities for valuable criticism, but such a duty could not properly be conferred on him. Questions of merit must normally be left to the responsible department, and to the judicious exercise of its powers by the Treasury as the controlling financial authority. The possible advantages that might accrue from an increased knowledge and a wider field of criticism, which the Public Accounts Committee would be afforded, might be more than outweighed by the disadvantages to the departments and consequently to the public service generally, which such a system would involve. It would, for instance, be impossible to allow an auditor, even one with the extra-auditorial functions of the Comptroller and Auditor General, to have a free hand in discussing every question of the proper price of a contract; nor is it likely that he would wish that his functions should be so extended. On the other hand, it is to be remembered that irregular or injudicious contracts may be the cause of great waste of public money, which directly affects the House of Commons, and into which it must be the duty of the Public Accounts Committee to inquire. When such cases come to the notice of the Comptroller and Auditor General in the course of his examination of the accounts, it is clearly to the general advantage that his preliminary investigation should not be hindered by the department on the ground that, as the Secretary of State has the power to make contracts subject to the control of the House of Commons alone, the department has therefore the right to answer to the House alone for its action, for, as has been observed—though the phraseology

R. 1912, is perhaps extreme—‘the Comptroller and Auditor General is
Ev. 2323 the agent of Parliament. He is Parliament. Parliament only
works through him.’ If such a claim were admitted, then he
would be faced with the option of either calling attention to
cases in his report, which, on investigation by the Public
Accounts Committee, might be found to be devoid of objection-
able features, and thus waste the time of that body, or of
ignoring them altogether owing to lack of sufficient definite
information, and thus possibly leaving Parliament in ignorance
of cases which ought to be brought to light. The only reason-
able conclusion to be arrived at is that the department must
rely upon the discretion of the Comptroller and Auditor General
and afford him all reasonable facilities in the discharge of
his extra-statutory functions in such cases.

Cp. R.
1912,
Ev.
2670—
2674

CHAPTER IV

THE TREASURY

I. STATUS AND FUNCTIONS.

- II. CONTROL OVER THE ESTIMATES : General Considerations—Form of the Estimates : The Estimates as a Source of Information—Continuity of Form of the Estimates—Effect of Form of the Estimates on Maintenance of Control.
- III. CONTROL OVER EXPENDITURE UNDER VOTES : Virement between Votes—Virement between Sub-heads—Opening new Sub-heads—General Observations—Surrender of Balances.
- IV. CONTROL OVER DETAILS : General Principles of the Exercise of Detailed Control—Directions in which Treasury Sanction is Necessary—Contracts—Cash Losses and Abandonment of Claims—Control over and Losses of Stores.

I. STATUS AND FUNCTIONS

WHILE the sovereign is the 'fountain of honour,' the Treasury is the spring of business.

The primary object of the Treasury, as well as of the Public Accounts Committee, is to complete and secure the control of Parliament over the public expenditure, and to maintain financial order throughout the service. The Treasury is the central financial authority of the state, and all important changes in financial administration should either have its prior authority or at least be brought directly to its notice. 'By immemorial custom, the Lords Commissioners of the Treasury have been constitutionally empowered to control all other departments of the state in matters of finance and public expenditure. In various acts of Parliament and reports of committees of the House of Commons, this authority has been from time to time recognised and enforced.' The secretary of the board of audit emphasised the same point in 1865. Unless Parliament for some special purpose empowers some other department than the Treasury to authorise expenditure, 'the source,' he said, 'of all administrative authority for expenditure is the Treasury. The right of the Treasury to

Bagehot
Eng.
Con.,
p. 12
R. 1873
Ev. 130
(Welby
R. 1877.
125
R.C. Civ
Estab.,
1R.Ev.
Todd,
Parl.
Gov.,
ii. 248
Cp.
36 & 37
Vic. c.66
42 & 43
Vic. c.78
§ 15
R. 1865,
App.1,7

determine what the several departments may spend, and what they must not spend, though modified occasionally by certain special enactments, is incontestable, and rests upon an unbroken prescription, which has accordingly the force of law. The Treasury, moreover, may exercise this right, provided that it does not transgress any parliamentary requirement, in any way it pleases. . . . In short, the power of determining by what means the controlling authority of the Crown over the public expenditure can be best maintained, belongs of right to the Treasury, and the decision of the Treasury as to what expenditure is or is not sufficiently authorised is final and without appeal.'

Cp.
Anson,
Con.,
ii. I. 180
-1

This financial control is really the control of the Chancellor of the Exchequer, exercised through the subordinate or departmental Treasury acting as his advisory staff. Such control is vested in him because it is essential that the public and Parliament should be satisfied that somewhere or other in the government there is a guarantee for financial order; that there is some authority that will watch the progress of public expenditure, the obligations which the different departments are incurring, and will give timely warning if that expenditure or those obligations are either outrunning the revenue provided for the year, or engaging the nation too deeply in future years, for 'it is a characteristic of the mischiefs that arise from financial prodigality that they creep onwards with a noiseless and a stealthy step; that they commonly remain unseen and unfelt, until they have reached a magnitude absolutely overwhelming.' The functions of the Treasury in relation to public finance are to control, to authorise, and to advise, apart from its duty of having to secure that the money required is available. It is strictly neither an expending nor a collecting department of the state, but rather the financing department for all other departments. It is responsible for seeing that the consolidated fund is always in a position to meet the demands made upon it, and therefore it is one of the first duties of the financial branch of the Treasury to watch the rate at which issues are proceeding—to watch, that is to say, 'the outflow from the sluice,' namely, the issues from the exchequer. This it is able to do by being informed of the daily progress of imprests to the accounting departments, which enable them to carry on their daily expenditure from

R.C. Civ.
Estab.,
2 R. Ev.
10623
(Welby)

Life of
Glad-
stone,
ii. 53

Bowles,
Nat. Fin.
in 1905,
p. 16

R.C. Civ.
Estab.,
2 R. Ev.
10661

day to day, inasmuch as the issues are made on its direction. Nor again is it normally an executive department, though occasionally, and indeed frequently, there are many things to be done in the multifarious concerns of the country in regard to which the Treasury is compelled to act as a department invested with the initiative, simply because there is no other department to do so. Still, this ought not to be done when there is another department which is able to take the initiative.'

Hans.,
3 s.
ccxvii.
1267
(Glad-
stone)

The duty of preparing, and consequently of criticising the estimates on which the budget is to be based, devolves upon the Treasury, which is therefore necessarily possessed of very great power of control over public expenditure. In this sphere of its work, it is its business to, within a limited degree, trench on the minor, as distinct from state, policy of a department, and by correcting or mitigating it to save the exchequer. 'Prudent reduction of outlay is quite as effective as skilful adjustment of resources.' In this respect its scope is wider than that of the Public Accounts Committee, since it will be concerned in encouraging economy on the estimates, whereas the Public Accounts Committee accepts the estimates and only deals with the expenditure. The Treasury, however, cannot dissociate its functions of safeguarding the public purse from the duties it owes generally to the state of securing the efficiency of the public service. It would therefore never suggest economy at the expense of efficiency, though it is true in the main that it is chiefly responsible for economy while the head of the department is responsible for efficiency. But again, economy does not necessarily mean doing without a thing. Quite possibly a service may be essential. If this is so, economy will be best exercised in seeing that it is carried out in the cheapest possible manner consistent with satisfactory performance. Economy is never attainable without efficiency—that is an absolute rule. This truth is too often apt to be lost sight of, if there is not sufficient co-operation between the different branches of a service, or between the different services of the state. Those responsible for the administration of a vote are liable to be more concerned with the mere reduction of expenditure under that vote than in viewing proposals from the broader outlook of the service as a whole, or of the state. Such a weakness is no doubt to a certain extent an inevitable concomitant of the system, but

C.N.E.,
Ev. 1678
-9.
Bast-
able,
Pub.
Fin.,
VI. ii. § 2

R.C. Civ.
Estab.,
1 R.
Ev. 9,
C.N.E.,
Ev. 1848

R.C. Civ.
Estab.,
2 R. Ev.
19177

could be alleviated by instruction in the value of costing, and the impressing upon all concerned of its importance. Extra expenditure under any particular vote is not only justifiable but should be obligatory if its effect is to, simultaneously or in the long run, secure still greater economies to the state on other votes or other departments, while on the other hand there can be neither justification for, nor economy in, reducing expenditure in one direction if the result is increased expenditure elsewhere which more than counterbalances the saving, unless such extra expenditure produces a proportionate increase in efficiency.

C.N.E.,
Ev. 1336
-7

The business of the Treasury, apart from policy and its rôle of representing how much money it is wise or not wise to spend, is to find out waste by all official legitimate means, to canvas unwise expenditure, and, by correlating the demands of the different departments, to secure the maintenance of the system of public accounting in them all on a principle of uniformity. It is, as regards the functions which it can exercise, a very effective instrument to produce financial order; for it is the nature of financial criticism to look for defects and propose remedies. It is the department on which Parliament mainly relies for the prevention of financial irregularities on the part of the accounting departments. Its control commences with the preparation of the estimates and continues throughout the various processes of expenditure, accounting, and audit, until the final report of the Public Accounts Committee has been dealt with.

4 R.
A. Est.
Com.,
p. xii.

One of the most important functions of the Treasury is to decide, in its capacity of a central financial authority, whether expenditure not authorised by Parliament may be incurred in exceptional circumstances. The occasions on which such questions arise are numerous and unavoidable in so complicated a system of government as ours. It then 'becomes the duty of the executive authority, in the exercise of their discretionary powers, boldly to set aside the requirements of the legislature, trusting to the good sense of Parliament, when all the facts of the case shall have been explained, to acquit them of all blame; and it would be not a public advantage but a public calamity, if the government were to be deprived of the means of so exercising their discretionary authority.'

R. 1865,
App. I,
para. 53

When this occurs it will always be found, as it has been found in the past, that Parliament exhibits no reluctance in supplying the means for meeting such expenditure. Except, however, where the minister on his own personal responsibility orders such expenditure, a department must invariably obtain treasury sanction to it, and likewise in advance unless this is impossible in the public interests.

Todd,
Parl.
Gov.,
ii. 243

Cp. 2 R.
1879, 49,
& T.M.

The position of the Treasury was modified by the Exchequer and Audit Act, more perhaps than that of any other department. Prior to 1866, the Treasury was absolutely autocratic, since Parliament had no knowledge of the audited accounts. Its allowances and disallowances were unquestioned. At the same time, the system which provided its autocracy limited the use of it, because it had little knowledge of the doings of the departments. Without knowledge, effective control is impossible and attempts to exercise it will do more harm than good. While, then, the Treasury was autocratic so far as the control by Parliament went, it could not exercise its control over the departments because it had not the requisite knowledge on which to base effective criticism. It was only after the Treasury was able to learn of the doings of the departments through the Comptroller and Auditor General's reports, that this defect in the former system was remedied, while simultaneously the action of the Treasury, as seen from the accounts, was brought to the notice of Parliament and the Public Accounts Committee. The Treasury is still theoretically free and possesses great power, but whereas, before, its actions were unquestioned, it has now to consider the opinion of the Public Accounts Committee and, perhaps in a still greater measure, public opinion as voiced in the House of Commons. Every department of government must, under modern conditions, be a good deal influenced by public opinion from outside, and political considerations necessarily are an important factor in modifying the control which the Treasury might otherwise wish to exercise over the departments on financial considerations alone.

C.N.E.,
Ev. 2519

C.N.E.;
App 13.

Idem,
Ev. 2527

The means which the present system provides for securing control over the Treasury, apart from the political control of the House over the Chancellor of the Exchequer, operate through the Public Accounts Committee and are twofold.

As in the case of other departments, the Public Accounts Committee calls as witnesses treasury officials, who may be required to explain and justify treasury action and, in cases of disagreement between the Treasury and the other departments, to put forward the treasury point of view. There is, therefore, now the same salutary check upon the action of the Treasury as upon that of the accounting departments. As a matter of practice, a permanent official of the Treasury attends all the meetings of the Public Accounts Committee in order to answer generally for that department, in addition to other special witnesses who may be called.

C.N.E.,
Ev. 2595

In the second place, the Treasury is required to write minutes on the reports of the Public Accounts Committee and of the Estimates Committee. It is not required to adopt them, but it cannot ignore them. Action is required to be taken and the Treasury must present its minutes for the consideration of these committees in the next session. If it disagrees with the report, the reasons on which its objections are based must be stated. The committees, therefore, are not only certain of a hearing when dealing with the Treasury but are certain also of ascertaining the attitude of the Treasury, and consequently of being able to see whether their recommendations will or will not be carried out, or whether it will be necessary to appeal to the final arbitrament of Parliament. It is inconceivable nowadays that the Treasury should wish to ignore any portion of such reports. The spirit with which the modern Treasury is imbued makes it zealous to assist in those improvements and proposals for efficiency, which are the objects aimed at in those reports. Disagreements on matters of principle or procedure are bound to arise, for there are two sides to every question ; but the aim of the Treasury is the aim of the committees—the settlement of a question in the manner most advantageous to the public service. In practice, the Treasury invariably takes each item of the reports which calls for notice, observation, or action, and expresses a considered opinion on it. These minutes thus provide a valuable insight into the policy of the Treasury in relation to principles and practice.

The functions of the Treasury rest, partly upon statute and partly upon usage or general powers derived from the

executive powers of the Crown. As regards the present system of public accounting, its functions are now largely determined by the Exchequer and Audit Act of 1866. Under this act the Treasury appoints the whole of the officers and clerks of the Comptroller and Auditor General; determines by what departments appropriation accounts should be prepared and rendered; designs the plan of account books and accounts; ¹ is empowered to sanction unauthorised expenditure, and to approve of regulations as to what should constitute a voucher or proof of payment; ² to issue directions to the Comptroller and Auditor General in connection with the audit, in certain particulars, of the appropriation accounts; to direct him to carry out the audit of such other accounts as it may determine; and further, if objections to any item arise in the course of the Comptroller and Auditor General's examination, which are not satisfactorily answered by the department concerned, the matter is to be referred to the Treasury, who shall determine in what manner the item shall be entered in the appropriation account, while finally, if an accountant is dissatisfied with a disallowance made by the Comptroller and Auditor General in an account other than an appropriation account, he shall have a right of appeal to the Treasury, who may make such order as may appear to it to be reasonable. In such a case as the former, the question would no doubt come up for consideration before the Public Accounts Committee if the Treasury upheld the view of the department against that of the Comptroller and Auditor

29 & 30
Vic. c. 35
§ 8
§ 22
§ 23
§ 27
§ 29
§ 30
§ 33
§ 31
§ 43

¹ On the passing of the Exchequer and Audit Act, the Treasury, under section 23, appointed 'Commissioners of Public Accounts' for the special purpose of preparing the plans of account books suitable to the various departments and of watching, for a time, their operation. When in 1872 sufficient experience had been gained to justify the issue of an order in council dealing with the subject, the power of the commissioners was revoked. The services of these officers were, however, retained in order to see that uniformity of account was maintained, their title being altered to 'Treasury Officers of Accounts.' To such officers would be referred questions of form of account which go to the Treasury for consideration.

H.C.
487/1858
Cp. 2 R. 50,
1872, T.M.
R.C. Civ.
Estab.,
2 R. Ev.
10565-71
R. 1913,
Ev. 1594

² The constitution of a voucher or proof of payment in certain cases of army and navy payments in respect of pay, wages, allowances, pensions, or gratuities, is specifically provided for by statute. 47 & 48 Vict. c. 64, § 14, enacts that such payments may be made and witnessed in accordance with regulations approved by the Treasury, and that any pay-sheet or document so witnessed 'shall be a voucher or proof of payment for the purposes of section 27, Exchequer and Audit Act.'

General; but if the Treasury agreed that the item was not properly chargeable to the vote, but gave authority for it to be charged as a loss, no further question would be raised by the Comptroller and Auditor General unless the circumstances were exceptional. If, however, the charge against the vote had been recommended for disallowance by the Comptroller and Auditor General and the concurrence of the Public Accounts Committee given, resulting in the amount being disallowed from the year's accounts, the Treasury should not subsequently give authority for its inclusion as a loss in a subsequent year's account, thus relieving the accounting officer of his liability, without either resubmitting the case to the Public Accounts Committee, or directing that the record of the charge shall be specially brought to the notice of the committee. The Comptroller and Auditor General, commenting on such a case in 1888, in which a disallowance by the Public Accounts Committee in one year was authorised by the Treasury to be written off in the following year, observed that 'it would have been more consistent with respect for the decision of your committee to have provided in some special manner for the charge.' The legality of the Treasury action was not questioned, nor was that department, in the exercise of its authority, acting in defiance of the decision of the Public Accounts Committee, which was to the effect that the charge was inadmissible against the vote. The point, therefore, was not one of the powers of the Treasury, but of its procedure.

2 R.
1888, 74

The functions of the Treasury are wide; for, as the department responsible for financial order, there can be no question on the financial bearings of which it will not have the direct or potential right to express its views. It ought not to, however, and cannot be an authority, on extremely scientific or technical proposals. In criticising, for instance, the professional expenditure of the army and navy, the Treasury would soon be infringing upon that criticism of policy which it is not its duty to exercise. Its functions are necessarily limited in such directions by the practicability of their exercise. On the other hand, its control is not limited to seeing that the money is spent according to appropriation and under authority but also to seeing that it is wisely and necessarily spent. In the case, therefore, more particularly, of the manufacturing de-

R.C. Civ.
Estab.,
2 R. Ev.
10657

partments and cognate concerns and services, the Treasury is entitled to ask a department to show cause for the work that is done, and whether what is being done is still needed ; in other words, to ascertain whether a department makes an intelligent administrative use of figures, such as the values of stores, which is different from the audit and parliamentary use of them ; ' Many things are done in a large government department which private firms would not think it necessary to do, and which, under the pressure of competition, would probably be got rid of automatically. A manufacturing department of the state is not under pressure of that kind. There is no test of profit and loss except what the officials from time to time choose to apply.' The absence of commercial competition, and of any inducement to cut down expenses or re-organise in order to secure dividends, requires that some salutary external check should be applied, such as is secured by treasury inquiry and criticism.

R. 1910,
Ev. 554

Nor again must it intervene too much in administration. Though the Treasury is a department having control over other departments, ' the word " control " implies, not that it is its duty to watch them and act the part of a detective towards them, but that, whenever changes are made and difficulties occur and scandals are detected, it is the duty of the Treasury to devise regulations for meeting, correcting, or remedying them. In this sense only does it exercise control. It is impossible that it ever should, and that it ought, to watch over and inquire into the expenditure of the other departments ; it has no machinery for doing so . . . The detailed application of the moneys granted for the army, navy, and civil service rests entirely with those departments. The control of the Treasury does not interfere with the incurring of expenditure in any shape ; all that belongs to the executive departments.' On similar principles it is not the practice of the Treasury to see that any regulations it makes are worked by a department ; it assumes that the department will give its co-operation and compliance. It has been stated that the exercise by the Treasury of further supervision than at present would be harmful. ' It is a very wrong principle of administration to supervise people too much and to remove their responsibility.' At the same time, it is very important that

Hans. 3s.
ccxvii.
1216
(Ch. of
Exch.)

Idem,
1217

R.E.C.
1912,
Ev. 141
Cp.
A. & N.
Est. Com.,
Ev. 3068

Bast-
able,
Pub.
Fin.,
I. vii. § 6

the Treasury should be strong enough to put each department on its defence frequently, so that they should know that they always have to make good their case. To do their work for them would be entirely wrong. Local is superior to central administration, wherever minute supervision is required. Central authorities with superior skill and intelligence may often fail through the difficulty of regulating from a distance operations that need unfailing attention and watchfulness. Thus the Treasury cannot interfere in the making of contracts beyond satisfying itself that the system of making them is sound, though it is largely concerned in variations from the terms of a contract when made, and in this capacity its decisions are authoritative; for, as the central authority, questions on contracts come to it from every department and therefore it has a wide experience of the subject.

R. 1914,
Ev. 147

The relations between the Treasury and the departments differ from those between the departments and the Comptroller and Auditor General, or between the departments and the Public Accounts Committee in regard to the question of secrecy. A department can communicate confidential matter to the Treasury without fear of divulgence, which is not the case with either the Comptroller and Auditor General beyond a certain point, or the Public Accounts Committee, as the report of the former is presented to Parliament and the transactions of the latter are public; an exception has, however, been made during the present war as, owing to the continuation of hostilities, it has been necessary in the public interests that some of the evidence before the committee should be taken in camera and that certain documents submitted should be treated confidentially. The Comptroller and Auditor General is under statutory obligation to report to the House of Commons, and he cannot therefore receive confidential communications without restrictions as to their use, though he naturally exercises a wise discretion in the public interests in dealing with confidential information supplied to him. Matters of high policy may be withheld from the last three, but not from the Treasury, nor can reasons of secrecy be urged as a reason for not obtaining treasury authority for a transaction when such is normally necessary.

2 R.
1916, 1

1 R.
1907, 10

The importance of a central financial control cannot be

denied. It may be exercised in a greater or less degree according to the time, circumstances, and nature of the expenditure. It may work by direct action, or it may merely influence a department by its potential right to intervene. Its existence is a powerful safeguard even when it is least apparent. Though complaints are from time to time made as to the inconveniences, and even hampering effect, felt in the accounting departments by the exercise of this external control, none of the various committees before which the point has been raised have found that there was any serious justification for them, but have generally reported that the consensus of opinion has been in favour of the existence of such control. 'Financially, it is of advantage that there should exist an outside tribunal, free from external or internal influence, to which the department can appeal where additional expenditure is in question; when it may seem desirable to temporarily depart from the provisions made by Parliament; when a relatively important loss of money or stores has to be considered; or when some special composition has to be made with a contractor.' On the other hand, there are drawbacks in the system which cannot be eliminated though they can be mitigated by a wise use of the power. 'The mode in which control outside a department, that is, treasury control, in the point of the public service, operates to impair departmental responsibility, is almost inevitable in the comparison between public and private work, considering how entirely responsible all public work has to be, and how minute must be the record of all that is done.' This, however, is only one of the instances in which advantages in system have to be foregone in order to meet parliamentary or constitutional requirements. Among the chief merits of this central controlling authority are the following:—

1. It promotes financial order.
2. It secures uniformity of system.
3. It exercises a valuable influence in advising departments as to organisation and similar general questions.
4. It compels a department to justify its proposals.
5. It acts as an impartial critic on the department's proceedings generally.

Moreover, the existence of such a factor of control both

R.W.O.
Org.,
App. IV.
(A) 14
Cp. *idem*,
Ev. 3452

R.C. Civ.
Estab.,
2 R. Ev.
18301

C.N.E.,
Ev. 1639

3 R.
1883, 4

relieves and strengthens the control of Parliament ; for to require the sanction of Parliament, for a multitude of small details, would tend to weaken its effective supervision over matters of greater importance. In the case of abandonment of claims, for instance, the Treasury necessarily has a dispensing power. But just as the operation of treasury control relieves Parliament of detailed control, so also treasury control is necessarily limited in the extent to which it may be possible or wise to go. While it should be acquainted with, and give its authority to, systems and the principles of working, it would not be usually required to be informed of the detailed instructions issued in connection with departmental procedure.

R. 1910,
Ev. 1052

2 R.
1893, 16,
& T.M.

Thus, in the normal course, details of store-keeping systems do not go before the Treasury. Financial regulations should, however, be prepared in concert with the Treasury in order to obviate any risk of irregularities arising as a result of rules drawn up on other than sound and recognised financial principles, and to diminish controversial correspondence ensuing subsequently. But whether the Treasury examine a new system in detail or not before sanctioning it, it is entitled to demand that it shall be put forward as the outcome of expert opinion, in order that it may be able to satisfy not only itself, but also, if necessary, the Public Accounts Committee as to the soundness and wisdom of the changes contemplated. Recommendations made by any other than an expert committee may be right or wrong but cannot be recognised. Since the Treasury must necessarily rely greatly for guidance in technical matters on the department concerned, it naturally requires that questions submitted should be supported by the best authority available.

R. 1911,
Ev. 1763

W.O.
Org.,
App. IV.
(A) 1

This general control by the Treasury may, for convenience, be considered under three aspects, namely, control over the estimates, over the expenditure under votes, and over details, though the control so exercised under one of these heads frequently affects and is, in many points, inseparable from the others. Of these the first mentioned is anterior control, the second is concurrent control, and the third is both anterior and concurrent. With retrospective control, as secured by audit, the Treasury is only indirectly concerned.

II. CONTROL OVER THE ESTIMATES

General Considerations

In its initial and larger stage, treasury control over the estimates is the control of the Chancellor of the Exchequer, who settles first with the ministerial head of the department, and then with the cabinet, the total approximate requirements, the minister representing the requirements of the department, while the Chancellor of the Exchequer represents general financial considerations. The special charge of the latter is that 'all the extremes of expenditure centre in him, and therefore he is in a position to survey the whole in a way that none of his colleagues can.' The general total, with which the departmental Treasury is not officially concerned, being given, the departments draw up the estimates in detail and are required to obtain treasury sanction to them, separately and collectively, before they are presented to Parliament. It is only at this second stage that the subordinate or departmental Treasury, as such, intervenes.

On the correctness of the estimates depends in a great degree the fulfilment of the financial programme of the year as forecast in the budget and placed before Parliament, and on the faith of which the grants are made. Accuracy of estimating is therefore incumbent on the departments, and too much care cannot be exercised in endeavouring to put forward a satisfactory forecast. A mechanical estimate based on the prior year's figures alone is unjustifiable, and a proportionate increase based on the relative growth of preceding years is still less justifiable. Such figures may be elements in the calculation and provide valuable experience, but if they are regarded as a starting point which requires no further justification other than that of approval in a prior year, no economy can be expected. The justification for asking for the same amount for a service as was granted in the preceding year is to be found in the conditions remaining the same, both as regards continuance of policy and methods of administration. Evidence of this must be forthcoming, if required by the Treasury. In practice, however, the automatic or standing

C.N.E.,
App. 3
(a)W.O.
Org.
Report,
32Parl.
Deb. 5 s.
xxxvii.
382W.O.
Org.
Report
32-3Cp.
Bast-
able,
Pub.
Fin., VI.
ii. §. 4

N. Est. estimates are usually prepared on an average of three years' expenditure.
Com.,
Ev. 479

Idem,
Ev. 132-
140, 280
-7

C.N.E.,
Ev. 1471

R.C. Civ. complete form treasury sanction is little more than a formality
Estab., while for the civil service estimates the Treasury is immediately
2 R. Ev. responsible. It moves them in the House of Commons.
10655

R. 1911, for presenting them to Parliament. If the Treasury, though
Ev. 2012 not itself convinced, is of opinion that the department has
-2021 made out a plausible case and is not therefore prepared to
definitely reject it, it will permit the inclusion in the estimates
provisionally, on the presumption that the department will
be able to justify it eventually. If, in the result, the Treasury
finally disapproves or the department drops the scheme on
the Treasury's representation, it will be just as necessary to
explain to the Public Accounts Committee the circumstances
which will result in a surplus on the vote, as if there were an
excess.

Cp. R. As the cabinet may be said to be the first estimates com-
1862, Ev. mittee, so the Treasury may be said to be another estimates
1543 & committee. It reviews them all—some in greater detail, some
1548 in less—each group of estimates being dealt with by a special
Parl. section of the Treasury. There is in that section a clerk
Deb. 5 s. whose business it is to scrutinise and co-ordinate the estimates,
xxxvii. and to report necessary or unnecessary additions, and if re-
422

quired the department will be called on to make good its case. This examination by the Treasury is probably more effective than that of any other body outside the department could be, and it is claimed that the Treasury is much more jealous of expenditure than any committee of the House of Commons would ever be; but even the treasury examination must be limited.

Cp. R.C.
Civ.
Estab.,
2 R. Ev.
10425
C.P.M.
1856,
Ev. 2196
-2205

Generally speaking, expenditure may be dealt with from three points of view, namely policy, professional or technical expenditure, and establishment, the last two named being susceptible to financial criticism. With policy, as such, the departmental Treasury is not concerned; any effectual criticism of professional expenditure is extremely difficult; but over all establishment expenditure a close control is possible. Criticism of the estimates in respect of this class would be directed to such points as the scale of a department, the rate of salaries paid, and the relation of the number of officers to the work done; criticism as to policy would arise as to the expediency of the administration assuming particular functions or enlarging those functions, and the expediency of dropping some part of the work. The treasury control over the estimates is entirely financial, except in so far as questions of policy are affected by the fact of money not being available; it is instituted for purely financial purposes, and from the moment it interferes in any shape or kind with policy it is departing from its proper sphere; for such a control would, in effect, be a reconsideration of the policy of an informed department by an uninformed department. The control therefore of the subordinate or departmental Treasury ends with financial criticism. If the Chancellor of the Exchequer chooses to call in question the policy of the departments, he does so as a member of the cabinet, before the cabinet. The fact that it is the business of the subordinate Treasury to call upon a department to make good its case for increased expenditure does not imply or infer any power in it to overrule the policy of another department on the ground of policy. It cannot, in fact, argue that any service is impolitic, and therefore should not attempt to intervene between the political head of a department and his own officers. Any attempt of this nature to bring in outside interference would be sure to end in friction, for a powerful cabinet

R.C. Civ.
Estab.,
2 R.
10690-1

Est. Pro.
Ev. 707

R.C. Civ.
Estab.,
2 R. Ev.
10623
(Welby)

Idem.
Ev.
10626,
10629,
10809

R.C. Civ.
 Estab.,
 1 R. Ev.
 12 & 13

minister does not readily accept a decision of the Treasury which overrules something he proposes. In practice, this is a considerable check upon the power of control, though, in theory, it should not be. The same applies of course to Parliament itself which, while admitting the necessity for and benefits of treasury control, and accepting it in theory, frequently makes demands and brings pressure to bear, thus overruling it in practice. As an authoritative view of the extent of treasury control, it may not be out of place to quote a memorandum on the subject drawn up by a distinguished Chancellor of the Exchequer:¹ 'The first object of the Treasury must be to throw the departments on their defence, and to compel them to give strong reasons for any increased expenditure, and to explain how they have come to have to demand it. This control alone contributes to make the departments careful in what they put forward. There are many other stages at which, clearly, the Treasury is bound to intervene, and many where they must absolutely decline to sanction what is asked. The Chancellor of the Exchequer, who has to find the money, is to know what is going on. He is certainly not a mere registrar. He must be satisfied of the expediency and urgency of the proposed outlay, but it is going too far to say that he must be convinced that it is really *necessary*. The purchase of some picture or a priceless work of art for the nation may not be necessary; but still, it may be both expedient and urgent. The imperative must have precedence, but there is outlay which the nation requires to which the term imperative can scarcely be applied. I quite admit that someone in a great service must watch over a certain uniformity of pay and regulation, and that this duty falls to the Treasury and the Chancellor of the Exchequer, but this uniformity can never be absolute. It must be a *certain* uniformity. The salaries in the various civil departments are not uniform, neither can emoluments always be uniform in the army and navy. Differences of circumstances, sometimes of tradition, must be taken into consideration. I believe that the largest experience would be unequal to the task of laying down precise principles as to the control to be exercised, but I may say that, in my judgment, it should be ubiquitous and unflagging, and, though

W.O.
 Org.,
 Ev. 3204
 -5

¹ Lord Goschen in 1887.

dealing with details, should not lose a certain large-mindedness. It should have sufficient imagination to appreciate the feelings of those over whom it is exercised. It should not be over-controversial, and yet firm and precise.'

The estimates of the civil departments are dependent on policy in far less degree than those of the military departments. Direct treasury control in their case is therefore both closer and more effective, and the estimates are examined very thoroughly, whereas, owing to the fact that so much of the army and navy expenditure depends on policy or is of a technical description, the Treasury in exercising its control thereon is compelled to rely to a much greater extent on the departmental financial scrutiny. It follows that, apart from an examination to see that the estimates do not exceed the total which has been settled by the cabinet, the Treasury has not the same responsibility in regard to this expenditure as in the case of departments which have not got a finance branch of their own. 'Army and navy expenditure is almost too great for the Treasury, and the control that is exercised there is simply that of the Chancellor of the Exchequer fighting his colleagues in the cabinet as to the gross amount to be given.' On the other hand, the financial control exercised by the Treasury over new proposals is as close in the case of the army and navy as in the civil departments, for all new kinds of expenditure have to be submitted to it for approval before the expenditure is incurred. 'As Parliament exercises the ultimate control over the executive government' by providing the funds, so the Treasury exercises anticipatory control by ascertaining that the department shows good *prima facie* grounds why such funds should be provided.'

While the Treasury would not think of questioning the technical desirability of a proposal put forward by a department, it is bound to consider the financial question as to whether the money is available and how it should be distributed, and, equally, the financial effects of the proposal not only in its bearing on the scheme immediately under consideration, but in relation to other departments of the state. Any disagreement between the Treasury and the department on these points would necessarily have to be settled by the cabinet. The question of costing is therefore one which cannot be lost

C.N.E.
Rep.,
p. iv.

Idem.
Ev. 1304

Idem.
Ev. 153,
185

Cp. R.C.
Civ.

Estab.,
2 R. Ev.
10654

Est.Pro.,
Ev. 775

C.N.E.,
Ev. 35

R.C. Civ.
Estab.,
2 R. Ev.
10627

C.N.E.,
Ev. 586-

7

sight of by the Treasury, nor is it one which should be neglected by the accounting departments in matters which they themselves decide without reference to the Treasury. Costing on the scale practised, and necessarily so, by commercial concerns, may not be practicable in state finance, as many things have to be carried out to secure efficiency, possibly irrespective of cost ; yet it cannot be denied that an extension of the present system and a stronger realisation of the importance of the principle would on many occasions effect large savings to the public purse.

As far as technical expenditure is concerned, the limitation of the treasury functions is readily understood. Control being based on knowledge, it would be impracticable, if not impossible, for the Treasury to acquire sufficient detailed technical knowledge to enable it to exercise direct control. Adequate control is, however, secured by control within the department exercised by a strong accounting officer, and by his being aided, and the Treasury being aided, by as much knowledge as can be collected by sympathetic inter-departmental working. The essence of treasury control is really the control of the department within itself, reinforced by the Treasury. Thus in the case of establishments, treasury control can only be secured by a close association with the responsible heads of the departments affected. Without their co-operation and knowledge, no permanent good is likely to be attained, and it is therefore most desirable in the public interests to interest them directly in the efficient and economical manning of their offices.

C.N.E.,
Ev. 442

R.C. Civ.
Estab.,
1 R.
para. 110

The system, moreover, possesses the important advantage of tending to preserve intact the responsibility of the department which draws up and presents the estimates and which is responsible for the service. The more that responsibility is weakened by outside interference, the more extravagant the department is likely to be. However useful the financial criticism of the Treasury may be, it ought never to supersede an effective financial criticism within the department itself, in the case of the great spending departments especially.

Cp. R.C.
Civ.
Estab.,
2 R. Ev.
18095
Idem,
Ev.
10808

After allowing for this important principle, there still re-

mains a very wide field for the exercise of direct treasury control. Although it is not really within the discretion of the Treasury to criticise expert schemes of either great public buildings or works, nor, beyond a certain degree, the proposals for increased establishments dependent on military requirements, yet all estimates have to be approved by the Treasury. It is a constitutional rule that treasury sanction is necessary to any increase of expenditure, save only in the case of the establishments of the two Houses of Parliament. Not only is such sanction a necessity, but it is an obligation on the department, when presenting proposals involving fresh expenditure, to lay all the financial considerations before the Treasury in full at the very outset. If any such increase is desired, it rests with the accounting department to justify its demand. If the proposal is a necessary sequel to a change of policy, the Treasury would be only concerned in seeing that the method of carrying it out was *prima facie* the most economical. From its experience in dealing with other departments, it might be able to point out that in carrying out a large matter of policy, more economical methods might be adopted, or in other ways useful suggestions might be made without calling in question the opinions of the departmental experts. But in many cases the necessary sanction can be but little more than a formality, since the Treasury is not, and cannot be, an authority on technical or scientific proposals. In such matters it must remain in the hands of the experts, with this qualification, that it has at its disposal a method of procedure which it can and often does employ, whereby expert advice is obtained without interfering with the department's advisers. The Treasury can appoint a departmental or inter-departmental committee, on which it is represented, to examine new or special expenditure, if it is of opinion that it requires to be further informed and advised as to the reasonableness of the demands of the department, prior to the proposals being sanctioned. This system tends to efficiency and economy and is the most efficient way of examining into disputed questions of expenditure. The Treasury itself, however, while never failing to consider the financial aspects and effects of a department's demands, would not attempt to criticise the technical details as affecting

C.N.E.
Ev. 1307

R. 1874,
85

R.C. Civ.
Estab.,
1 R. Ev.
4

3R. 1911,
19 T.M.

C.N.E.
Ev. 1898
-1900

Idem,
Ev. 1340
-3

Cp.
idem,
Ev. 1304;
& 2 R.
1893,
22, T.M.

2 R.
1896. 7

C.N.E.
Ev. 1396
-9

R.C. Civ. the merits of those demands. A change of policy involving
 Estab., a reduction of expenditure would not require the assent of
 2 R. Ev. the Treasury, and therefore no opportunity would arise in
 10648, such a case for treasury criticism as to whether from the
 10650 financial point of view the economy effected was as great as
 the circumstances might have justified. A change of policy,
 however, which altered the cadre of an establishment would
 need treasury sanction even though a reduction were being
 effected. Speaking generally, therefore, unless there is a de-
Idem, mand for increased expenditure, there is virtually no treasury
 1 R. Ev. control; the effective control is applied when an increase is
 8 & 110. asked for. Consequently much unnecessary or wasteful ex-
 penditure may be continuously incurred which the Treasury
 has no control over, for it will remain ignorant of its occurrence.

C.N.E., On the other hand, as regards a great number of things,
 Ev. 1524 expenditure of the same class exists in all the departments.
 Cp. W.O. The Treasury is the only department that is aware of or studies
 Org., Ev. the details of all. It is thus, on the one hand, able to make com-
 3059, parisons and to guard against the establishing of any principle
 3064 in one office, which might be claimed to be of general applica-
 tion and so involve considerable expenditure by its universal
 R. 1911, adoption; and, on the other, it is able to regulate rates of pay-
 Ev. ment made by the different departments for the same class of
 1407-11 work or duty.

C.N.E., Outside questions of policy or technical points, there may
 Ev. 2542 be in some classes of expenditure a considerable margin between
 extravagant and economical administration. Thus, in the
 case of establishments and cognate items of expenditure, the
 Treasury exercises as close a control in the case of the War
 Office and Admiralty as it does in the case of the civil depart-
 ments, and its sanction to increases is far from being a matter
 of form. It deals with such questions by comparison, and
 criticises with the authority of knowledge gained from a com-
 prehensive outlook. The principal value of treasury criticism
 lies in the fact that that department is informed and instructed
 upon the expenditure of all departments. Its aim is, as far as
 R.C. Civ. possible, to secure uniformity for the same kind of work in the
 Estab., various offices of state. It must, however, be admitted that
 1 R. Ev. even in respect to this expenditure on establishments, treasury
 18-19 control is mainly limited to the beginnings of the expenditure.

Having given its sanction to an increase, it cannot do much towards a reduction. If the contingency which occasioned the increase comes to an end, the Treasury has in practice no means of intervening to stop it. It can make suggestions to the head of the department but has no power to compel him to adopt them, other than the drastic step of refusing to approve or present the estimates. It is true that it has the power, under an order in council of 1890, whenever it thinks fit to investigate the organisation of a department and to see whether an office is or is not economically managed, but in practice the power is limited. The duty of effecting a reduction rests with the heads of departments and branches; who should bring facts of unnecessary posts to the notice of their superior. Such is an extremely disagreeable undertaking. It requires a strong man to effect reductions at the cost of incurring personal odium, with perhaps few, if any, thanks for the saving to the public effected. The difficulty was admitted by the Chancellor of the Exchequer in 1912. 'Any attempt at economy is a very unpleasant task. You cannot achieve it without cutting down salaries, without getting rid of officials, without dispensing with the services of people, without withdrawing orders; and whenever you do this, somebody is hit, and somebody's constituent is hit.' When, therefore, increases are recommended by departmental or local authorities, this should be borne in mind. The officer recommending the increase should not only consider his own responsibility for the commencement of the appointment, and for its immediate need, but also the possibility of and the means for stopping it when its usefulness may have ceased. He should bear in mind the potential responsibility which his action may be throwing upon his successor. 'It is one of the great difficulties to be met with in administration, ever to cut down anything that may be a vested interest of any officer or man. It is easy to call for economy, but economy must fall upon some individual, and the individual protests.' Gladstone was faced with the same difficulties in his schemes of economy, and observed in 1863 that since he began to deal with these subjects, twenty years before, 'every financial change beneficial to the country, at large has been met with a threat that somebody would be dismissed.' In his case, however, such discouragements

R.C. Civ.
Estab.,
2 R. Ev.
10705
O. in C.
15/8/90
clause 16
W.O.
Org., Ev.
3154

Parl.
Deb. 5 s.
xxxvii.
366

R. 1912,
Ev. 2384

Life of
Glad-
stone,
ii. 63

were 'treated with the half scornful scepticism without which no administrative reformer will go far.'

A general reorganisation, however, to effect economy can only be gradual. If carried out by a stroke of the pen, it may have the opposite effect of imposing still heavier charges on the state. 'No good object is attained by sudden and expensive reorganisations; the best way of arriving at efficiency in any department of the state, as well as generally throughout the service, must be by making progress gradually on certain clear and defined principles towards a better order of things.' If the sole question for consideration were merit and efficiency, economy would be easy, but it too often happens that the public, in order to obviate personal hardship or through public or political pressure, has to incur expenditure out of all proportion to the services rendered, owing to vested interests. One

R.C. Civ.
Estab.,
1 R.,
para. 9
Cp.
Idem,
para. 112,
& H.C.
71/87
C.N.E.,
Ev. 2550

R.C. Civ.
Estab.,
1 R. Ev.
9348-55,
9377,
10162-5
Todd,
Parl.
Gov.,
i. 174

of the most difficult problems encountered by every head of a department is the difficulty of getting rid of his inefficient subordinates. Political expediency is, therefore, frequently a bar to the effecting of economies which would, on grounds solely of finance and efficiency, be possible; 'an individual hardship, and equally an injustice, ought not to be committed for the sake of arriving a few years sooner at the object Parliament had in view, namely, economical reform . . . the work of retrenchment must be a well considered and a gradual work.'

Apart from establishments, there are other sources of expenditure which are liable to become obsolete. These are a frequent source of waste and inefficiency if not vigilantly watched. In estimates the *status quo* is not the measure of justifiability. Treasury criticism is frequently and effectively directed to the discontinuance of such items, by securing periodical reviews of their continued necessity after a change of policy or in altered circumstances. The Treasury, on observing such items, would call upon the department from time to time to show cause for the work that is done; but it is obviously the duty of the department and of local authorities to be ever on the watch to check such expenditure whenever possible, and not to wait for treasury intervention.

Cp. W.O.
Org.,
Ev. 3288

In general, treasury control over the estimates is exercised with a view to preventing extravagant demands which can

possibly or probably be reduced without loss of efficiency, and by examining new proposals to secure that value for money is received; for this is one of the main objects of financial control. The actual economies which the Treasury may succeed in effecting may be small, but the control exercises a strong moral restraint upon accounting departments. The necessity for giving a plausible reason for every new item of expense is a hindrance to new and unnecessary claims which keeps within limits the natural tendency to increase, and checks the waste so common in public economy.

Still, in this control over the estimates, it is no part of the business of the subordinate Treasury, as distinct from the Chancellor of the Exchequer, to demand reductions of particular items solely in order to reduce the total of the estimates to within a lower limit, on the grounds that money will not be available. The cabinet having decided the policy, the duty of the department is to prepare estimates which, in the opinion of the departmental experts, will properly carry out that policy. If the department is unable to prepare those estimates so as to carry out the policy within the financial provision allowed, then either the policy must be modified by the cabinet or the Chancellor of the Exchequer must arrange to make greater provision. In other words, it is not the function of the Treasury to endeavour to cut down demands, nor to have the power of doing so, without reference to the necessities of the service. The Chancellor of the Exchequer might make such a demand, and put pressure on a department to cut down its total estimate in order to bring it within the sum which he thinks he can afford. The department would then try and postpone, as much as possible, work which in itself might be very desirable in the public interest, but which cannot for the time being be afforded by the state. Three demands of this nature may be referred to as illustrations of the practice. The first case arose out of Gladstone's battle for economy in 1862, when he persuaded the cabinet to agree to enforce a reduction of £750,000 on the proposed estimates. Again, in 1886, Lord Randolph Churchill demanded that the army estimates should be reduced by half a million, though, normally, the Chancellor of the Exchequer does not insist on a reduction of the estimates *en bloc*. The Secretary of State for War, Mr. W. H. Smith, objected; as a

W.O.
Org.,
Ev. 3270

Bast-
able,
Pub.
Fin.,
VI. ii. § 2

C.N.E.,
Ev. 2527

Idem,
Ev. 2532

Life of
Glad-
stone,
ii. 50
R.C.S.A.
War, Ev.
21534

Cp. Life
of Ld. R.
Churchill
ii. 229-
240
R. 1915,
16, & Ev.
1045-52,
1067

result of which Lord Randolph resigned the Chancellorship. In the third case, the Post Office estimates for 1913-14 being £250,000 in excess of the money available, the Treasury required the department to make a reduction of that amount on its engineering programme. In making such a demand, the Treasury stated that the question of whether it impaired the efficiency of the service was considered, but that, on balancing the needs for economy with the claims of the Post Office, it came to the conclusion that a reduction ought to be made. The function of the Treasury in dealing with the estimates from this point of view, is to consider the general financial position, and to endeavour to arrive at a proper figure by weighing that against the claims of the service. Such demands on the part of the Chancellor of the Exchequer are quite distinct from the control over the estimates by the subordinate Treasury, which is not intended to be exercised in such a manner as to limit or hamper the public service. It is intended rather to force a department which desires to increase its expenditure to make good its case. The mere fact that a department has to lay its whole case before the Treasury, exercises a very wholesome influence in preventing it from putting forward extravagant proposals. Therein lies one of the most salutary effects of the central control. It exercises a restraining influence, and even when the actual results it brings about may appear to be small, it is none the less powerful in exercising a moral effect through the known potential use of its power.

Cp.
R. 1915,
Ev. 1044,
1067

Cp.
Army
Fin.,
p. 73

The appreciation of these principles of control, which are so well known in the central offices of departments where the control is directly felt, would better enable local authorities to understand why proposals and schemes which may have much to recommend them intrinsically, sometimes are unable to obtain approval.

Todd,
Parl.
Gov.,
i. 184
Cp. 2 R.
1891, 14

In conclusion, reference may be made to one branch of the estimates over which the Treasury has no control—those of the House of Commons. These concern the internal economy of Parliament, of which the Speaker is the final judge, and on his authority the amount required is inserted by the Treasury in the annual estimate without question, nor is the Treasury consulted as to increases or variations in the establishment.

Similarly the Treasury rarely attempts to exercise control over the estimates for the House of Lords, which are prepared by a committee of that House and sent to the Treasury, which usually accepts them without dispute. 'It was not to be supposed,' said Gladstone in 1870, 'that the Treasury would assume that control over the estimates for the House of Lords that it was their duty to exercise over all other estimates. Under the old usage, the Lords were accustomed to regulate their own expenditure; but that House, in a spirit that did them credit, had abandoned that privilege, and had consented that the expenditure should come under an annual vote. Under these circumstances it would not be becoming for the Treasury to assume that sort of control over that estimate that they very properly exercised over ordinary estimates.'

Hans.
3 s. ccii.
383-4
Cp. R.
1887, 14

Form of the Estimates

The form in which the estimates are prepared and presented affords the Treasury a further means of control. Responsibility for that form belongs to it exclusively, by statute as well as by tradition; for since the estimates are the precursor and foundation of the account, the Exchequer and Audit Act, which makes the Treasury responsible for the form of the account, necessarily makes it responsible for the form of the estimates on which the form of the account must in general outline be based. The act, therefore, implies an anterior responsibility on the part of the Treasury for the form of the estimates. This responsibility the Treasury is not able to divest itself of, and the Public Accounts Committee strongly dissented from the action of the Treasury in 1887, in accepting new forms put forward by the Admiralty upon the responsibility of that department, although itself objecting to them, leaving the Admiralty to justify the proposals before the Public Accounts Committee.

3 R.
1888, 7,
& T.M.

Since, then, the responsibility rests with the Treasury, it is clear that no substantive change in the form of either the estimates or the accounts, and no alteration, either of arrangement or classification, may be made without treasury sanction—while further, as previously explained, such sanction would not be given until the opinion of the Public Accounts Committee

R.Sess.2,
1880,
54, T.M.
R. 1877,
130,
T.M. (3)

thereon had been ascertained, so that the Treasury may feel that it is not exercising its powers in any way that would not be approved by that committee.

It is customary for the Public Accounts Committee to criticise and approve such proposals, so far as they affect parliamentary control, and in practice it is probable that no contemplated change would be carried out unless acquiesced in by the committee. Such covering approval is, however, not legally necessary, and a change in the form of the estimates might be carried out by the Treasury in the face of objections by the Public Accounts Committee, though under modern conditions it is hardly conceivable that such action would be taken. In view, however, of the important consideration involved, proposals to alter materially the form of the estimates or the number of the votes should, in the first instance, be laid before the House, so as to enable it to examine them, and, if it should think fit, to refer them to the Public Accounts Committee before the Treasury sanctions the change. This is now fully recognised, and it is the practice to give the earliest possible information about any change made in the form of the estimates to the Public Accounts Committee. No important change would be sanctioned by the Treasury unless the concurrence of the committee had been obtained, as was done in 1909 when the new form of estimate for the works sub-heads of army vote 10 was adopted after approval by that committee. In the case of minor changes of form, involving no principle, the Treasury might give effect to them without waiting for a formal discussion before the committee, if it considered that they were not of such a character as the committee would desire to give a considered opinion upon.

1 R.
1890, 4

R. 1912,
Ev. 29

5 R.
1909, 9

It may be advisable at this stage to consider the form of the estimates in somewhat more full detail. The general form is governed by three main considerations :—

1. The supply of information to Parliament,
2. The preservation of continuity of the votes,
3. The maintenance of control,

and it will be convenient to discuss them from these points of view.

The Estimates as a Source of Information

‘ Readily intelligible information tends to anticipate objection and save debate in Committee of Supply, and it might be given with the greatest fulness in the estimates,’ which should therefore be drawn up so as to be as illuminating as possible, consistently with clearness and conciseness. They should give the fullest information as to the proposals and intentions of the department during the year for which they are prepared. The descriptive titles and explanations of the various sub-heads should be framed with the utmost possible precision, so that ambiguity may be avoided. Moreover, it is equally important that information as to estimated receipts should be given as particulars of proposed expenditure. The larger items of appropriations in aid should always be stated. With the greatest care in framing the estimates, however, it must be impossible, without unduly increasing their bulk, to include all the particulars which govern classification. In cases of doubt, the records of the department will usually show whether a particular service was in contemplation when the estimates were framed. But again, the fact that a service was so contemplated is not in itself a sufficient justification for its inclusion in the account. For while, on the one hand, a vote is legally applicable to any service covered by the terms of the resolution granting it, even though no mention be made of the service in the details of the estimate, on the other hand, if the wording of the estimate does not fairly cover the service, it is not sufficient for the estimating department to say on a subsequent occasion that provision was made for it. The fact that the amount of the estimate is sufficient to bear the charge is immaterial in such a case. If such a plea were generally admitted, the Treasury and Parliament might find themselves committed to expenditure of which they had no cognisance. So, too, any special conditions attaching to a grant (such as the non-surrender of the balance) must be clearly specified on the estimate. It is not sufficient for the department concerned, or the Treasury, to plead that those conditions were made known to Parliament during the debate on the vote, and that consequently its concurrence was implied. Whatever the

3 R.
1894.
App. 2

2 R.
1878,
13

2 R.
1913, 4

4 R.
1894.
47-52,
T.M.
1 R.
1882, 1,
T.M.

2 R.
1904, 10
Cp. 4 R.
1894, 15
2 R.
1888, 1

wishes of Parliament may be in that respect, legal effect is only given to them if defined in the estimate. If the terms of a grant are clear and distinct, the Comptroller and Auditor General contends that he has no power to pass expenditure not covered by the precise terms of the grant, whatever the intentions may have been, and the Public Accounts Committee relies on his bringing such cases to notice. If, therefore, a definite intention is expressed, either by the department or in the House, care should be taken to ensure that the form of the estimate is so framed as to correspond with such intention.

The extent to which the process of supplying information in the body of the estimates can be carried is, however, subject to three important qualifications.

Cp. R.D.
Est.
Com.,
Ev. 153

In the first place, reasons of policy may justify the exclusion of information from an estimate. Such reasons may belong to the regions of diplomacy or high state policy, or may be merely domestic. Thus in the case of secret service money, Parliament makes the grant without asking how it is to be spent, relying on the integrity of the paying officer to spend it in the interests of the public service, with the knowledge that no account will be required. Or again, in the case of proposed business transactions, it is often impossible to make a detailed provision for the purchase, say, of property, without drawing attention to the proposed purchase, in which case the purchase price would undoubtedly be higher.

3 R.
1888, 9

Army
Fin.,
pp. 63-4
Cp. A. &
N. Est.
Com.,
Ev. 31,
534-52,
1134-41

Secondly, the form in which it is most convenient for administrative reasons to ask Parliament to vote money is not necessarily the most interesting form in which the expenditure admits of being presented. Expenditure can be classified in two ways—according to its *nature* or according to its *purpose*, and, so far as the estimates go, there is no more difficulty in arranging it according to purpose than according to its nature. The former method would make the estimates far more significant and intelligible. The necessity of having to publish appropriation accounts, which must follow the estimates in form, precludes the possibility of preparing the latter on this method, however; for when the expenditure is incurred it may be impossible to state its purpose; difficulties of administration would also be involved, and accounting would be delayed. Provided, therefore, that the form is reasonable, the adminis-

trative convenience would be generally permitted to be considered before the parliamentary preference, even though less informative. The classification according to purpose would give more statistical information, but less controlling information to the officers of the department who have to administer the votes. When the Admiralty in 1887 proposed so to rearrange the votes as to bring items cognate to any particular service, wherever possible, into a single vote, the Public Accounts Committee, while approving of the object, pointed out that it might be attained, without altering the old form of the estimates, by presenting to Parliament a separate paper containing a re-classification of the estimates under the heads of particular services, thus obviating a loss of continuity of form. No objection of this nature presented itself in creating a new vote for the territorial force on its coming into existence, and therefore an undertaking was given to the House of Commons that, as far as possible, all territorial force expenditure which could conveniently be laid before Parliament in the territorial force vote should go there, thus enabling the total cost of that force to be better seen. Speaking generally, however, the accounts are kept, and therefore the estimates are prepared, upon the principle of showing the different subjects to which they are referred, and not the purposes to which the expenditure is applied. Such a method is adopted rather in view of the preparation and checking of the accounts than the information of Parliament and the country, rapidity of accounting and the maintenance of administrative responsibility being the primary requirements.

Thirdly, a parliamentary estimate forms the basis of an appropriation account, which is a straightforward record of actual transactions, capable of being brought to the test of precise audit. It is therefore undesirable to insert in the body of estimates any classification of expenditure which, not being susceptible of reproduction in the account books or adoption in the account, may possibly be illusory. If the information given by the classification in question has any real value, it would be better conveyed by means of a footnote, or added as an appendix. For similar reasons the introduction of calculations as to cost of services which are based on estimates, averages, and approximations are out of place; and

A. & N.
Est.
Com.,
Ev. 3540

3 R.
1888, 9

R. 1910,
Ev. 926

A. & N.
Est.
Com.,
Ev.
34, 177,
261

R. 1911,
App. 3*,
T.M.
17/2/11
2 R.
1890, 16
3 R.
1888, 26
(c)

2 R.
1890, 16

R. 1911,
App. 3*

3 R.
1888,
26 (d)
Cp. 2 R.
1881, 80,
& T.M.

when furnishing details of estimated expenditure in the body of the estimates, any classification which is admitted to be purely arbitrary should be avoided. Such calculations are rather matters of statistics than of account. It may be sometimes desirable that estimates should exhibit the anticipated cost of operations, but this object must necessarily be subordinated to their primary function, viz., to form the basis of the vote required to enable the administrative department to pay the salaries and wages of its staff, to purchase stores, and to make other necessary payments to carry on its work. When it is desirable to furnish statistical information, it should be relegated to a supplementary statement to be appended to the estimate. The estimate should be framed on a basis of cash payment only, all statistical and arbitrary adjustments and calculations being as far as possible removed therefrom. If this is done, the appropriation account proper is brought into closer touch with the actual facts of administration, thus rendering the control by Parliament and by the Treasury more direct and effective. On the other hand, when tables are appended to the estimates, they have legally no binding effect. Parliamentary sanction can only be secured by presenting them in the form of a vote. If, therefore, it is considered necessary to secure such sanction for expense accounts, it is necessary to present the estimate for them as a vote, apart from the cash vote, whereby provision would be made for voting money value or quantities of stores to be issued out of stock or labour to be employed in the year. This system was suggested for adoption by the Admiralty, which annually presents an estimate for expense accounts, though it was not found practical to treat it as a parliamentary vote, while a similar estimate is presented for the ordnance factories. Tables of this nature when presented in the form of a vote would be therefore on a different footing from explanatory and statistical tables, which are merely appended to the estimates. The desirability, however, of appending to the estimates statistical figures which, being only based on approximations or averages, are properly excluded from the body of the estimate, does not imply that no conjectural figures should be inserted in the estimates. It may frequently be necessary to provide for a service in the estimates, which it is known will cost something, though the

total cost can only be conjectured. Such 'conjectures' are not only legitimately capable of inclusion, being strictly and technically estimates, but are properly included; for, though provision under any given scheme should be limited as far as possible to the amount likely to be expended within the year, yet, if expenditure is likely to occur at all, it is preferable to make some provision, even though it may be only a nominal sum in order to obtain parliamentary sanction to the service, if not to the cost. The argument is all the stronger when a works service provided for in the estimates and undertaken involves automatically the starting of a contingent service. If the latter is not brought to the notice of Parliament, by the taking of a vote if money is required, or by a note if the service is not expected to be started within the year, the full estimated charge on the public of the original proposal is not laid before Parliament at the time of its inception, and this Parliament has a right to be informed of. The civil contingencies fund, which is primarily intended only for unforeseen payments, should not be used for meeting liabilities, which it is known will occur, in order to save taking a vote until the cost of the service is known in the following year, though it might be used properly for a remanet if the total vote had been previously taken but not expended. The non-inclusion of an item in the estimates withdraws the matter from the observation of Parliament, and is therefore objectionable in principle. When such conjectural figures are inserted, an explanatory note, 'Details not yet complete,' should be added to the estimate in which the provision first appears. This will make it clear to Parliament that the sum asked for is conjectural and in round figures, in spite of its being in the body of the estimates. Any attempt under such circumstances to give an exact figure is rather misleading than informing, and might be apt to give a deceptive appearance of accuracy. In the case of works of magnitude especially, there is always a great deal of uncertainty as to what amount of progress will be made and to what extent this will be affected by engineering difficulties met with, strikes or other causes. The estimate of the sum required must therefore frequently be conjectural. This holds good to a greater or less extent in all works services. Something may be relied on to interfere with the totals. Even in the case of smaller

2 R. 1915,
4 & 5

3 R.
1907, 16

2 R.
1902, 3

2 R.
1909, 4

3 R.
1907, 16

2 R.
1910, 15,
T.M.

R.E.C.
1912,
8, T.M.

R. 1911,
Ev. 2389
-93

R. 1913,
Ev. 3050

Cp. 2 R.
1905, 4,
T.M.

R. 1915,
Ev. 158-
191

R. 1914,
Ev. 187

3 R.
1901, 7
2 R.
1913, 6

works, the site may not have been decided on, or possession may not have been obtained, or the plans may not be ready. Experience shows, therefore, that although the estimate for each separate work may be justifiable as a reasonable anticipation of the amount of work to be done, yet, over the whole, a surplus is certain to arise from one or other of the above-mentioned causes. A practice has therefore arisen, and is encouraged by the Public Accounts Committee, of making a lump sum deduction from the works estimate total, in order to avoid asking Parliament for more than will in all probability be spent on the works as a whole. Such a deduction is made both by the Admiralty and for revenue buildings. It cannot, however, be made as a percentage of the total estimate, as each year's programme must be considered on its merits; and, in considering what contingencies are likely to arise, the nature and number of the various works comprising the programme have to be taken into account. To deduct a fixed percentage, irrespective of such considerations, would be unsafe. Discretion must therefore be given to the department to decide what amount may be safely deducted without running any serious risk of finding itself without sufficient funds to carry on any work which is actually authorised and estimated for. The foregoing remarks bear mainly on the question of under-expenditure resulting from slow progress in the work, which may be entirely beyond the control of the department. A frequent cause of under or over expenditure which is more controllable is a change of policy or plans. It is of great importance that estimates of cost submitted for parliamentary sanction should be such as the House of Commons can accept as final. Changes of plans, subsequent to the presentation of the estimates, lead to either under-expenditure in the year and consequently to a surrender of unnecessary provision, or to the employment of money voted for one service to other services for which inadequate or no provision had been made. It is therefore incumbent on the departments to use all possible foresight with a view to arriving at a final decision as to projected works and other services before Parliament is asked to make provision for them.

It is in accordance with the principle mentioned, as to making some provision for a contingent service, that special

provision is annually made in the army estimates for secret service intelligence under a separate sub-head 'field intelligence,' although expenditure will usually only take place in the event of war. In normal times a token vote of £100 is taken in order to secure parliamentary sanction to the object of the sub-head, if and when its use is required. This practice has been adopted in accordance with the recommendation of the Public Accounts Committee, which was of opinion that payments for services of a confidential nature on active service should not be made without parliamentary sanction. The annual provision of a token vote achieves this object. For the same reason, also, a nominal amount of £10 is taken annually under the vote for the supreme court of judicature for the sub-head 'trial of election petitions.' It is not known what, if any, election petitions may take place; but in view of the possible contingency, a token sum is taken to keep the sub-head open. If a petition is filed, the £10 merely pays the fee of the prescribed officer's clerk and the remaining expenditure has to be found from savings on other sub-heads, or temporarily from the civil contingencies fund. The practice of taking only a token vote in such cases is preferable to that of asking for a substantive grant. The latter should not be taken if there appears to be little likelihood of the money being spent, for in such a contingency the existence of an unspent grant might encourage extravagance in other ways. On this point the Public Accounts Committee observed in 1914 that it trusted that money would not be taken in future without adequate assurance of its being spent in the course of the year.

On the other hand, the fact that provision is only required to be made in one year for a portion of a service does not relieve the department of the necessity of informing Parliament to the best of its ability of the total eventual cost, either known or conjectured, except for some grave reason of policy. The department should invariably present in the first instance to Parliament an estimate of the total amount that would be required for the whole work and then take, in the body of the estimates, the amount required for the forthcoming year. Some modification of this principle is, however, permitted when a token vote is taken for some comparatively small

3 R.
1904, 10
R. 1911,
Ev. 2592

3 R.
1901, 3

R. 1912,
Ev. 1594

R. 1913,
Ev. 160

R. 1914,
6

CP. 2 R.
1904, 11

R. Sess. 2,
1880, 45
C.N.E.
Ev. 1828

1 R.
1904. 9

3 R.
1894. 12,
T.M.

amount for the preliminary expenses of a larger work, provided that such preliminaries do not commit Parliament definitely to a continuance of the work. If the preliminary steps involve a virtual or legal commitment to the work, a conjectural or approximate total cost statement should be appended ; otherwise Parliament might, on a token vote for a few thousands, find afterwards that it was committed to the construction of a new work of which the total cost might run into millions. Similarly when remanets of expenditure on works services occur, the total expenditure up to date as compared with the total estimate should be stated for the information of Parliament.

In the case of services performed by one department on behalf of another, the preparation of the estimates should be based on similar principles in the case of one department or the other, so that Parliament may be fully informed. If a service is performed of which no exact cost figures are kept or obtainable, the value will be shown for statistical purposes as an appendix or in a footnote. If, on the other hand, payments are definitely to be made on account of a service or portion of a service for another department, a reference to it ought to appear on the face of the estimates of each department. This method, however, would not apply to services for which money is estimated to be received by one department from another to meet payments which are capable of being treated as advances. Such should be charged direct to the department at whose instance they have been made, and will be normally excluded from the estimates of the department performing the service. It will thus be seen that there are three different ways of informing Parliament of the value of services rendered by one department for another :—

1. The purely statistical record, when the service is of such a nature that the cost, being indistinguishable, must remain charged in the accounts of the department which rendered the service.

2. The method applied to cases where the actual cost is or will be known but in which, for convenience or reasons of policy, it is estimated for and charged in the account of the department which renders the service, while the department whose service it is merely records the value in a note or other-

wise. If, however, a repayment is contemplated in such a case, it will be provided for as a credit to appropriations in aid of the service.

3. The agency method, when one department merely treats the payments it makes on the service as advances made on behalf of the other department. In such a case, the actual cost is borne by the department for which the service is performed and appears in its estimate and account only.

While it is important that the estimates as presented should be as informative as possible, it is no less important that they should include provision for all services carried out by the department. This principle has already been alluded to in connection with the taking of a token vote for self-supporting services. A breach of this principle was brought to the notice of the Public Accounts Committee in 1911, whereby a department proposed to carry out a service, for which no parliamentary grant was required, without placing it on the estimates. Land and buildings were purchased under arrangements to make payment in twenty-five annual instalments which would be found from the rent. The arrangement was perfectly legitimate, but the annual charge should have been shown separately as a charge to the vote, and the rent as received credited to appropriations in aid. The method adopted, in effect, withdrew from the cognisance of Parliament the knowledge of the expenditure and the power to control it. If, however, the service is not a public service but is carried out subject to repayment of the cost, the position is somewhat different, as, although it may be executed from public funds, some doubt may arise as to whether the expenditure can be legitimately charged finally to the vote, and the repayment credited to appropriations in aid, or whether the charge should be made against a personal account which would be cleared by the repayment. Each case must be considered on its merits. If the service is one which cannot reasonably be included in the estimates as a public charge, even though the cost would eventually be repaid, then the only alternative is to open a personal account; but in such a case, in view of the possibility of loss of any of the public money temporarily used, in cases of default of repayment, the facts must be brought to the notice

R. 1911,
Ev. 680,
&c.

3 R.
1891, 6

Cp. 1 R.
1908, 1
2 R.
1909, 3

of the Comptroller and Auditor General to enable him to watch the liquidation of the claim, or, if he thinks it advisable, to report on the temporary use of public money in this manner.

Cp. 3 R.
1904, 5

Continuity of Form of the Estimates

In both estimates and accounts it is very desirable, from the point of view of Parliament, that there should be great facility for comparing one year's outlay, on any head of expenditure, with that of other years. Consequently, great importance is attached to the preservation of continuity of form in the estimates, that is to say, to providing as far as possible for the same class of expenditure and the same services under the same heads and in the same votes from year to year.

3 R.
1890, 5
Cp. A. &
N. Est.
Com.,
Ev. 3152

To destroy such continuity is undoubtedly a serious step, as on it must depend the means of comparison between the estimates and accounts of a series of years. While any important change may be to the departmental experts chiefly a matter of considerable inconvenience, it must practically take from Parliament all power of comparison, thus excluding the possibility of such criticism as depends on comparing the expenditure under the same head in different years.

When such changes are decided on, the inconvenience may be reduced, as far as the current year is concerned, by the preparation of comparative statements in the estimates, showing the services affected under their old and new votes. The effect of the change is thus brought clearly to the notice of Parliament, and the immediate inconvenience minimised; but after the first year these statements necessarily cease, and any subsequent comparison of the votes before and after the recasting becomes a difficult and complicated process. Generally speaking, all changes in arrangement which tend to destroy continuity are objectionable. However good a re-arrangement may appear in itself, it will always be a question for serious consideration as to whether it is not preferable to retain the existing, though possibly inferior, arrangement for purposes of comparison. In discussing the changes made in the 1888-89 navy estimates, the Public Accounts Committee observes that 'it is obviously a very serious step to destroy

3 R.
1904, 37

C.N.E.,
Ev. 1556

a continuity of form which has lasted for nearly two generations, and on which the means of comparison between the estimates and accounts of different years must depend for all but the experts of the Admiralty.' It may even be desirable to secure continuity and uniformity at the price of reduced parliamentary control. In illustration of this, may be mentioned the discussion which took place before the Public Accounts Committee in 1895 on the suggestion of the Comptroller and Auditor General, that a rearrangement of the naval works vote might be made which would secure closer parliamentary control. If a redistribution could be effected, which would show the cost of labour and material separately, and disclose more clearly whether the executive work were up to the total of the programme, the House of Commons would get a closer grip upon the state of affairs. On grounds of economy, and uniformity with the works estimates of other departments, it was decided, however, to make no change in the general form of the vote.

3 R.
1888, 5

3 R.
1895, 20

1 R.
1896, 2,
T.M.

Where a general rearrangement is adopted for the purpose of simplifying the estimates, and reducing the total number of resolutions to be proposed in Committee of Supply, or for purposes of securing uniformity—such as took place in 1888-9, in order to secure an approximation to a common form in the army and navy estimates—the inconvenience and loss of control may be minimised by keeping the contents of old votes intact as far as possible. If the old vote did not contain sub-heads, it should itself be a distinct sub-head of the amalgamated vote; and where it did contain sub-heads, these also should be preserved, and, if possible, the old vote should reappear as a separate group of sub-heads within the items of the amalgamated vote. An illustration of the adoption of this system is to be found in the army estimates for 1905-6, when a rearrangement of votes was considered desirable with a view to giving each member of the newly constituted Army Council the administration of complete votes. It became necessary, therefore, to split up and rearrange votes 6 to 9; but in the rearrangement, those sub-heads which were transferred from the old votes appeared as separate groups of sub-heads within the new votes. In this manner the continuity was preserved as far as possible.

3 R.
1890, 38

Idem, 5

H.C.
73/1905

2 R.
1911, 6,
T.M.

Apart from any general rearrangement of votes, or the transfer of a class of services from one vote to another, it is also expedient for the sake of uniformity, comparison, and the information of Parliament, that when any specific service extends over more than one year, it should always be provided for under the same vote. There is a manifest objection to dividing a charge between different votes in successive years, and even though it may be thought that the service was, in the first place, estimated for under an inappropriate vote, it would be generally preferable to continue to provide for it thereunder until completed. If it is considered expedient to make a change in a subsequent estimate, a note should be made on the estimates explaining under what vote the service was commenced.

*Effect of Form of the Estimates on the Maintenance
of Control*

The estimates of each department are presented under the votes for which Parliament is to be asked to make its grants, the number of votes varying according to the nature of the services and the extent of the operations of the department. Each separate vote is further presented in three parts or divisions. Part I sets out the total of the vote only ; part II the sub-heads into which the vote is divided and under which the expenditure will be accounted for ; and part III the details of the sub-heads.

3 R.
1890, 4

Since Parliament appropriates the grants which it makes for each vote to the service of that vote, it necessarily follows that the control which it can, from the legal point of view, exercise over the department is in direct proportion to the number of votes. The greater the number of votes, the greater the control ; for the money is more explicitly appropriated and the discretionary power of the department is correspondingly restricted. ' In every case where there is reason for maintaining parliamentary control—to the extent of requiring that any excess over the money granted by Parliament for a particular object or service should be submitted to the House—provision should be made for that service in a separate vote. To substitute in these cases for that parliamentary control, a control

of the Treasury—such as that department now exercises over the application of money voted for one sub-head to the use of another—would be a great change.’ The fewer the votes, and the larger those votes consequently are, the greater the freedom of the department, which, so far as Parliament is directly concerned, is only limited by the vote total. ‘Money hitherto voted under three separate votes, for three different objects, will, if included in one vote, be applicable, without any fresh resolution of Parliament, to all or any of the three objects. An excess on the estimate for any one or two of the objects will not have to be submitted to Parliament for sanction, if it be met by a surplus on the remainder of the new vote, whereas every excess on a separate vote is brought to the notice of the Public Accounts Committee.’ In the case of civil votes this truth is absolute. The military and naval services are on a different footing. Although their votes are similarly appropriated to the specific objects for which they were demanded, yet it is obvious that the nature of the services necessitates many of them being couched in general terms; while others may be considerably affected by changes of policy, or other unforeseen circumstances, arising after the estimates have been prepared. A certain degree of latitude is therefore permitted to be exercised by and under the control of the Treasury, whereby a surplus on one vote may be utilised to meet a deficiency on another. The existence of this privilege necessarily tends to reduce the effectiveness of parliamentary control secured by separate votes. The manner in which it is exercised is the measure of treasury control. As the exercise of this power is directly connected with the expenditure, it will be discussed in the following section. For the present purpose it is sufficient to observe that the power is a limited one, and therefore it is still true, though in a modified degree, that the greater the number of the votes the closer the control; while the fewer the votes the more free are the hands of the department.

An extension of the same principle holds good as regards the sub-heads of votes which, though not directly appropriated by Parliament, are liable to treasury control as such. Again, the same principle applies to those auxiliary heads and items which are subject to treasury control. Included in this category

3 R.
1890, 3

3 R.
1888, 34

are the items of works votes. The specification of a service in the body of the works estimates at once makes it subject to treasury control, and the headings of the departmental ledgers must correspond to the services so specified. Since a department cannot technically use a surplus on one sub-head to meet a deficiency on another without treasury—that is to say, external—authority, it follows that its powers are restricted or enlarged according as a vote is divided into many or few sub-heads. 'The Treasury will properly be unwilling, unless sufficient reason is given, to approve the proposal of a department to reduce by amalgamation the number of sub-heads in a vote,' and any tendency on the part of a department to evade control by putting forward sub-heads, which are too general or too consolidated, would be checked by the Treasury or the Public Accounts Committee. Unless the department could justify its action on the ground of the administrative difficulty in dividing up an estimate, it would find it hard to resist such an objection. At the same time, it is to be remembered that the extent to which two or more services provided for in one sub-head can be shown under separate sub-heads, must depend upon how far the expenditure on each service can, as a matter of practical administration, be kept distinct. If a suggested division of a sub-head would only be practicable upon an approximate basis, or if an accurate separation would involve serious complication—either in administration or accounting—it is desirable that no division should be made in the estimates or the account, but that a statistical table should be appended to the account for the information of Parliament, if desired, showing the approximate distribution between the services. Even when sub-heads are accepted as being based on a satisfactory sub-division, it is still open to the Treasury—and it is a power that is freely exercised—to require the department to open subsidiary ledger accounts for the purpose of recording the expenditure of a sub-head in further sub-divisions, thus effecting still closer control. But reduction in the number of votes or sub-heads does not necessarily imply reduced control, unless the information is also reduced. Thus when the parliamentary works heads parts I, II, and III of army vote 10 were reduced in 1910–11 from nine to three, there was no corresponding reduction in

3 R.
1890, 5

2 R.
1911, 3.
T.M.

Cp.
A. Est.
Com.,
Ev. 1093,
et seq.

R. 1911,
Ev. 2513

the information supplied or the facilities for criticism; for subsidiary ledger accounts were opened to take the place of the principal ledger accounts which disappeared, while all the detail is still set out in the estimates precisely as before. For the purpose of accounting, however, a considerable simplification resulted; for, whereas before there were nine sub-heads—not one of which could be exceeded without formal treasury approval—there were afterwards only three which required that authority, while the department was given a freer hand to deal with the three new subsidiary accounts within each of the three main ones: in other words, each of the three new sub-heads was administered as a whole. The arguments for the amalgamation in this case are so similar to those urged seventy-five years before in favour of an amalgamation of certain votes that it may be worth quoting the Treasury views on that occasion. 'If,' it wrote, 'this suggested consolidation of the votes—now taken separately in the ordnance estimates—would tend in the slightest degree to weaken the check and control of the House of Commons over such expenditure, or to deprive Parliament of the fullest and most ample information upon every part of the estimate, my Lords would feel it to be their duty at once to object to it; but as no such consequences will follow, because the whole of the proposed expenditure will continue to be set out and explained in the estimate in as ample a manner as at present; and as my Lords are aware that, by reducing the heads of service in the actual vote by a consolidation of such as are analogous to each other, public convenience will be experienced in the department, their Lordships are pleased to sanction the proposed alteration.'

The extent to which this principle can legitimately be carried can only be decided on the merits of each individual case. The Public Accounts Committee is always opposed not only to any diminution in the number of votes, as tending to reduce the control over those votes by the House of Commons, and sets its face generally against making large votes of lump sums, particularly under such headings as 'miscellaneous,' but also to a diminution of sub-heads; as a general rule, the committee favours the sub-division of votes and sub-heads rather than amalgamation, and the Estimates

H.C. 30,
1910,
P. 75

Army
Apprn.
Acct.,
1910-11
C. & A. G.,
R. 23.

T.M.
26/9/34
in
C.P.M.
1856,
App. i.
P. 487

C.N.E.,
Ev. 1017

R.E.C. Committee takes up a similar attitude. Thus the Public Accounts Committee, in 1910, criticised the entry in the ordnance factories manufacturing accounts of such a large sum as £82,000, being shown under the single heading of 'miscellaneous charges,' and suggested that the item should be shown in greater detail, with the result that various new headings were introduced in the following year. 'Sundries should be kept as small as possible, and reviewed from time to time; and if any particular expenditure attains to very great magnitude, the desirability of showing it under a separate sub-head should be considered and submitted to the Treasury.'

1913, 23

R. 1910,
Ev. 1183

3 R.
1911, 44

R. 1910,
Ev. 332-
3

On the other hand, as previously mentioned, the extent to which heads can be multiplied is limited by the practicality of their administration. However desirable external control may be, there are limits beyond which it cannot conveniently be carried. Indeed, too detailed an external control, unless very carefully safeguarded, may be both objectionable and detrimental to the public service, for it may tend to trench upon administration. It is very difficult to draw the line between effective control and actual administration; but in any case of doubt it is more important to waive the control rather than to intervene in the sphere of administration. If the Treasury uses its power and forces in considering minute details, it may lose its hold upon the greater objects. Its action is much more effective if directed to laying down broad lines rather than to the criticism of small details. Though the sub-division of the estimates into votes and sub-heads must be sufficiently extensive to maintain an effective control, yet it should not be so minute as either to unfairly hamper the administration of the votes by the department, or to lead the Treasury to advance over the border line of that administration.

C.N.E.,
Ev. 1663

In brief, the underlying principle, on which the form of the estimates is based, is that the votes should be so cast as to secure the maximum of external control with the minimum of internal inconvenience; with this proviso, that considerations of external control should not be unduly pressed if inconsistent with smooth administrative working, for the public would thereby in the end lose more than it would gain.

III. CONTROL OVER EXPENDITURE UNDER VOTES

The control exercised by the Treasury over the estimates—that is to say, over the proposed expenditure of the departments—terminates with the presentation of the estimates to Parliament as finally approved by it. The control over the course of expenditure is equally, and in many respects more, important. Of this control a portion is statutory and a portion is vested by custom in the Treasury as the central financial authority.

Since the estimates set forth the anticipated programme for the year and the parliamentary grants are obtained on the strength of that evidence of the intentions of departments, it is incumbent on the latter to carry out that programme as far as is consistent with the interests of the public service, and if material divergence becomes necessary it is equally incumbent on the departments to obtain the authority of the Treasury thereto. The Public Accounts Committee 'deprecates in the strongest manner any diversion of parliamentary funds without treasury sanction.' This principle is, moreover, of old standing. In a treasury minute of 1846 it was laid down that 'no executive department is authorised to exceed the sum appropriated by Parliament under each general head or vote in their respective estimates, or to apply any surplus which may exist under one vote to supply the deficiency on others, without the express previous sanction of the Treasury, to be given on a written representation of the circumstances which render the adoption of such a course indispensable for the public service.'

Speaking generally, it may be said that inaccurate estimates imply looseness of control, and, while introducing disorder into the public finances, they tend to extravagant administration. The fact of a vote being large, or of its terms being wide, may render accurate estimating difficult; but for that very reason all the greater care should be taken in framing the estimates of such votes. Apart, however, from the regular services of the year and the pre-arranged programme—for which it should be possible with care to make accurate estimates—there must be many unforeseen contingencies to be met which

3 R.
1901, 7

Todd,
Parl.
Govt.,
ii. 251

2 R.
1907, 2,
T.M.

2 R.
1885, 11

S.N.E.,
Ev. 1602

will upset the original estimates. These are made out as the best forecast that a department can make, and in their preparation—often many months before the expenditure will be incurred—it is necessary to make endless prophecies. In carrying out the intended programme, it may happen that the prices will not come out as satisfactorily as was hoped, and that unavoidable excess expenditure results. Excesses of this nature are regarded as automatic, and the department would hope to equalise matters by obtaining savings equally automatic on other items, in order to obviate the necessity for a supplementary estimate. If these do not arise, the department must either effect economy on other items by postponements or reductions, or else ask for a supplementary estimate.

The practice of using funds voted for one service to pay for the expense of another, under proper authority, is termed *virement*. The degree of *virement* or variation from the estimates which is permissible varies: firstly, according to the department concerned, and, secondly, according to the parts or divisions of the estimates between which it is desired to make transfers of voted money. The subject may therefore be conveniently considered under two heads—namely, the deviation permissible between different votes and that permissible between sub-heads and auxiliary sub-heads of votes.

Virement between Votes

The parliamentary grant is made for the vote as a whole, and, in the absence of further parliamentary authority, the expenditure must be confined to the vote for which it is granted while at the same time a grant cannot be exceeded. The transfer of a portion of a grant from one vote to another would therefore result in a double irregularity: first, in the misappropriation of the money granted for the former vote to the service of the latter, and, secondly, in exceeding the legal parliamentary provision for the latter.

In the case of civil votes, transfers between votes are not permissible, and cannot be legally effected. The Treasury has no power to authorise expenditure in excess of the parliamentary grant, and such grant can therefore only be

exceeded with parliamentary authority by means of a supplementary estimate. If exceeded without such authority legal sanction must be subsequently obtained by an excess vote.

In the case of the army and navy, special conditions prevail and are legislated for in the Appropriation Act. It is recognised by the House of Commons that in great departments embracing expenditure on services all over the world, it cannot be expected that estimates, however carefully framed, can always be found correct, or that the same accuracy would be possible in years of disturbance as in years of peace. It must further be remembered that the estimates for the army and navy are given their final form many weeks before the commencement of the financial year to which they relate, and much of the information upon which they are founded has to be collected considerably before that date. Under such circumstances, the necessity must sometimes arise for incurring expenditure which was not provided for, and which it is detrimental to the public service to postpone till provision can be made for it by Parliament in the usual course. The House, therefore, allows a much greater degree of latitude to the army and navy than to the civil departments, and, when appropriating its grants for the former, makes special provision for a conditional divergence from the estimate when necessary, thus avoiding the drawbacks of a rigid adherence to the estimates on the one hand and a too free system of transfers between votes on the other. The latter would of course render the estimates of little value as such, and would also tend to encourage a laxity in their preparation, while parliamentary control would be reduced proportionately by leading to an application of money voted for one service to another, for which it had not been appropriated by Parliament. To demand a strict adherence to the grants, on the other hand, would be uneconomical, and would not conduce to good administration, for, with the knowledge that no variation would be possible, the department, in order to guard against a deficiency on any one head and the consequent necessity of making a supplementary estimate, would feel bound to estimate each vote more liberally, and would thus take a larger sum in the aggregate than it would probably spend within the year. Each calculation might be separately

2 R.
1862

1 R.
1904, 2,
T.M.

3 R.
1889, 9

C.N.E.,
App. 12
Cp. Bast
able,
Pub.
Fin., VI
iii. § 3

1 R.
1873, 24

justifiable, but the collective amount taken might, from various causes, be more than could be spent. The effect of this would be, either that the spending power of the department would be augmented, or that a large surrender of unexpended balance would be made to the exchequer at the end of the year. If this is avoided the taxpayer is saved money, for less has to be found for the service of the year. The object to be secured is to make sufficient provision to carry out each separate service which may be necessary, and at the same time to avoid asking Parliament to vote a larger sum in the aggregate than will probably be required within the year. At the same time, it is the duty of the department to so frame the estimates, in conjunction with the Treasury, that the amount asked for under each vote will cover the expenditure under that vote without reference to any expected surplus on any other vote.

2 R.
1885, 3,
T.M.

R. 1882,
T.M. 28,
II. (4)

Again, there is this point in favour of permitting divergence. Although every saving effected places a sum at the disposal of the department not foreseen when the estimate was framed, such savings may be the result of its good administration. But if Parliament is too jealous of the liberty which a department may seem to obtain from such savings, it more or less encourages extravagance. Savings of this nature must, however, be distinguished from those deliberately effected in order to obtain money to be available for other services, which may or may not be justifiable, but which require closer scrutiny. A procedure, which apparently has the effect of placing at the disposal of a department a larger sum than Parliament granted to it, is to be deprecated unless clearly justified by the interests of the public service.

C.N.E.,
App. 12

It must further be remembered that the several votes for the army and the navy respectively really constitute one service, administered by the War Office and the Admiralty, each with a single accounting officer. In this respect these resemble the sub-heads of a civil vote, which do not profess to be, and cannot be, more than the best notifications that the civil departments can give the House of Commons of the manner in which they intend to spend, and probably will spend, the money granted to them for a particular service. Thus, though the system of transfer between votes in the case of the army

and navy is no doubt a relaxation of the strict rule of appropriation, it does not possess quite the same objections as if the transfers were between entirely different services of different departments. The votes of the army and navy respectively are much more interdependent than those of the civil services. For example 'the provision vote and the pay vote are naturally very much combined together, and the clothing vote in the same way. One depends entirely upon the other; and it has been thought right under these circumstances that they should be treated more as a whole and that there should exist the power of virement.' The wisdom of Parliament has sanctioned the appropriation of savings on these votes in a different manner from those on civil votes. Excesses are annual and necessary occurrences. It is part of the system on which the War Office and Admiralty do the working of their finances.

A. Est.
Com.,
Ev. 5389

W.O.
Org.,
Ev. 3280

The legal power to effect transfers between votes of the army and navy respectively is given by section 4 of the Appropriation Act of each year, which enacts that 'so long as the aggregate expenditure on naval and military services respectively is not made to exceed the aggregate sums appropriated by this act for those services respectively, any surplus arising on any vote for those services, either by an excess of the sum realised on account of appropriations in aid of the vote over the sum which may be applied under this act as appropriations in aid of that vote, or by saving of expenditure on that vote, may, with the sanction of the Treasury, be temporarily applied either in making up any deficiency in the sums realised on account of appropriations in aid of any other vote in the same department, or in defraying expenditure in the same department which is not provided for in the sums appropriated to the service of the department by this act, and which it may be detrimental to the public service to postpone until provision can be made for it by Parliament in the usual course.' Though virement on a considerable scale had previously been regularly practised and the necessity for it implicitly admitted by Parliament, it was not until 1862 that statutory sanction was given to the practice by the amending of the wording of the Appropriation Act of that year. From this wording of the annual act it will be seen that, while Parlia-

P.P.
1863.
xxix. 173

ment permits virement, it limits the extent and method of its exercise.¹ The power, which can only be exercised by the Treasury in conjunction with the spending department concerned, is of temporary effect only and may be said to be limited to the making of a provisional advance, which requires the subsequent sanction of Parliament to give it legal effect.

The approval of the House of Commons to the exercise of the treasury powers of virement is given by a resolution of the House, while the full legal sanction is normally given in the Appropriation Act of two years later, that is to say, in the next Appropriation Act passed after the account in which the transfer has been made has been reported to the House. This practice is in accordance with the recommendation of the Public Accounts Committee in 1862, to the effect that such transfers should be considered as temporary advances and should require the subsequent sanction of a vote in Parliament. The sanction of the House, thus given, is based on a resolution of a sessional committee of the whole House appointed for the purpose of considering these transfers and of ratifying them. So far as the public purse is concerned, this sanction can be but little more than a formality; for the money has been spent, and the House of Commons has in practice no option but to admit the expenditure. The effect of asking the House to pass the resolution is, apart from the question of regularising the transfers, to afford it the opportunity of criticism, and of passing a vote of censure, if it disapproves of the manner in which the government has exercised its discretionary powers. It is the duty of the Treasury, on receiving and considering the statements of the department, to judge whether an application should be made to Parliament for a supplementary vote, or whether the additional expenditure may properly be met by an advance from the surplus.

1 R.
1904, 2,
T.M.
2 R.
1862
2 R.
1879, 79
T.M.
R. 1911,
Ev. 1773
-6

2 R.
1862
May,
Parl.
Prac.,
p. 597

Hans.,
3 s.
clxxvi.
1696

R. 1862,
Ev. 1571,
and
1580

¹ It is interesting to note that when the principles of the future financial system were under consideration in 1862, an alternative suggestion to virement was put forward by Sir William Anderson and supported by Gladstone, to the effect that all surpluses on army and navy votes should be surrendered to the exchequer, and that all deficiencies should be met provisionally under treasury authority from the treasury chest fund which should be increased to £2,000,000 for the purpose, such deficits coming before Parliament as a vote for replenishing the fund in a later year.

In compliance with a House of Commons resolution of 1879,¹ statements are laid annually before the House, showing the cases in which the Treasury has sanctioned the application of a surplus on one vote to meet a deficiency on another within the financial year. Parliament is therefore kept fully informed of the exercise of these powers, to which it gives an *ex post facto* sanction, and the transfers are ultimately brought before Parliament in the shape of a vote, when the temporary power exercised by the Treasury receives the sanction of law. In order, however, that the exercise of the treasury powers may be brought to the notice of Parliament at once and not merely at a later date when the formal sanction is given, it is essential that the treasury minute should not only be laid upon the table of the House but also printed and circulated. Moreover, the House of Commons, which has always shown itself very jealous of transfers of money between votes, the effect of which is that it is applied to services other than those for which it was originally intended, still retains in its hands the final sanction to any amendment of the vote totals, while at the same time recognising the necessity for deviation in certain cases. The resolution sanctioning the virement may almost be said to be 'a repeal of the Appropriation Act, which it varies, and a substitution for the appropriation made by the act of a subsequent disappropriation and reappropriation by the Treasury.' Therefore, even with this safeguard of final parliamentary sanction, these powers are not to be exercised in every case of an anticipated surplus merely on the grounds that the money is available, and to avoid a surrender at the end of the year. They are intended only to meet the necessities which must sometimes arise for incurring expenditure which was not originally provided for, and which it is detrimental to the public service to postpone till provision can be made for it by Parliament in the usual course. The

C.N.E.,
App. 12

A. Est.
Com.,
4 R.,
p. xii.

Bowles,
Nat. Fin.
(1904).
p. 15

¹ Monk's resolution, 4th March, 1879: 'That it is desirable that a statement of every case in which the naval and military departments have obtained the sanction of the Commissioners of Her Majesty's Treasury to the application of an actual or anticipated surplus on one vote to meet a deficiency on another vote within the financial year, setting forth the representation made to them by the respective departments, be laid upon the table of the House within three weeks after such sanction shall have been given, if Parliament be then sitting: or, if Parliament be not then sitting, within three weeks after the next meeting of Parliament.'

134
C. J. 75

2 R.
1872, 41
R. 1913,
Ev. 174

true justification for the application of savings to a different head is to be sought in the urgency of such requirement rather than in the fact that money is available which Parliament had voted, possibly under different circumstances, in a previous year. If money is available and spent on services which might otherwise have been allowed to wait, it may suggest that extravagance is encouraged, or at least that there may be a tendency to apply it, however usefully, because it happens to be available, on items not originally contemplated. The fact that unforeseen expenditure more frequently occurs when there is money available, and that otherwise a department is able to wait, is one of the effects (if not the vices) of the system of the surrender of balances. But while the Treasury is bound to resist any tendency on the part of a department to regard the application for temporary sanction as a mere 'matter of form,' it may at the same time be relied on to exercise its powers in dealing with such applications with full consideration for the necessity or urgency of each particular case.

R. 1913,
Ev. 203

3 R.
1889, 10

2 R.
1902, 3

Cp.
R. 1910,
Ev. 1393

Departures from the general rule, that the full cost of a service should be brought to the notice of Parliament at the time of its inception by inclusion in the estimates, should be restricted to urgent cases which cannot be foreseen, and which cannot, without serious detriment to the public service, be postponed until the specific sanction of Parliament can be obtained. The question of urgency is, however, a most difficult one to solve and may frequently be complicated by the introduction of policy. If a demand does suddenly arise, or even if a demand formerly postponed is again brought up, and the money is available, it is very hard to resist it. The responsibility incurred by the Treasury in sanctioning a transfer in such circumstances between votes, in the case of the army and navy, is a very real one; for Parliament, and still more the Public Accounts Committee, will require the department and the Treasury to justify their respective application and sanction, and to show that they have acted in such a way as not to diminish the supreme control of Parliament over the public expenditure.

This responsibility is readily admitted by the Treasury, which regards the exercise of its powers as a reality and not as a mere formality. In 1904 the position was clearly de-

fined in a treasury minute: 'My Lords, like their predecessors of 1879, are deeply sensible of the responsibility which they incur in sanctioning under their annual powers any material departure from the detailed estimates on the strength of which Parliament has granted public money to a department; but while they do not shrink from incurring that responsibility whenever the public interest appears to dictate it, their Lordships have constantly in view the supreme control of Parliament over the public expenditure and have repeatedly withheld their sanction from proposals of public departments, which seemed to this board to militate against the principle of parliamentary control over public expenditure.'

An instance, in which the Treasury refused to accept the responsibility of sanctioning an application made by the Admiralty for virement, occurred in 1888. The application was not received until 29th March, the day before Good Friday, and two days before the end of the financial year. The excess of expenditure had then already been incurred and it was known in February that there would be deficits on certain votes. The Treasury claimed that a request to authorise an excess of the kind in question should be made in good time, so as to give the Treasury 'an effective voice in determining whether the excess is to be incurred or not, and how it is to be met,' whereas, in this case, the application did not arrive 'in time to admit of its consideration, and of a reply being made to it before the close of the financial year.' Treasury sanction being refused, the appropriation account had to be presented to Parliament with unauthorised deficits shown on certain votes, and the department was required to explain its 'grave irregularity' to the Public Accounts Committee.

But again, the fact that Parliament confers these powers on the Treasury, although with such important reservations, implies that they are active powers, and are intended to be fully exercised wherever the interest of the public service demands it. It is, of course, to the interest of the Treasury, as the custodian of the public purse, that the expenditure under each vote should be confined strictly within the limits of the original estimate for that vote, and this object will be attained according as the original estimate is carefully drawn up and faithfully observed. If the department has performed its

1 R.
1904, 2,
T.M.

3 R.
1889,
1-13
Cp. W.O.
Org.,
Ev. 3031

Cp. R.
1864, 9

R. 1884,
164.
T.M.

duty in this respect, and an anticipated surplus is likely to result for refund to the exchequer, the Treasury would not be justified in urging adherence to the sanctioned scheme of expenditure to the detriment of the public service, merely with the object of securing that refund. If, however, the proposals of the department are such as seem to militate against the principle of parliamentary control, the Treasury would refuse to exercise its powers of virement. The fact of such refusal would not mean that the proposals put forward were not required for the public service, but rather that they could not be legitimately defined as urgent, that is to say, that the public service would not suffer by their postponement until sanction could be obtained in the usual course. In such a case the department must either postpone the proposed service or modify its policy, or ask the Treasury to authorise a supplementary estimate being put forward. Indeed this method of proceeding in cases of material divergence has much to recommend it as a safeguard of parliamentary control, even though no gross increase of expenditure is suggested and only a token vote be taken ; for the preparation of such a supplementary estimate enables the department to put forward as part of it a rearrangement of such portions of the original estimates as are expected to show surpluses and deficiencies. Parliament, then, in voting the token sum, formally sanctions the proposed rearrangement of the year's estimates forthwith, instead of giving an *ex post facto* sanction at a later date to such changes as would otherwise have been allowed by the Treasury under its powers of virement. This procedure brings the demand to the notice of Parliament and obtains the force of law, not only at the earliest possible moment, but possibly before the expenditure has taken place. In any very considerable rearrangement of the totals, this is undoubtedly the safest and most constitutional method ; for the treasury powers are not intended to be utilised for sanctioning what might be practically a new estimate.

1 R.
1885,
T.M.
H.C. 8,
1906,
p. 189

The responsibility of deciding whether a supplementary estimate shall be presented to Parliament or not rests with the Treasury, which has further expressed the opinion that when supplementary provision can be made by Parliament in the closing months of the financial year for expenditure unpro-

vided for in the original estimates, the necessity for the exercise of the temporary powers of virement ought not to arise. In practice, the Treasury permits virement in the case of war office and admiralty votes in all ordinary cases, unless an excess of the aggregate of the votes of these departments respectively is anticipated. In order, however, to guard against one of these departments effecting a saving, for use elsewhere under the treasury powers of virement, by materially decreasing its stocks of stores, the Treasury has laid it down that an application for the exercise of this power where the store votes are concerned will not be entertained unless the department is able to declare in general terms that the stocks of stores, for which the respective votes provide, have been maintained at their ordinary amount at the close of the year in which the savings arise. The question as to whether any re-allocation of voted money should be notified to Parliament, and if so at what stage and by what method, is one for which no hard and fast rule can be laid down. Each case must be considered as it arises. Any such re-allocation of money for a new service of magnitude, even though only a small sum may be required in the current year, should certainly be notified to Parliament as early as possible by the presentation of an explanatory statement, if no substantive grant is required. This proviso, moreover, relates to the scheme in its entirety, and not merely to the estimated cost within the year, which possibly may be trifling, but the expenditure of which may be committing Parliament to heavy liabilities. 'Every effort should be made to lay before Parliament, at the time of inception, the full estimated charge involved in new proposals.' If a supplementary estimate is not necessary owing to a substantive grant not being required, or if it be too late in the year to present one, Parliament may be informed of the proposal by presenting to it an explanatory statement on the same principle as is applied in the case of shipbuilding programmes whenever any considerable changes are made in the course of the year.

C.N.E.,
App. 12

3 R.
1881,
13 & 14,
T.M.

4 R.
1909, 5

1 R.
1906, 9,
& T.M.

2 R.
1902, 3
Cp. R.
Sess. 2,
1880, 45

If it is desired to incur expenditure out of savings, or by the presentation of a supplementary estimate, on a service for which a definite sum had been provided in the following year's estimates, already presented to Parliament but not then voted,

2 R.
1888, 88

the facts should be clearly placed before the House of Commons and a corresponding deduction made from those estimates. If this is not done, the effect will be that Parliament will be providing the same sum for the same service in two successive years.

Precautions must also be taken against savings being deliberately effected, and represented as actual savings, on the works votes, with a view to their application towards excess expenditure on other votes under the treasury powers ; for in such cases the nominal savings may, in effect, be merely postponements of work for which, when carried out in a later year, the public will have to pay. The excess expenditure so met is therefore an actual increase of gross expenditure over the two successive years, whereas, if a work is abandoned absolutely and a real saving is effected and utilised to meet an excess elsewhere, there is no gross increase of expenditure beyond the total provided by Parliament for the combined services. A saving one year on a head does not necessarily mean an actual saving, as, if the work has still to be done, it is only a delay, and the money will be required later. The point is that the department has the money in hand, so far as the cash account of the year is concerned, the appropriation account being a cash account. The same point has been made by the Treasury in pointing out that ' the distinction between a merely temporary saving that arises from postponing or retarding a public work, and a permanent saving due to economical administration or a fall in prices, is real and important ' ; and the Public Accounts Committee has expressed the opinion that this important distinction should be borne in mind whenever treasury sanction is asked to defray temporarily excesses upon other votes out of savings on the works vote.

Cp.
R. 1911,
Ev. 1098
—1100

R. 1877,
III, &
T.M.

2 R.
1879. 79

1 R.
1876. 77

On the other hand, it is admitted that ' cases may arise in which, in the interests of economy, it is desirable that unforeseen expenditure which cannot be deferred should be met by the postponement of expenditure of a less urgent character.' The safeguard against an abuse of this privilege lies in requiring the department to explain the circumstances when making application to the Treasury, and further in requiring that that application should be made as soon as the necessity for incurring the expenditure arises and not when the accounts for the year

are closed. 'Financial control is control exercised over the money before it is allowed to be spent; to attempt to exercise supervision after it is spent is simply a matter of bookkeeping and audit.'

R.C. Civ.
Estab.,
1 R. Ev.
9679

Usually, however, the Treasury is not asked to sanction beforehand an excess on one vote with the expressed intention of making it good out of savings on other votes, but for a general covering authority for all the excesses which are, first of all, anticipated towards the close of the year, when the accounts are nearing completion; and finally, when the actual excesses are known on the accounts being closed.

2 R.
1879,
78-81,
T.M.

To sum up, treasury sanction to virement between army and navy votes respectively can only be given subject to five conditions:—

3 R.
1889, 4

1. There must be necessity for the excess expenditure.
2. The expenditure must be such as it would be detrimental to the public service to postpone until provision could be made for it by Parliament.
3. On discovering the necessity for the excess, the department must *forthwith* make application *in writing* to the Treasury.
4. This application must represent the circumstances which render the additional expenditure necessary.
5. The proceedings must be subsequently submitted for parliamentary sanction.

'With such restrictions, there is a manifest advantage in permitting the transfer of savings from one vote to meet an excess in another. The elasticity of the service would be destroyed if a minister had not that power. Very disastrous results might ensue, if no alteration were allowable in the course of a financial year in estimates framed six months before the year began.'

Todd,
Parl.
Gov.,
ii. 257

Virement between Sub-heads

The powers of virement between the sub-heads of a single vote are on a different footing; for although the estimates do actually set out the sub-heads of the votes in detail, the sanction of Parliament is given to the votes on the whole, and the details given under them are for the information of Parliament.

3 R.
1894, 48

2 R.
1879,
78-81,
T.M.
1 R.
1876, 65

C.N.E.,
App. 7

R. 1882,
App. to
T.M.

4 R.
1894, 47

Idem, 48

Cp. 4 R.
1894,
47-52,
T.M.

Appropriation, strictly speaking, is defined by the schedule of the Appropriation Act. It exists therefore only between vote and vote. The Appropriation Act does not appropriate the amounts mentioned under different sub-heads of a vote in the estimates with the same strictness as the amount of the vote itself; indeed, it is doubtful whether the entry of the details in the estimates has any legal effect whatever on the appropriation. They are rather intended to define generally the purposes to which the aggregate vote is applicable, not to place a limit of amount applicable only to the separate subdivisions of the vote. 'Estimates,' said Lord Welby, 'are in all cases framed to cover the sums *expected to be paid*. They are not binding *in details*. The principle, that Parliament intends to limit the appropriation of the grants to the *separate items* of each sub-head of the estimates on which the grants are based, has never yet been laid down and would probably be found to entirely fail in practice.' Although the House of Commons may reduce a vote in respect of a particular item, it cannot be thereby argued that in passing the whole vote it expressly grants the separate items. If, as is the case, Parliament grants to the Crown a certain sum for a certain service in a given year, without any more definite appropriation in the terms of the grant, it is legally competent to the executive to expend that sum at discretion in the year upon that service. That is to say, since the parliamentary enactment deals with the vote only, the government is not legally bound to adhere to the details submitted to Parliament, provided the expenditure is restricted to 'the four corners of the vote.' Morally, however, the government must adhere to those details as far as is consistent with the interests of the public service, since its good faith is pledged by the details given to Parliament, and the Comptroller and Auditor General would correctly bring divergencies to notice. This being so, it follows that if Parliament wishes to definitely prohibit the use of a vote for a service which would be covered by the terms of the resolution granting the vote, even though no mention is made of it in the details of the estimate, the resolution must contain a special proviso to that effect. By this means only can Parliament ensure that a particular service is not carried out, for then there would be no funds which could legally be applied to it. In the

absence of such a proviso there would be no technical incorrectness in charging the expenditure against the vote, even though the service were for a purpose for which Parliament had not wished to provide. This point is admitted by the Treasury, which points out that, even if the amount of a vote is reduced in supply, there is no guarantee that expenditure will not take place upon the object in respect of which such reduction is made. Unless enforcement is secured by an official record of the specific reduction in the votes and proceedings of the House, the only other method of guarding against expenditure on the service in question is for the Treasury to inform the department concerned and to direct the discontinuance of the expenditure.

The power of deviation between sub-heads has never been explicitly given by Parliament, though it necessarily follows upon the general terms of the resolution granting each vote. At the same time, though deviation is legally permissible, it should be so restricted as not to diminish parliamentary control or to oppose the intentions of Parliament. The accepted practice, which has never been seriously disputed, is to regard the department as not being bound by the totals of the sub-heads of votes, subject to treasury approval. This is a sound rule; but, even if it does not lead to extravagance, it rather checks the House of Commons from accurately following the expenditure in anticipation, by counteracting one of the main objects of the insertion of the sub-heads in the estimates, namely the information of Parliament.

On the same principle, therefore, it is desirable, in framing supplementary estimates, that the added sums should, if possible, be apportioned between the different sub-heads set out in the original estimate, both for enabling Parliament to judge of the nature of the expenditure contemplated, and for the efficiency of the appropriation audit; for, if this is not done, the accounting under the numerous sub-heads of the ordinary estimate becomes, in the opinion of the Public Accounts Committee, of little practical value. The Treasury, however, does not admit this, considering that the subsequent rendering of the account under the regular heads of estimate is of great importance, even if the supplementary expenditure has not been previously apportioned between sub-heads. When an

Est. Pro.
Ev. 632

4 R.
1894, 47

C.N.E.,
Ev. 1689
-90

4 & 5 R.
1909,
T.M.
R. 1910,
Ev. 680
2 R.
1886, 58

Idem,
T. M.

apportionment can be made, Parliament is justified in demanding that it should be made, as much as in the original estimate. When so made, the expenditure should be set out in the appropriation account under each head and the comparison of expenditure be made with the total amended provision for each sub-head.

2 R.
1879, 36,
T.M.

For the same reason it is desirable that, when a supplementary estimate is taken with a view to a re-allocation of the voted money instead of the treasury powers of virement being exercised, the savings which it is proposed to utilise elsewhere should, if possible, be ear-marked as coming from those sub-heads on which they have mainly arisen. The drawback to this would be that such savings would subsequently be lost sight of under various heads in the appropriation account and their total would nowhere be shown. The Public Accounts Committee suggests, therefore, that to avoid this, and at the same time furnish Parliament with the necessary information, attention should be drawn in the account by note or otherwise to the principal sub-heads on which savings on the original estimate had been effected.

5 R.
1909, 2

Cp. 2 R.
1908, 2,
& T.M.

While a department will, on the one hand, be anxious to ask for enough, in order to avoid a deficit, yet it should, on the other hand, be careful not to ask for too much, because the excess might be applied to other items within the vote, *pro tanto* lessening the control of Parliament over the estimates.

3 R.
1894, 45

If a sub-head is continually over-estimated, it is liable to raise a suspicion that the estimate may have been deliberately over-cast in order to provide funds for transfer to meet deficits wherever they might occur on other sub-heads. Safeguards are therefore necessary : in the first place against over-estimates which may render undue deviation possible, and secondly against undue laxity and improper use of the privilege of deviation when the availability of funds has made it possible. These safeguards are mainly to be found in the exercise of treasury control.

Cp.
R. E.C.
1912, 6,
& Ev.
1045-50.

The fact of a sub-head being opened at once makes it subject to treasury control, and implies, as a corollary, the necessity of treasury approval to transfers of surpluses. It is as necessary for excesses on sub-heads to be reported to the Treasury as for those on the votes to be reported to

Cp. A.
Est.
Com.,
Ev. 292,
1093

Parliament. The latter require statutory authority, the former do not. 'The application of savings to meet deficiencies within one and the same vote, and the allowing a department to diverge from the detail of proposed expenditure shown in the estimate of a vote, by introducing a new but kindred service, are exertions of authority over matters which no statute touches, but which have been left within the discretion of the spending departments and the Treasury, subject to the obligation of rendering an account to Parliament of all their expenditure.' The Public Accounts Committee agrees that there is nothing unconstitutional in the practice of applying savings on one sub-head of a vote to meet the deficiency under another sub-head, as the formal vote of the House of Commons applies only to the total amount of each estimate; but at the same time it is of opinion that even here the Treasury should exercise care that the money is not spent in any way which seriously differs from the details presented to Parliament. It is, however, doubtful as to the correctness of sanctioning transfers between sub-heads if they are not clearly of the same kind. So far as civil votes are concerned, this is agreed to by the Treasury, which never sanctions transfers unless the sub-heads are closely allied; but in the case of the army and navy greater latitude is allowed. If a specific service constitutes a distinct sub-head, treasury authority is required for any excess, and the difference between estimated and actual expenditure upon it will both be shown and explained in the account; but if the service is only an item within a sub-head, the difference will not necessarily be explained although perhaps shown. If, however, the item is one for which the Treasury has ordered a subsidiary account to be opened, the difference will always be shown.

In the case of civil votes, a department must obtain the express authority of the Treasury for making good the deficit on one sub-head from the surplus on another sub-head of the same vote or from savings on the vote as a whole; and such authority would be withheld if the Treasury considered that there were unsatisfactory features—such as bad estimating—which ought to be brought to the notice of the Public Accounts Committee. If, however, an excess on a sub-head involves an excess on the total vote, the Treasury has no power to

2 R.
1879,
78-81,
T.M.

1 R.
1904, 2

R. 1913,
Ev. 2105
-8

3 R.
1888, 24

3 R.
1890, 5
Cp. A.
Est.
Com.,
Ev. 1093,
1106-12
1 R.
1878, 7

R. 1913, sanction it, nor can a deficit on the sub-head of one vote be
Ev. 2119 met from the surplus on the sub-head of another vote. Every
civil vote stands *per se* as a separate vote.

Cp. In the case of army and navy votes, the department
C.N.E., similarly has not the power technically to exceed a sub-
App.3 (b) head without treasury sanction, and, strictly, prior sanction
W.O. should be obtained ; but in practice the previous sanction of
Org., the Treasury for a transfer between two sub-heads of the
App. IV. same vote is rarely sought by the War Office, unless some
(A) 5 change of policy is involved, though the Admiralty makes a
Idem, practice of applying for prior sanction in such cases more
Ev. 3046 generally. Nor does the Treasury raise objections to such a
-7 course if the circumstances are normal. The differences

Idem, under each sub-head are exhibited and explained in the appro-
App. IV. priation accounts, which are formally submitted when closed
(A) 6 to the Treasury, which thus obtains official cognisance of trans-
fers ; and its covering sanction to such adjustments between
sub-heads is considered to be given by implication in the
authority for virement between votes, the greater including
the less. If, however, it is proposed to take any deliberate
E. 1913, administrative act which involves a transfer between sub-
Ev. 2121, heads, or one even which involves the risk of an excess, treasury
2 R. sanction should be asked for. If the probability of an excess
1885, 80 occurring in the course of the year is foreseen, and it is impor-
tant either on account of its magnitude or because unusual
circumstances are involved, treasury sanction should be
explicitly obtained ; but in the majority of cases the fact
cannot be known until the end of the year, when the accounts
are made up. The practice of reporting excesses on sub-
heads to the Treasury amounts to a method of securing pub-
licity for Parliament, even when formal sanction is unnecessary.

W.O.
Org.,
Ev. 3089

R. 1913, There is, on the whole, however, the Comptroller and Auditor
Ev. 2122 General considers, very little difference in the practice of the
army, navy, and civil service in respect to excesses on sub-
heads.

The headings of the departmental ledgers are bound to correspond to the sub-heads under which the estimates are presented, and the expenditure must be recorded in the appropriation account under those sub-heads. But further, apart from the normal sub-heads, the Treasury can, and does, require

an accounting department to keep a record of expenditure in many cases under items, or auxiliary sub-heads, and often stipulates that its sanction should be obtained for excesses on such items. This is notably so in the case of the various works votes, and the navy shipbuilding vote, when the specification of a service appears in the body of the estimates, and in regard to items of personal remuneration generally. The Treasury, in fact, has the statutory power of requiring a department to open any headings in its ledgers that may be needful for the purposes of examination and audit. In the case of such auxiliary accounts as come under this restriction of the Treasury, the powers of virement possessed by the department are the same as in the case of the regular sub-heads ; but as a rule the War Office and Admiralty have power to transfer, without reference, money from one item to another within the sub-head, provided that the total of the sub-head is not exceeded. In all these cases in which treasury authority is necessary for incurring excesses on sub-heads or on items within the sub-heads, the Comptroller and Auditor General can readily tell from the departmental ledgers whether any excess has been incurred and, if so, whether treasury sanction has been obtained. If such sanction has not been obtained where it is necessary, he would call upon the department to apply to the Treasury for such sanction ; and if it were refused he would report the excess for disallowance, even though the parliamentary grant had not been exceeded. Except in cases in which a department has been instructed by the Treasury to open ledger accounts for auxiliary heads there is no obligation on the accountant to render an account under more than the principal sub-heads of the estimates whatever further details may be given therein. If treasury sanction is given to alterations in the distribution of the money among the various sub-heads of any single vote, such sanction is final ; but the explanations of savings and deficits on each heading must still be given in the appropriation account for the information of Parliament. A similar principle applies to deviations between the authorised heads of loan expenditure. When a programme has been submitted by the department and approved by the Treasury, sanction to excesses on, or variations between, such heads is necessary.

3 R.
1888, 26
(c)

C.N.E.,
App. 3

1 R.
1870, 15

2 R.
1893, 39

The action of the Treasury in exercising these legitimate powers, though final in so far as the accounting department is concerned, is, however, still subject to review by the Comptroller and Auditor General and the Public Accounts Committee. The correctness of treasury action is liable to be questioned mainly from two aspects: firstly on the ground that, though technically correct, it has resulted in expenditure contrary to the intentions of Parliament; and secondly on the ground that it was not technically correct—in other words, that the service, for which the expenditure was authorised, was not comprised in the terms of the heading of the vote.

Since the totals of the sub-heads have been originally prepared for information only, and not for appropriation, it follows that there is not the same restriction—as in the case of transfers between votes—as to changes being only permitted for urgent services. Transfers will be admissible for any service covered by the terms of the resolution granting the vote, provided only that the department can satisfy the Treasury of its desirability, and that the total grant for the vote is not exceeded. It is, therefore, open to the Treasury to authorise the commencement of new works which have not been specifically detailed in the estimates, even though that special expenditure could not have been in the mind of Parliament, because the occasion for it arose, for the first time, after the vote was granted. In point of fact, treasury sanction would only be given in such cases if the occasion were urgent, and the Treasury admits that, having 'placed before Parliament a list of new works, it would not hold that it had a free right to apply money to new works of any consequence, except under such urgent circumstances as it would be prepared to justify before Parliament.' It is a matter of honesty and good faith on the part of a department not to depart from the broad outlines of the programme on the strength of which it asked for and obtained money from Parliament, and this being so the independent authority of the Treasury is necessary in the case of departures from the parliamentary bargain.

The objection to such new services being started in the year has on more than one occasion been voiced by the Public

Cp. A.
Est.
Com.,
Ev.
1093-7,
1113-24
R. 1885,
Ev. 320

W.O.
Org.,
Ev. 3221

Cp. 4 R.
1892, 1

Accounts Committee, which has impressed upon departments the importance of not incurring expenditure in the absence of due provision in the estimates. It recommends that 'the Treasury shall exhibit the utmost jealousy of any proposal to use savings for the commencement of any new work.' The same point was brought forward by the Estimates Committee in its first report. This committee laid down that 'the whole public service should know that, unless their requirements are put forward in sufficient time, the proposed works will, except in very special circumstances, have to stand over for inclusion in the following year's estimates'; and it further expressed the decided opinion that the hands of the Treasury should be strengthened to enable it to resist and reject unforeseen services, which are carried out as matters of policy, which could by the exercise of foresight have been foreseen. In all such cases treasury authority can only be given on the understanding that the expenditure on the proposed service can be met from savings on the aggregate. It is important, therefore, to guard against any deliberate postponement of approved services solely in order that the department may be able to substitute a service, which has not been submitted to Parliament, on any other grounds than urgency. If, however, the new work is urgent and essential and could not be postponed without detriment to the public service, the Treasury would agree to a postponement of other works in order to effect savings to carry it out, unless it considered that its importance in character or amount were such that a supplementary estimate should be presented in order to secure parliamentary sanction forthwith. In all cases of deliberate postponement to provide funds for works not previously sanctioned by Parliament a note should be inserted in the accounts. Savings on works items may also arise owing to a period of bad weather delaying building operations, difficulties arising with local authorities as to the site or elevation of the proposed building, or the soil presenting unexpected difficulties. When the progress of a building is delayed by these or similar causes, which are beyond the control of the department, it may apply to the Treasury for sanction to divert the money thus liberated to other items which, to avoid undue inflation of the estimates, had to be cut out at the beginning of the year. The fact that the savings were due to no deliberate

3 R.
1894, 11
1 R.
1908, 6

R. E.C.
1912, 8

R. 1913,
Ev. 3124
-9

2 R.
1883, 66
1 R.
1908, 6

action of the department is, however, no justification for substituting a new service which has never received the sanction of Parliament; nor would the fact that the following year's estimates would be relieved of the charge by carrying out the service in the current year be a justification. The only grounds on which such diversion could be considered would be the urgency of the proposed service, and from this point of view every case submitted would be carefully examined by the Treasury. If, however, a work has been sanctioned by Parliament the case is on a different footing, and diversions of savings to accelerate the work on it would be sanctioned without the question of urgency being pressed.

Though it is mainly in connection with works services that such cases occur, the same principle is equally applicable to other services not provided for in the estimates. In the case, for instance, of considerable grants to public servants for inventions, etc., the normal rule is not to pay in anticipation of the grant by Parliament. In such cases the question of urgency would normally not arise, and therefore the Treasury would not sanction a payment out of savings, which had not been estimated for.

The sanction of the Treasury is not, and is not to be regarded as, a pure formality, even when the service has been necessarily started and covering sanction is asked for. Its control must not be a shadow, but operative. Before assuming a responsibility for which it may have to give account to Parliament, it must demand that the accounting department shall make its case good on paper: thus, by exposing the proposal to criticism at every stage, strengthening the hands of the financial authorities in the department concerned. The department, having made full and careful inquiry to determine whether the work cannot be deferred until provision can be made by Parliament in the normal course, it still rests with the Treasury to sift each case before giving the necessary covering authority on behalf of the House of Commons. In practice, the Treasury would give its sanction if the cases were small and not likely to interest Parliament. If, however, the cases are large or of a certain importance, the Treasury would consider the advisability of withholding its covering authority to those which had already been carried out, leaving the department to justify

1 R.
1906, 11,
& T.M.
Cp. A.
Est.
Com.,
Ev. 5203
et seq.

2 R.
1915,
16, &
Ev. 1044
1 R.
1907, 12,
& T.M.

its action to the Public Accounts Committee, thus avoiding any assumption of that responsibility, which is implied when sanction is given on the explanation of the department being *prima facie* satisfactory. Speaking generally, however—provided that money is available on the total vote concerned, and the department can satisfy the Treasury that the service to which it is intended to apply it is in the public interests—the transfer between sub-heads can be effected without infringing in any way the commands of Parliament. On the other hand, although there is nothing unconstitutional in the practice of applying savings under one sub-head of a vote to meet the deficiency under another sub-head the Treasury should, in the opinion of the Public Accounts Committee, exercise care that the money is not spent in any way which seriously differs from the details presented to Parliament. If this discretion is exercised wisely it tends to economy; for if a surplus is not to be available to meet a deficiency within the vote, the result would be that additional provision would have to be made under each sub-head in the original estimates. Such a provision would place additional funds at the disposal of the accounting departments with the inevitable resulting tendency to spend rather than to surrender a surplus. ‘If you do not allow the Treasury and the department together to charge savings on one sub-head to excess expenditure in the other, you must have margins all round, which really will lead to greater laxity of expenditure and absence of control.’ The departments being allowed margins would spend up to those margins. On the other hand, the permissibility of deviation subject to treasury sanction secures better parliamentary control; for all excesses are brought to the notice of Parliament, and the exercise of the permissive powers of the Treasury is always open to the criticism of the Public Accounts Committee. This point of view has been clearly represented by the Treasury: ‘It is obvious that, if the executive government were to be deprived of the power of altering the details of proposed expenditure, and each sub-head, or item of a sub-head, were given the statutory rigidity that now belongs only to a vote, the estimates would have to be prepared in a very different manner from the present: in less detail, and with a far larger provision for unforeseen contingencies. My Lords cannot but believe

R. 1910,
Ev. 744-
5

1 R.
1904. 2

Cp. Est.
Pro.; Ev.
643-6

4 R.
1894. 53

Est Pro.,
Ev. 781

2 R.
1879,
78-81,
T.M.

that the existing practice of minute subdivisions, coupled with a power of deviation vested not in the spending department, nor in the Treasury alone, but exercisable only by the conjoint action of both, and subject to prompt information being given to Parliament, ensures a more efficient parliamentary control over naval and military expenditure than could be obtained in any other manner.'

1 & 4 R.
1899,
T.M. 8

In conclusion, mention must be made of the limitation of the power of deviation between sub-heads in one class of cases. The Treasury has no power to authorise the application of savings on the sub-heads of a vote either to increase an existing grant-in-aid sub-head or to create a new grant-in-aid sub-head. The reason for this is readily understood if the circumstances under which grants in aid are made are appreciated. When money is voted as a grant in aid, Parliament dispenses with the condition which applies to all other voted moneys—that any amount not finally expended within the year shall be surrendered. Except in some cases, Parliament does not even require to be informed of how it is spent or to require that the account of it shall be audited by the Comptroller and Auditor General. So far as the appropriation account is concerned, evidence of payment of the grant to the fund it is intended for, or the person at whose disposal it is to be placed, is all that is required. A grant in aid is therefore not subject to the same rules of accounting as an ordinary grant, and the effect of transferring money, which had been voted by Parliament subject to the condition of surrender of balances, to a grant of which the balance was not liable to surrender, would be to exempt it from an essential condition attached by Parliament to its grants. This limitation does not, however, preclude the Treasury from authorising the application of savings on other sub-heads to a particular service, which would normally be met from the grant in aid if funds were available. If the circumstances are urgent, and the grant in aid is exhausted, the Treasury might legitimately sanction a transfer; but such transfer would be subject to the ordinary rules of accounting, and would be recorded under a special sub-head, distinct from the grant-in-aid sub-head. Such action would come within the normal powers of the Treasury, and would not be contrary to the above-mentioned limitation, as the transfer, though

nominally made as a grant in aid, would only be made for a specific object and to the extent of actual expenditure. It follows as a corollary of this limitation of power that no grant-in-aid sub-head can properly be shown in the appropriation account with a deficit.

Opening New Sub-heads

The power of the Treasury to sanction deviations between sub-heads implies, as a natural corollary, an equal power to open new sub-heads to which to charge expenditure which may be covered by the terms of the resolution granting the vote, but which may not be properly chargeable to either of the existing normal sub-heads. In such cases of unforeseen expenditure the Treasury, when sanctioning it, directs the opening of a special sub-head by the department. Even, however, if the service is one which could be correctly classified to a normal sub-head, it may frequently be advisable to classify it to a special sub-head with a view either to bringing it more directly to the notice of Parliament than would be done by including it in the normal sub-head with the addition of an explanatory note, or in order to show at a glance the actual cost of the particular service.

When new sub-heads are raised in this way during the year, the Public Accounts Committee has expressed the opinion that if the particular service be clearly a part of the service for which the vote was taken, the treasury sanction to open the sub-head is valid. But if there is any doubt on this point or any question as to whether the particular service, though cognate to the service under the vote, was of a nature within the contemplation of Parliament when the vote was taken, then the approval of the Treasury should be withheld and the sanction of Parliament obtained. The Treasury, however, does not accept this view and considers that it must primarily be the responsible judge in each particular case, though every such decision is necessarily subject to the criticisms of the Comptroller and Auditor General and the review of the Public Accounts Committee. If the contention is correct that the insertion of the details of the estimates by sub-heads has no legal effect on the appropriation, this position is clearly sound,

4 R.
1894. 54

Idem.
T.M.

and the Treasury, which has power without parliamentary sanction to transfer between normal sub-heads of the same vote, must have equally the power to authorise the opening of a new sub-head and to allot money to it from the other sub-heads, provided no excess on the total vote is incurred, and provided the service of the new sub-head is one within the four corners of the vote. The sub-heads are placed before Parliament as a statement of the intention of the department, and as such are understood by Parliament. If those intentions cannot be carried out, but the provision made by Parliament is not exceeded, the justice of the case is met by a subsequent notification in the accounts of an alteration of allotment. No service which can be brought within the legal terms of the vote can be really said not to have been within the contemplation of Parliament; for, even though not specifically mentioned, there must be many services which Parliament must reasonably contemplate as possible contingencies, such, for example, as the provision for prisoners of war, in the event of war breaking out.

Although the Treasury possesses the power to open special sub-heads, the exercise of this power should be limited to cases which arise within the year, and not extended to recurrent expenditure which can possibly be placed on the estimates in a subsequent year. Even though a service may be small and can be met from savings on the vote, yet if, on the information available, it is likely to recur, it would be preferable to include it in the estimates rather than to rely on the power to open a special sub-head for it on its recurrence in a subsequent year. The same principle is equally applicable in the case of items for works services which are commenced within the year on treasury authority. Unless there is a practical certainty of their completion within the year, they should be placed on the next year's estimates. The circumstances under which a service can escape the estimates for two years, though involving expenditure in each, would be unusual and should only occur if it is not possible, by reasonable foresight, to ascertain that the contemplated completion within the year will not be practicable. A case has even occurred when a service of this nature extended over three years but never appeared in the estimates. Procedure of this nature is to be deprecated if it can be avoided,

3 R.
1907, 16

R. 1912,
Ev. 2734

3 R.
1907, 16,
T.M.

for it withdraws from Parliament all knowledge of the service until the completed accounts are rendered, when all possibility of anticipatory control is lost. So also in the case of a work which has been on the year's estimates and the completion of which was expected within the year, if it is found that it will not be finished in time for payments to be completed within the year, care should be taken, whenever circumstances permit, to obtain a re-vote in the following year, in order to secure that parliamentary provision is made for its completion. On the other hand, every care should be taken, in framing the estimates of such services, so as to avoid, whenever practicable, the inconvenience of an excessive unexpended balance, necessitating a re-vote in the following year.

2 R.
1886, 4

2 R.
1885, 3

The authority of the Treasury to open a new sub-head does not, and cannot sanction an excess on the vote. It is merely an instruction as to the method in which the expenditure is to be shown in the account. If the expenditure has been improperly incurred by the accounting department and *ex post facto* sanction asked for, the Treasury would still, if its nature required it, direct that a new sub-head be opened, even though the excess expenditure were not covered by savings on the vote. The Treasury, in such a case, orders the sub-head to be opened, while withholding its sanction to the expenditure which it has no power to give, and the irregularity is brought fully and promptly to the knowledge of Parliament for allowance or disallowance as Parliament may see fit.

R. 1877,

6

Idem,
T.M.

Again, the creation of a new sub-head cannot have the effect of making a service properly chargeable to the vote if it is not of a nature which can be brought within the heading or intention of the vote. It is the duty of the Treasury, therefore, before sanctioning the opening of a special sub-head, to ascertain that the heading of the vote will cover expenditure proposed to be charged thereto. If a special service is necessarily incurred, with treasury sanction, which cannot properly be charged to any vote, it should be paid for provisionally from the civil contingencies fund, pending a vote being taken for it.

2 R.
1883, 7
& 35

In the case of all new sub-heads opened after the passing of the vote, attention should be drawn to them by the Comptroller and Auditor General, especially in cases where doubt

Idem, 33

may be entertained whether the charge falls within the heading of the vote. Unless this is done, the expenditure may escape notice, and the opportunity will be lost to Parliament of forming an opinion as to whether it was necessary to expend the money before a vote could be taken for it, or whether the expenditure could have been postponed. 'The Treasury and the department may judge rightly that the expenditure could not be avoided; but the Public Accounts Committee should review each instance of the exercise of such extraordinary power, and, if necessary, report it to Parliament.'

2 R.
1883.7.
T.M.

General Observations

To sum up, transfers between votes cannot be made in the case of civil votes; but, in the case of army and navy votes respectively, provisional sanction to transfer can be given by the Treasury, provided the total grant for the whole service is not exceeded, subject to final approval by the House of Commons. Transfers between sub-heads of the same vote can be made by the accounting department with treasury authority which, in the case of civil votes, must be expressly given. Transfers between auxiliary sub-heads and items can be made by the department without further authority except in those cases where the Treasury has otherwise directed.

In all these cases in which treasury authority is required, the efficacy of the control that department can exercise is largely affected by the stage at which its authority is sought. If expenditure has been incurred, or if the department is committed to it, the powers of treasury control are proportionately limited, and in many cases the sanction may become little more than a formality. This may be unavoidable if excesses only come to light when the accounts are made up, and if it has not been possible to watch and control the course of expenditure more closely. If, however, treasury control of this nature is to be real, it must be furnished with prior information and not merely be asked for *ex post facto* sanction, which, although it may be the best (as the only practicable) course then possible, is an unsatisfactory substitute for that prior sanction which Parliament intends to be given whenever

R. 1874.
110

it is possible. 'Control to be effectual is a process which should be applied before a liability is incurred, as well as a criticism of the expenditure after it has been made or an assurance that expenditure is kept within the limits of parliamentary grants.' The Treasury, in pointing out that 'it will be incumbent on the (army and navy) departments to bring under the timely notice of this board any contemplated measures which may involve a liability to an excess over the aggregate grants,' makes it clear that the information should be furnished while the proposals are in contemplation and before the department is definitely committed to the expenditure. The rule that the sanction of the Treasury is necessary to increase expenditure, is applicable not only when the increase is proposed to be put in the estimates but still more in the case of new and unforeseen expenditure not sanctioned by Parliament but which it is desired to incur. If a department has savings and proposes to spend them on other objects than those for which they were granted by Parliament, it is equally as important that full particulars should be furnished to the Treasury as if they were being embodied in a fresh estimate. Whenever, therefore, the public departments 'incur expenditure of a special character for which provision has not been made in the vote, or which does not strictly fall within the terms of the vote or the descriptions of its sub-heads, they should represent the circumstances to the Treasury, with the view to obtaining the earliest possible sanction to it, even if, owing to some urgent cause, the sanction only amounts to a covering sanction.' Though in such cases the expenditure may only come before the Treasury as an accomplished fact, yet the knowledge that every case must be reported will act as a moral deterrent against expenditure which cannot subsequently be justified. Upon the strict observance of the rule that all proposed expenditure in anticipation of parliamentary provision should be immediately reported to the Treasury, the greatest stress is laid by the Public Accounts Committee which considers that it lies at the very threshold, not only of treasury, but of parliamentary, control.

Apart, however, from new expenditure deliberately incurred, and for which it is the duty of the department to obtain prior sanction of the Treasury, there will inevitably be much normal

R.C. Civ.
Estab.,
1 R. Ev.
8886

2 R.
1862,
T.M.

Cp. A.
Est.
Com.,
4 R.,
pp. viii-
xii

C.N.E.,
Ev. 198-
200

2 R.
1888, 23

Cp. R.
1882, 61

Cp. 2 R.
1886, 6
& 7

3 R.
1891, 14

expenditure which cannot be strictly controlled as regards its extent. If it appears that this will be likely to exceed the estimate to such an extent as to cause an excess, it is equally incumbent on the department to give the Treasury the earliest possible information. The point has been on more than one occasion emphasised by the Public Accounts Committee as being one which materially affects treasury control. 'It should be made incumbent on every department, in the event of unforeseen and unavoidable expenditure, to report the *probability* of an excess to the Treasury.' And again, 'the Treasury should be informed at the earliest practicable date of any probable excess on a vote, and its consent should at the same time be asked to defray such probable excess from surpluses anticipated on other specified votes.' The same view has been expressed by the Treasury, which requests 'that *previous* sanction of this board may in future be sought before any excess is allowed to arise on the provision made by Parliament under the several army votes.' The Appropriation Acts from 1862 to 1906 also enacted that the War Office and Admiralty should 'forthwith make application to the Treasury in writing,' not after the excess had been incurred, but 'if a necessity arises for incurring expenditure not provided for in the sums appropriated,' i.e. beforehand. If treasury consent is not applied for until after the liability for excess of expenditure has been incurred and it is absolutely necessary that it should be defrayed, then the efficacy of treasury control is practically nullified.

It is admitted that the Treasury, which has the greater power under the Appropriation Act of giving its previous sanction where an excess is deliberately incurred, may also exercise the lesser power of giving an *ex post facto* sanction to virement to cover unforeseen excesses. At the same time, however, it should discourage any tendency to bring excesses which, by the exercise of care and foresight, might have been avoided, within this category.

Surrender of Balances

The control of expenditure by the Treasury throws upon that department the duty of securing the due surrender by

2 R.

1873, 5

1 R.

1876, 77

Cp. R.

1862,

Ev. 1566

(Glad-

stone)

H.C. 8,

1906,

p. 189

3 R.

1889, 10

the accounting departments of their unused balances and of deciding upon the method of surrender. The surrender of a balance of a parliamentary grant is not actually prescribed by the Exchequer and Audit Act, which merely requires that every appropriation account, when rendered to the Comptroller and Auditor General, shall be accompanied by an explanation of the manner in which the balance or balances on the grant or grants included in the previous account have been adjusted. The surrender of a surplus is, however, the natural result of the provisions of that act, of the resolutions in supply, and of the annual Appropriation Act, whereby a grant is appropriated to the exclusive use of a particular year.¹

The grants made by Parliament are not unconditional. They are particularly appropriated and remain public money until expended in the manner authorised. Such portions therefore as are not spent within the year—and they cannot legally be spent as such in a subsequent year—can only be disposed of by being surrendered to the exchequer in one form or another. The method of adjustment is left to the discretion of the executive. The surrender of the unspent balance of a vote of credit is carried out on the same principle. If the vote is appropriated by Parliament to the year, the balance must be surrendered. If, however, Parliament makes the grant without a time limit, the vote may remain open so long as expenditure on the special service for which it was granted continues, or until such time as it may be found practicable and desirable to place such future expenditure on the estimates, when the unspent balance would be surrendered.

Parliament is not concerned with the procedure of surrender, which is solely a matter for the Treasury and Comptroller and Auditor General. The Treasury is the department responsible for deciding the method of surrender; the Comptroller and Auditor General is responsible for seeing that the exchequer obtains the credit; and the accounting officer of the department, when certifying the succeeding year's account, adds a declaration to the effect that the surrender has been made. He cannot, however, make the surrender until instructed to do so by the Treasury, and such instructions are

¹ The surrender by all departments of their balances was first effected for the financial year 1862-63.

2 R.
1896,
App. 7

E. & A.
Act, § 26

Cp. R.
1887,
88, T.M.

Todd,
Parl. Gov.
ii. 212

not issued until the appropriation accounts of all departments are complete.

2 R.
1896, 4,
T.M. (c)
Cp.
R. 1865,
App. 1,
para. 50,
note F

When referring to the surrender of a surplus to the exchequer, it must be borne in mind that such a surplus on the annual account of an accounting department is distinct from the surplus on the exchequer account itself. The latter depends upon the exchequer account of receipts and issues; the former is the combined effect of 'savings' on expenditure and of surpluses on receipts. The surplus of the public income over issues from the exchequer in respect of expenditure chargeable against income is taken in reduction of the national debt by credit to the sinking fund. This sum is ascertainable on 31st March, when the exchequer account is instantly and finally closed, and no further issues can be made in respect of that financial year. Whatever portion of the parliamentary grants has not on that date been issued to the Paymaster General is thereby automatically surrendered, though not formally written off till later, when the Treasury notifies the department that it is to be written off by surrender from the exchequer account of the prior year. It does not concern the accounting department, beyond the point of waiving the right to the issue, and the necessity for making the necessary entries in its books, credit having previously been taken under 'exchequer grants' for the total grant authorised by Parliament. A department would never refrain from requisitioning, or the Treasury from authorising, the issue of the whole amount of the grant unless practically certain that it will not spend the full amount that it has the power to spend. On the other hand, in view of the principle that cash balances should be kept as low as possible, the Paymaster General would be unable to obtain treasury authority to draw the total grant unless it were, on the evidence available, likely to be required for that year.

The departmental surplus, being dependent on the account of actual payments and receipts, cannot be ascertained until the appropriation account is closed on 30th September and audited, and consequently the surrender cannot take place until a subsequent financial year to that to which the account relates. Though the sinking fund will eventually derive the benefit of savings, yet it must be borne in mind that though a

saving tends to create a surplus, it has no effect on the exchequer surplus of the year unless it has resulted in a short issue from the exchequer to the Paymaster General of the amount of the parliamentary grants. With this exception, the surplus on the exchequer account available for surrender to the sinking fund is not affected by that year's savings on the appropriation accounts, which can only be surrendered in a subsequent year. The exchequer account deals with cash issues within the year, the whole of which will not have been spent, and therefore, though over a series of years the sum of the issues to departments will agree approximately with the sum of the departmental expenditure, yet as regards any one specific year there will not be agreement between the two. With the surplus on the exchequer account to be applied to the reduction of debt the accounting department is not concerned, but with the surplus on its account arising out of savings on the grants and out of excess receipts it is directly concerned; for if the money has not been spent it must be surrendered sooner or later.

Apart from the surrender of a grant which is effected when the department refrains from drawing it, there are two possible methods by which a subsequent surrender can be carried out. It may be paid into the exchequer in cash, or may be written off from the current grant for the same service which still remains unissued from the exchequer. If the vote for a particular service has ceased, the former method is the only possible one; for in that case there will be no further grant from which the write-off can be made.¹ And so also, if the amount to be surrendered exceeds the unissued portion of the grant for the then current year together with the whole of the grant for the following year, a cash payment to the exchequer is necessary. These exceptions would not, however, apply to the cessation of a vote in the army or navy estimates; for they are treated as a single service, in which the balances on all the votes are amalgamated into one general total showing a net surplus for surrender or net deficit to be

¹ This occurred in the case of the Office of Works vote for the new admiralty and war office buildings in 1884-5. Part of the surplus was written off against the unissued balances for 1885-6 and 1886-7 and the remainder was paid into the exchequer in 1887-8, there being no further grant in that year.

R. 1887,
5 & 88,
T M.

R. 1887,
88, T.M.

voted. With this exception, the refund in cash of unspent balances is 'extremely inexpedient, because it involves the inclusion in the same accounts, both as revenue and as expenditure, of identical sums, which do not in any true sense represent receipt or disbursement of public money, but merely cancel each other. It consequently leads to misleading and practically fictitious statements of the public revenue and expenditure.' The same objections in fact would be raised by this method as were urged against the former system of paying all extra receipts into the exchequer, and which were obviated by the adoption of the system of appropriations in aid. In view of this, the second method is in practice adopted, and exchequer issues are reduced in the following year or years to the extent necessary.

Cp. R.
1865,
App. 1,
para 50,
note F

R. 1887,
88, T. M.
2 R.
1896,
App. 7

In the earlier part of each financial year the Paymaster General, on behalf of a department, holds cash issued in respect of the prior year, which remains unspent on that year and is liable to surrender, though the exact amount is not known until the appropriation account is closed and audited. Theoretically, such cash should be retained by the Paymaster General until it is able to be surrendered to the exchequer. Were this done, it would necessitate further issues having to be made from exchequer grants of the new year to meet the current expenditure. Such a system would militate against economy of balances. The department is consequently permitted to temporarily use the cash which is held on its behalf in respect of the prior year's balance, with the knowledge that its grants from the current year will be eventually restricted by the amount so used, and the surrender is eventually effected by writing off the surplus from the amount of grants unissued from the exchequer. If, by the time the actual surplus has been ascertained, there do not remain any or sufficient unissued grants, then the surplus must be wholly or partly written off from the grants of the succeeding year. In its ultimate effect on the department it is immaterial in which year the reduction of the grants takes place, for the provision made by Parliament is unaffected and the spending power of the department is not enlarged. Nor would the availability of a large cash surplus from the prior year tend to diminish parliamentary control in cases in which it, for political reasons, desired to control the

executive by limiting its votes on account to definite periods before the Appropriation Act was passed ; for the votes on account would be proportionately reduced. But although the amount which a department is authorised to spend is not affected, it must be borne in mind that the availability of cash on the prior year's account provides the executive with the opportunity of temporarily exceeding provision by utilising the whole of the current year's grants as well as this balance, and it is important, therefore, that the need of presenting a supplementary estimate should be all the more carefully watched in the department in such a case, to guard against the illegal expenditure, necessitating an excess vote if the department failed to present such an estimate within the year. Since, however, an accounting department should have regard not only or exclusively to the amount of cash available but also to the amount of the grant unexpended, illegal expenditure of this nature would only arise if deliberately incurred ; and such could only take place, if at all, in quite exceptional circumstances. Though the possibility is existent, the probability of deliberate illegal action would be remote.

So long as the actual expenditure does not exceed provision, it is immaterial that the grants of the current year should be held up to the full extent of the prior year's balance, and it is in point of fact not always possible to do this, since the actual amount to be surrendered may be affected by the Comptroller and Auditor General's audit, or depend on the decision of the Public Accounts Committee on the Comptroller and Auditor General's report. Before this has been determined, the total of the exchequer issues already made may be such as to preclude the whole surrender being written off from that year and a portion may have to be written off from the succeeding year. The ultimate spending power of the department is equally curtailed in either case. The only account that is affected is the exchequer account for each year, and the effect on this is not material over series of years, owing to the strict manner in which the spending power of departments is limited. Though, in a single year, the exchequer issues may be more or less than the actual expenditure, yet when the aggregate figures of several years are compared, practical agreement is secured between issues and expenditure.

R. 1887,
88 T.M.

Cp. 1 R.,
1913

The balance to be surrendered is the surplus of the parliamentary grant over the net sum which it has legitimately expended, and therefore includes not only any surplus there may be on the exchequer balances whether issued or unissued, but also any sums received in excess of the estimated appropriations in aid. These receipts are surpluses in another form. If they are required to meet expenditure, they must be appropriated by Parliament in a supplementary estimate in which case they cease to be surpluses, or, if they have been used without a supplementary estimate being taken, an excess vote is necessary. If, however, they are not required by the department during the year to meet expenditure, they form part of the final surplus and must be surrendered as part of that surplus to the exchequer. They are thereby treated in the same manner as normal surpluses and surrendered by the reduction *pro tanto* of exchequer issues. There would be the same objection to paying them in cash into the exchequer as in the case of surpluses on the votes. To do so would be to revive the objections and anomalies of the earlier system under which all extra receipts were paid into the exchequer, and to obviate which the scheme of appropriating receipts in aid of the army and navy votes was introduced in 1882-3, and subsequently extended to such other services the receipts of which lent themselves to be applied in aid of votes.

In all proceedings of this nature, then, parliamentary control is fully maintained, although the receipts of the department are again disbursed by it without being paid into the exchequer. Though not strictly in accordance with the original intentions of the Exchequer and Audit Act, which aimed at the collection of everything into the consolidated fund, and theoretically possessing some objectionable features, the system is one which tends to simplification generally.

In the foregoing remarks, the question of the surrender of the actual and ascertained balance has been dealt with. Treasury control is, however, also and more importantly exercised in seeing that the balance, which would be available for surrender if the scheme of appropriation were strictly adhered to, is not reduced by improper or unauthorised excess expenditure, and that a department, which finds itself towards

the close of the year with a probable surplus, does not incur expenditure, not estimated for, merely with a view to avoiding a surrender.¹ This question is inevitably bound up in the majority of cases with that of the approval for virement between votes, sub-heads, and items, which has been dealt with previously. The following remarks are therefore to a certain extent supplementary thereto, though dealing with the question more particularly from the point of view of the justifiability of expenditure of an available surplus, the effect of which is to reduce the amount due for surrender. It must first, however, be clearly borne in mind as to what is meant by an 'available surplus.' It does not necessarily mean the total surplus which a department may find in its hands—that is to say, the surplus on gross expenditure plus the excess on appropriations in aid—because the latter is not available in aid of gross expenditure in any case without a supplementary estimate; for if it were utilised, the gross expenditure authorised by Parliament would be exceeded. On the other hand, it does not necessarily mean the surplus on the gross expenditure only; for if there is a deficit on appropriations in aid, there would not be sufficient money available to spend up to the full amount of the gross expenditure authorised. Therefore, if the receipts equal or exceed the estimate, the available surplus is the surplus on the gross expenditure; but if the receipts fall short of the estimate, the available surplus is the surplus on gross expenditure less the deficit on appropriations in aid.

R. 1913,
Ev. 2821

'Expenditure incurred at the close of a financial year, with a view solely to avoid a subsequent surrender, is much to be reprehended on the ground of its extravagant and wasteful tendency. Moreover, resort to so demoralising a step is not necessary because the end in view can be attained by other and more regular means'—that is to say, the proposed service can be carried out by means of a supplementary estimate in the following year, if not already provided for in that year's original estimate. A jealous if not suspicious eye is kept on

2 R.,
1896, 4,
T.M. (c)
Cp. W.O.
Org. R.,
35

¹ On 15th May, 1711, the House of Commons resolved: 'That the applying any sum of unappropriated money, or surplusage of funds, to uses not voted or addressed for by Parliament, hath been a misapplication of the public money.' 16 C.J. 665

R. 1913, Ev. 852 expenditure of this nature and the Public Accounts Committee strongly deprecates the idea that because money is available and would otherwise be surrendered, a department should invest it in something that was not in the estimates, and which could have been in the estimates—that is to say, a service which could have been foreseen. Further, the more regular method of postponing the service and carrying it out in the following year by supplementary estimate does not entail one of the objections to the taking of a supplementary estimate—namely, the upsetting of the budget arrangements; for, so far as the exchequer is concerned, the money having been issued from the exchequer in the current year and remaining unspent will be available for use in the following year on a revote in a supplementary estimate, without entailing the necessity for providing further ways and means in that year beyond those estimated for in the annual budget.

3 R.
1889,
T.M., 6

Excesses on army and navy votes and on civil service sub-heads may be due to three causes: firstly, to the initiation—after the estimates have been approved and presented—of services, which would require treasury sanction in any case irrespectively of whether they would cause an excess or not—such as additions to establishments, new works or extension of programme, or some totally new service; secondly, to an under-estimate of the cost of current services, which, but for the resulting excess, would not need special submission to the Treasury, or to an over-estimate of current appropriations in aid; and thirdly, to deliberate expenditure at the close of the year on services which cannot be classified as urgent, solely because there are savings on other army and navy votes, or civil vote sub-heads, to meet them.

Of these, the second is least under the control of the department, for the excess arises in carrying out the approved programme of the year. Treasury control can therefore only be exercised in seeing whether the department can reasonably be asked to meet an anticipated deficit by modifying its programme in order to effect savings elsewhere. 'Although when once the money is spent the opportunity of antecedent financial control has passed, yet the Treasury can still exercise its function as the department generally responsible for financial order.'

Idem, 19

In the first and third cases, the excess is due to expenditure

outside the original estimates and requires therefore to be carefully scrutinised by the Treasury. In the case of new services the Treasury has first to consider them as such, apart from any question of adequacy of savings, and must decide 'whether the nature of the service is such as to require, for constitutional or other reasons, that Parliament should be consulted before the expenditure is incurred.' If the Treasury agrees to the expenditure and decides that a supplementary estimate need not be taken, the excess being met out of savings, it thereby agrees to the reduction *pro tanto* of the amount which would otherwise be surrendered, on the understanding that such services are essential additions to the year's programme. The third class of excess is, however, on a very different footing, in that it is due to expenditure incurred not because it is essential at the time, but because there is an available surplus from which it can be met. Such cases would usually arise when a department, finding a surplus probable, may wish to carry out a service estimated for in the following year, and so relieve the vote of that year. Such a proposal, which is contrary to the principles of parliamentary control, and consequently irregular, can only be justified in exceptional circumstances, and could only be carried out after obtaining from the Treasury the necessary sanction grounded upon a full statement of the facts of the case. The accounting department has no power to itself appropriate an available balance in this way. In the first place, it must be abundantly clear that, if approved, no deficit can arise from carrying it out; and in the second place, the department must be able to justify its proposal on the grounds of economy and public interest, and make it clear that it is not put forward solely as a means of disposing of a surplus and avoiding surrender without any compensating benefit to the public, which would not equally accrue by carrying out the service later. If, for instance, it can be shown that the state of the market is exceptionally favourable for purchasing a certain class of stores at the moment, it might be in the public interest to take advantage of it to purchase stores which had been estimated for in the succeeding year. On the other hand, care must be taken that a surplus is not spent on anything, the price or condition of which will be affected by the time of year, or by the fact of the whole

3 R.
1889,
T.M., 7
Cp. A.
Est.
Com.,
Ev. 5641
et seq.

Cp.
C.N.E.,
Ev. 1832
-7
Cp.
Manuf.
Dept.,
Ev.
3905,
3982,
5138
4 R.
1899, 9

3 R.
1895, 7

Cp. 4 R.
1899, 9

C.N.E.,
Ev. 1871
-3

purchase being made at once instead of being spread over the year. It is, however, at the same time admitted that it is not a desirable practice to anticipate the next year's vote by securing the delivery of and payment for larger quantities of stores before the end of the financial year than expected, thus reducing the amount to be surrendered, which would otherwise go to the sinking fund. Before sanctioning such an excess on an army or navy vote or civil sub-head it would be the natural duty of the Treasury, as in all similar cases, to consider this aspect of the proposed arrangement. Conversely, if good opportunities occur for realising surplus stores, they should be sold in the public interest, even though not estimated for and even though the receipt would create a surplus on appropriations in aid. There would be strong financial objections to withholding the sale in order that the proceeds might be used as appropriations in aid in a subsequent year. The amount of appropriations in aid provision should not affect the question. A similar principle is involved in the case of transfers of materials from store to the ordnance factories, the transaction involving a credit of their value to appropriations in aid of the factories vote. Unless such transactions are carried out for the purpose of meeting proper requirements for the fulfilment of orders, the suspicion arises that they are merely carried out to finance the vote. Transfers of this nature, made towards the close of the financial year, require therefore to be closely scrutinised.

Again, 'a vote for contract services may show a large saving through the failure of contractors to keep their engagements, and this failure may throw an unexpected charge on the succeeding year for which it is too late to provide in the estimates of that year. If an equivalent excess be incurred in the expiring year on a vote for non-contract services, the charge for those services in the succeeding year may possibly be so far lightened as to counterbalance the additional charge thrown upon that year for contract services.' Thus, though the adjustment may not be in strict accord with the provision made by Parliament for each year separately, yet over the combined period it will be substantially consonant with the intentions of Parliament. Such occurrences should be rare, and could only be justified by exceptional circumstances.

R. 1911,
Ev. 562-
3

R. 1912,
Ev. 3042

2 R.
1893, 22,
& T.M.

3 R.
1889,
T.M., 15

Expenditure of this nature, which is deliberately incurred, is viewed with great jealousy by the House of Commons and the Public Accounts Committee, for there may always be the fear that it may have been incurred solely to avoid a surrender to the exchequer, and thus reduce the amount payable to the sinking fund for the reduction of the national debt. So far as the army and navy are concerned the right of determining whether an excess on a vote is justifiable is committed by Parliament to the Treasury and the accounting department jointly, and the exercise of this right in such cases is accepted by the Public Accounts Committee, provided justification is forthcoming, though the Comptroller and Auditor General has expressed the definite opinion that neither of these departments having larger funds at its disposal for one vote than are requisite for the service of the year has any right to spend the surpluses on another vote, even for the purpose of effecting a saving in the succeeding year.

Navy
Apprn.
Acct.,
1887-8
C. &
A.G.'s
Report

A somewhat different consideration is involved when savings arise on an army and navy vote, or a civil sub-head, owing to the non-carrying out of a service for which provision has been made, if it is desired to utilise such savings in carrying out a cognate service for which provision is made in the following year. In this case no question of an excess on the vote or sub-head arises. The sole point at issue is the justifiability of spending money which would otherwise be surrendered. Such justification should depend on the question of urgency of the service or of exceptionally favourable markets or other such causes, and not merely on the avoidance of a possible excess on the following year's vote or sub-head, arising from the carrying out of the service, which has to be postponed, in addition to the cognate service estimated for in the following year. The decision in such cases must remain in the hands of the Treasury to be exercised in conjunction with the accounting department. The safeguard against abuse is the publication for the information of Parliament of the authority given by the Treasury, and the subsequent review of the circumstances by the Public Accounts Committee.

2 R
1881, 62,
& T.M.

Though the annual surrender of balances is an integral part of the present financial system, the underlying principle of which is that revenue for the year shall be devoted to the

Cp. expenditure of the same year only, the practice possesses serious drawbacks, as previously pointed out, in that ill-considered expenditure is likely to be incurred towards the close of a year by a department which foresees the possibility of having an available surplus in hand. It has been pointed out that 'no man cares to effect economies for the sake of an infinitesimal reduction in the national debt, and no man has the inducements to follow up his work and throw himself into its progress and development, which the ordinary methods of industrial enterprise under like conditions would have afforded.' Whatever precautions are taken against improper use of available money towards the end of the year, there must be an inevitable tendency to spend rather than to surrender, and to magnify the urgency of services where the urgency may in fact really consist rather in getting the money spent before the fatal 31st March. A high authority has admitted that extravagance towards the end of a year is a necessary part of our financial system, so far as people will regard savings as being their own money, which they must get rid of. It leads to hurried and ill-considered arrangements to be completed at any cost by 31st March.

Idem,
Ev. 3174
-6

Manuf.
Dept.,
R., para
105, &
Ev. 5922

The effect of the rule, in fact, is that a department which finds itself unable to spend its money on one object will endeavour to spend it on another; and it is admitted that the inducement is very strong 'to exercise extraordinary ingenuity to expend as much money as possible before 31st March.'

W.O.
Org.,
App. IV.
(H) 8

Ordeal
by
Battle,
F. S.
Oliver,
1916 ed.,
P. 115

The arguments against the system are undoubtedly strong. Those in favour of it are rather theoretical and constitutional than altogether practical. These arguments based on constitutional grounds, have been described as affording an illustration of what can only be called constitutional idolatry; while it is further contended that the adoption of the practice as part of the new system was rather due to Gladstone's love of exactitude than an example of reform adopted to satisfy an urgent constitutional demand. On the other hand, a modern writer observes that though in the Gladstonian era strictness in matters of finance was occasionally carried to the verge of absurdity, yet 'this was a fault in the right direction—a great safeguard to the public interest, a peculiarly valuable tendency from the standpoint of democracy.' The theoretic-

cal advantages of the system consist, primarily, in the maintenance of parliamentary control by ensuring that a department must come afresh to Parliament each year for its requirements, and, secondarily, in enabling the cash accounts of each year to be complete records of final cash payments. From the latter point of view the rule exists in order to secure an accurate account of the expenditure of all departments within a reasonable time. Under the old regime the accounts were made up for the liabilities of the year ; these remained open for many years, and an accurate statement of the balance was not ascertained until after a long interval. It was indeed many years after the Exchequer and Audit Act was passed before the balances could be worked out which were to form the basis of the future audit. Under the present system a complete record and an audited account of all expenditure for the year is available nine months after the close of the year. Though the administrative drawbacks of the system may be great, they are far outweighed by the advantages of the end in view, namely—rapidity of accounting and audit, and the closing of the year's accounts absolutely. It would of course never be permitted to a department to retain its surplus at the end of the year without any restrictions, though even in such a case the prevention of accumulations could be guarded against by Parliament by the simple method of reducing future votes when necessary. If, however, the constitutional objection were surmounted there would undoubtedly be advantages in providing for a modification of the existing system, and proposals to this effect were made by the Committee on War Office Organisation in 1901, it being suggested that the 'carry over' system should be adopted, whereby certain unspent balances should be placed in a suspense account. Under the present system, if an order is given in one financial year to be paid for out of money voted for it in that year, and the order is not completed, the effect is that the order is carried over, but the money to pay for it is not.¹ In estimating, allowance is always made for a certain amount of such orders being carried over, but if the carry over is much larger than anticipated the department is saddled with arrears of payment for things ordered

Manuf.
Dept.,
Ev. 8071

2 R.
1872, 50,
T.M. III.

Manuf.
Dept.,
Ev. 3908
& 8077

W.O.
Org., R.
35
Cp.
Manuf.
Dept.,
R., 105 ;
Ev. 1325
W.O.
Org.,
Ev. 5389,
5406

¹ In the case of the ordnance factories provision has been made for the carry-over of money by the institution of the supplies suspense account.

Cp.
Manuf.
Dept.,
Ev.
5901-7,
9553,
9558

for delivery in the prior year, and the payment for them in the current year may not leave sufficient money available to order the things estimated for. The proposed system would therefore facilitate estimating. The estimates could be framed more accurately, and greater convenience to the public service would result.

Though Parliament would never agree to a change of system whereby a department had a general authority to carry over its balance, it might reasonably be disposed to agree to the carry-over of a specific balance, voted for a definite service which had not been spent, if sufficient justification for the non-spending were forthcoming, and subject to the normal rules as to spending and accounting for it later. To current services, that is to say, the proposed modification would be inapplicable; but for non-recurrent services, where there was a reasonable expectation of completion in the following year, there should be less objection to the adoption of the proposal, any money carried over being strictly earmarked and only expended on services for which it was actually voted originally.

Idem,
Ev. 9553
-7

The question is, however, an important one in principle and on constitutional grounds, and is deserving of mention as tending to a possible solution of what is at present admitted to be a serious drawback of the present system. The possibility of its adoption will no doubt be discussed when the time comes for considering what improvements can be made in the Exchequer and Audit Act, as contemplated recently by the Public Accounts Committee.

2 R.
1916, 78

IV. CONTROL OVER DETAILS

Cp.
W.O.
Org.,
App. IV.
(A) 7-12

General Principles of the Exercise of Detailed Control

The objections and inconveniences to a too minute external control over details of expenditure has already been referred to. Any steps which tend to reduce the proper responsibility of the accounting department are to be avoided. Even when taken in the supposed interests of economy, they defeat their own object, for they transfer the responsibility from the hands of the man who is best informed of the requirements and circumstances to those of the man outside, who has neither the expert nor the first-hand knowledge. It will always remain

true that there is less power in the comptroller than in the administrator. Real and effective economy in administration must come from the administrator himself—from the spirit of those who are carrying out the work. The importance of treasury control is freely admitted by the accounting departments, and it has been generally agreed that it is invaluable, though there is always the danger of an extension of it diminishing the responsibility of departments.

C.N.E.,
vol. ii.,
Ev.
24-7
Cp.
R.E.C.
1912,
Ev. 141

On the other hand, under the twenty-seventh section of the Exchequer and Audit Act, it is in the discretion of the Treasury to require that all expenditure of a special nature charged in any appropriation account should receive its sanction, as it alone possesses the final powers of authorisation, while, by usage and practice, very wide powers of exercising control are vested in it. The extent to which it is expedient or possible to use these powers must depend on the circumstances of the case, and be left to the wisdom and good sense of the Treasury to determine as may be most advisable in the public interests. Apart from these general considerations, the Treasury has not the same responsibility in regard to army and navy expenditure as it has over the expenditure of civil departments. The reason for this is threefold.

4 R.
1894,
App. 2
(VI.)

In the first place, the Admiralty and the War Office both have finance branches of their own which are not under the Treasury. Their accounting officers are more directly responsible for their own expenditure than is the case with the accounting officers of civil departments.

In the second place, the Treasury—in order to exercise a detailed control—would need to be possessed of all the knowledge of the departments themselves, and for this purpose would require a staff of experts the size of which would be quite out of proportion to the possible benefits which would accrue. In the case of the majority of the civil departments, on the other hand, there is very little expenditure involving large questions of policy or large and difficult technical questions. Direct treasury control can therefore be more minute.

C.N.E.,
Ev. 527

In the third place, owing to the date at which army and navy estimates reach the Treasury, it is not, under present conditions, possible to exercise the same detailed control over them as over the civil service estimates. This objection is,

however, only true in a modified sense, for, generally speaking, the various items on which the army and navy estimates are built up have been approved in principle beforehand by the Treasury, and the completed estimate, as submitted to that department, is mainly an embodiment of items of which it has previous cognisance. Such previous approval must necessarily only have been given to the general objects of contemplated expenditure and to the limits within which it must be carried out. It rests with the department to work out the detailed estimate; and, in regard to such details, it is necessarily largely independent of treasury control because the Treasury has not the available time for examination after it receives the detailed estimate. The treasury examination of the estimates, as finally received from the War Office and the Admiralty, is mainly directed to seeing that they do not exceed the total that has been settled by the cabinet, and also to seeing that no provision is made for any service that has been discussed between the department and the Treasury and which has not received treasury sanction. Apart from this, it is comparatively superficial.

W.O.
Org.,
Ev. 3260

In certain directions, however, where such expert knowledge is not so directly involved, the Treasury exercises as close a control over the detailed expenditure of the army and navy as it does in the case of the civil departments.

Directions in which Treasury Sanction is Necessary

R. 1874,
85

Cp. R.
Sess. 2,
1880, 70,
T.M.

Anson,
Con.,
ii. II. 153

C.N.E.,
Ev. 46

It is a fundamental and constitutional rule that the sanction of the Treasury is necessary to increase expenditure, not only in regard to additions to establishments but also as regards rates of pay, extra and special pay and allowances: and herein lies a valuable part of treasury control, for such supervision 'stops the constant leakage of public money in *items* of outlay, trivial perhaps in themselves, but amounting in the mass to a heavy demand upon the taxpayer.' Increases of staff have to be justified by a department before treasury sanction is given, and proposals of this nature are closely scrutinised by the Treasury. The passing by Parliament of an estimate containing an establishment which shows an increase over that of a previous year, does not necessarily sanction the

expenditure so estimated for and authorised by Parliament. The department must show, in addition, that it has obtained treasury sanction for the increase, and without that the Comptroller and Auditor General would not allow the charge in the accounts.

Naval Works and Military Works Bills are on a somewhat different footing as regards the exercise of treasury control, as ordinarily understood—that is to say, control by the Treasury as a department as distinct from the Chancellor of the Exchequer. Such bills are subject to very close examination in all cases by the Chancellor; but there is not the same official examination and investigation by what may be termed the subordinate Treasury as is the case with estimates for Appropriation Bills, on the ground that they are more particularly confined to the minister responsible.

In the case of certain categories of expenditure, treasury control over details is not left to the discretion of that department. It is obligatory. The salaries and allowances of all public servants in every department of the state are regulated by the Treasury, except only in the case of those functionaries whose salaries are fixed by act of Parliament, and the officers of the two Houses of Parliament. No royal warrant or order in council affecting finance can be submitted to the sovereign until approved in substance by the Treasury, though the draft is not always submitted to it, and no royal warrant or order in council can be changed without the authority of another, except in cases in which recourse is had to the dispensing warrant or dispensing order in council, nor can any alteration be made in a royal warrant without the direct assent of the Treasury. Since the issue of all pay and personal emoluments is regulated by royal warrant for the army, and order in council for the navy, it follows that a very detailed control is exercised by the Treasury over this important heading of expenditure for these departments, as well as in the case of the civil services. Such control is, however, confined to the rates of pay, and the Treasury cannot control the nomination of the individual who is to receive it, which is obviously and necessarily a matter of administration within the department, for 'there is no act which more imperatively requires to be performed under a strong sense of individual responsi-

Todd,
Parl.
Gov.
i. 175
3 R.
1893, 8
& 11
C.N.E.,
App.3(c)
W.O.
Org.,
App. IV.
(A) 7
R.C. Civ.
Estab.,
1 R. Ev.
516
2 R.
1881, 57.
T.M.
Rep.
Gov.,
p. 94

Cp. R.
Sess. 2,
1880,
12 (A)
R. 1877,
101
W.O.
Org.,
App. IV.
(A) 7
R. 1910,
Ev. 128
4 R.
1889, 6,
& T.M.

bility than the nomination to employments.' With the conditions under which an appointment is made, the Treasury is concerned in so far as financial considerations are involved, and its guidance should be sought before it is proposed to attach any exceptional conditions to an appointment, even though no increase of expenditure may be involved. Further, all allowances¹ are governed by regulations which must be approved by the Treasury, and the rates or scales when once fixed cannot be varied without treasury approval. It is, however, almost impossible to frame any regulation which will meet every circumstance that arises, but if modifications of departmental regulations are necessary, it is of importance that those which tend in any material degree to increase the public expenditure should be submitted to the Treasury before a change is made. If the power to vary the conditions apart from the rates were vested in the department, the treasury control over the rates would be seriously impaired; for those rates might then be allowed by the department under less stringent conditions than those originally put forward to the Treasury and on which the justification for the approved rates was based. In other words 'conditions of payment are indissoluble, *prima facie*, from the rates of payments to which they are attached.'

Idem, 11,
T.M.

4 R.
1889,
App.
PP. 135,
136
2 R.
1881, 75,
T.M.
W.O.
Org.,
Ev. 3234

The dispensing warrant and order in council mentioned above are, as the name implies, a royal warrant and order in council which authorise the War Office and the Admiralty, respectively, to waive the limitations of the normal warrant or order in council in exceptional cases; but this can only be done with treasury approval, and, under existing practice, subject to each case being reported to Parliament. The necessity for the power being only exercisable with treasury sanction is important, in that it protects the department against undue pressure being brought to bear on it, as might happen if the final word rested with it.

2 R.
1898, 8
R. 1912,
Ev. 2252

If a question as to the correct interpretation of the regulations arises and the Comptroller and Auditor General cannot agree with the department, reference should be made to the

¹ 'Allowances are issues in kind to individuals or corps, or money payments in lieu.'

Treasury as the department responsible for approving regulations. The decision given, however, can only be based on a natural interpretation of the warrant, and neither the Treasury nor the department has power to strain the words of statutes, warrants, or regulations, in order to meet exceptional cases. The power of interpretation cannot be unlimited, and whenever a discretionary interpretation becomes necessary, that interpretation should not be opposed to, but in harmony with, the natural meaning, intention, and purpose of the warrant. If special cases arise which cannot be brought under a warrant in its natural sense, they must be submitted to the Treasury for consideration. If any ambiguity exists, it is better to remove it by a specific amendment of the warrant, rather than to put a strained interpretation on it. If an error is made in a royal warrant, a somewhat different consideration is involved. If the error is admitted, even though the wording as it stands is clear, and no question of ambiguity arises, the department should not act on it without reference to the Treasury. 'A claim based on an acknowledged error in a royal warrant ought not to be dealt with as a matter of indefeasible right, upon which the Secretary of State can exercise no discretion.'

Cp. 4 R.
1889, 5,
& T.M.;
3 R.
1891, 9,
& 4 R.
1902, 14
2 R.
1884, 141

Cp. 2 R.
1892, 32

2 R.
1886, 68,
R.
1887, 92

3 R.
1891, 8,
& T.M.

In dealing with cases which arise in the army and navy, the dispensing warrant and dispensing order in council give the Treasury the requisite power which obviates any undue stretching of meanings; but, in the case of civil departments, no such power exists, and it has been recommended that some statutory provision should be made to enable the Treasury to deal with special cases according to what may be the real facts of a case rather than to strain the words of existing statutes to cover it. Under present circumstances such cases can only be dealt with by a direct application to Parliament. The Treasury is neither above the law, nor has it the power to overrule royal warrants or orders in council except by amending warrants or orders. In dealing, however, with warrants or rules drawn by itself under statutory powers, it may be considered to have a certain discretionary power of temporary variation, though the Public Accounts Committee is doubtful as to the advisability even of this. 'It is difficult,' it says, 'to see the use of rules, if they are so set aside when

4 R.
1899, 15

Cp. 3 R.
1891, 9

4 R.
1894, 4

3 R.
1896, 7

H.C. 13, 1911, P. 137 occasion arises for their application.' The Treasury cannot authorise an illegal payment, and even if it gives authority for such a payment to be included in the account on the grounds that there were extenuating circumstances, such as a misunderstanding of the regulations, such authority cannot make the payment regular, and it should be noted in the appropriation account for the information and covering approval of Parliament. If treasury authority has not been given, the charge must be disallowed. While then, on the one hand, there is no payment which an accountant would not be entitled to make, so far as his personal liability is concerned, if only he has a proper administrative authority for making it; yet a payment so made and charged against a vote which was not intended to provide for it, would be unsupported by parliamentary authority, and would be liable to be disallowed. Every payment taken credit for in the appropriation account of a vote requires to be supported by both an administrative and parliamentary authority. The responsibility of charging to the vote a payment which is not supported by the former attaches to the accountant—for one not supported by the latter, though administratively sanctioned, to the authorising department.

Payments in excess of statutory rates are illegal and cannot properly be made. Questions are apt, however, to occasionally arise as to the extent to which statutory rates may be modified by the insertion of different rates in the estimates supported by the Appropriation Act. It is undoubtedly within the competence of Parliament to override the provisions of an existing statute by a further enactment which, without specifically referring to that statute, may thereby modify or cancel its provisions temporarily or permanently. The usual practice in such cases, however, is for Parliament to specifically cancel its earlier enactment, or such portion of it as requires amendment, though, if the alteration is merely temporary this procedure is not practicable. It had previously been considered by the Public Accounts Committee and the Treasury that the distinct terms of an existing statute could not be properly overridden by an Appropriation Act, and that if a particular case demanded exceptional treatment, the first opportunity should be taken of obtaining from Parliament an alteration of the law. So, too, in the case of rates of pay governed by royal warrant. 'Where the pro-

Cp. 2 R.
1883, 30

1 R.
1875, 75,
& T.M.

2 R.
1885, 42,
65, &
T.M.

Cp. 1 R.
1878, 14,
T.M.,
& 1 R.
1889, 2

visions of a royal warrant are found inconvenient for the administration of the department, steps should be taken to procure the necessary alteration in the terms of the warrant, if the practice of the department cannot be made to conform to them, so as to avoid undue straining of the discretionary power of the 'Secretary of State or other authorities.' At the same time, any such alterations should only be made in good faith with the definite object of enabling the department to discharge its duty the more efficiently. 'They should never be made for the purpose only of making an expenditure regular, which had been objected to by the Comptroller and Auditor General.' This view, that the provisions of an Appropriation Act could not legally override an existing statute, was, however, subsequently reversed, but at the same time it was agreed that 'it is desirable in the interests of financial regularity and constitutional consistency that such a procedure should be resorted to as rarely as possible, and only to meet a temporary emergency.' It must, in such cases, be made clear that Parliament intends so to act and is not led to act in ignorance of the effect of what it is doing; 'the fact that a proposed vote overrides an existing statute should be clearly stated on the face of the estimate, with the reasons for adopting that course, so that no doubt can exist of the deliberate intention of Parliament. The exceptional nature of the vote should be indicated in the Appropriation Act.'

Proposed rates of pay and allowances, when approved by the Treasury, must not come into force, except in cases of emergency, until included in a warrant which has received the royal sign manual; and, moreover, retrospective effect cannot be given to a treasury warrant. When, therefore, it is necessary to provide for temporary and unforeseen requirements, it is desirable to correct any unavoidable irregularity with as little delay as possible by means of an amending warrant, or in the case of the army and navy by the exercise of the dispensing warrant or order in council. Such cases are, of course, on a different footing from those which are covered by a discretionary power specially vested in the Treasury by act of Parliament.

The control of the Treasury over proposals for establishments has been previously mentioned. When they have once been fixed and included in the estimates, any unavoidable

R. 1886,
66, T.M.
Cp. R.
1887, 69,
T.M.

2 R.
1886, 35
1 R.
1908, 11
Cp. 4 R.
1892, 28
-30

Cp. 2 R.
1888, 61;
& 2 R.
1883, 29
1 R.
1908, 11
Cp. C. S.
Est.,
1916/17,
cl. II.,

Vote 25,
foot-note
R. 1877,
101-102;
R. 1887,
72

Cp. R.
1887, 78,
T.M.

additions or unforeseen appointments must be explained to the Treasury even though the expenditure involved causes no excess on the vote, and, similarly, all new civil situations must be submitted to the Treasury if they carry rights to pension under the Superannuation Act.

22 Vic.
c. 26

When dealing with the question of control over the estimates, it was pointed out that the Treasury frequently requires a department to open special auxiliary ledger accounts for definite services, and will not allow an excess to be incurred thereon without its sanction. Such limitations of a department's power are imposed at the discretion of the Treasury itself. In certain cases, however, in connection with works, treasury sanction is a necessity. Any work of an urgent nature, not provided for in the estimates, of which the estimated cost is over £2,000, requires treasury sanction; but, generally speaking, no new work of any magnitude can be commenced without the previous sanction of Parliament. If provision has been made in the estimates, however, the Treasury may, in anticipation of these being passed, sanction the commencement of the work without waiting for the vote for the year which will carry with it parliamentary sanction. An anticipatory sanction of this nature is frequently necessitated by the postponement of the taking of the works vote in Parliament. Since the effect of this is that important services may have to be commenced in anticipation of parliamentary authority, the practice is objectionable in principle, and the Public Accounts Committee in 1912 drew special attention to the point, regretting that the correct procedure, under which this vote should be taken, if not with vote 1 before the commencement of the new financial year, at any rate quite early in it, was not being observed. It accordingly recommended that that course should be strictly adhered to for the future.

Cp. 3 R.
1888, 26

C.N.E.,
App. 3
(c)

3 R.
1912, 22

All new works of importance started during the year should, if possible, be brought forward in a supplementary estimate with a view to bringing them to the notice of Parliament at the earliest opportunity. In any case, whether a supplementary estimate is presented or not, treasury sanction must be obtained to the opening of a new sub-head or item, and the responsibility rests with the Treasury of deciding whether permission shall be given to open such sub-head or item in the absence of parliamentary authority, and further,

R. 1911,
Ev. 2005
-2008

of deciding whether the matter is of sufficient importance to be at once brought to the notice of Parliament in a supplementary estimate either before or after the work is commenced.

Treasury sanction must always be obtained for purchases of land or premises worth £1,000; for sales or exchanges of land worth £5,000; for all contributions by way of grants in aid to public bodies; for all administrative services executed jointly with the colonies and other cognate or unusual services, and even for incidental expenditure when considerable in amount or special in nature. Again, treasury sanction is required for certain administrative acts, such as the writing off of losses; abandonment of claims; deficiencies and over-issues in certain cases; royalties and rewards to inventors; gifts of public property to colonial governments, public bodies, and individuals; granting an increased price to a contractor under a formal contract; payment of compensation to a contractor for departure from the terms of the contract; and abandonment of claims against contractors in certain cases. The underlying idea in requiring such cases to be submitted to the Treasury is not only to control the department, but also to secure an impartial tribunal which will examine their merits from an extra-departmental point of view. Apart from cases in which treasury control is determined by statute, royal warrant; or order in council, it is otherwise almost invariably exercised at the expressed wish of the House of Commons, as voiced by the Public Accounts Committee at different times, the majority of instances having arisen in the distant past.

But, again, while the sanction of the Treasury is obligatory in many classes of expenditure and is not essential in others, cases are likely to arise in which there may be a doubt as to the powers of the accounting department, or in which the circumstances may be so exceptional as to render reference to the Treasury advisable. Even, therefore, when a department may be of opinion that it has the power to take independent action, it may still consider it safer to obtain the concurrence of the Treasury. Having done so, it will be in a stronger position to justify and defend its action before the Public Accounts Committee. This course is specially recommended by the Public Accounts Committee when a question of the interpretation of a royal warrant arises. Though the committee

R. 1887,
28, T.M.

C.N.E.
App. 3 (c)

Cp.
W.O.
Org,
R., 38
& 41

Idem,
Ev. 3098
-3100

Cp. R.
1882, 91,
& 2 R.
1886, 1,
T.M.

4 R.
1889, 5

recognises the importance of maintaining the Secretary of State's interpretation as final, subject to certain limitations, it at the same time trusts that he will not give his formal decision on the doubtful or disputed meaning of a royal warrant until the Treasury has been afforded the opportunity of stating its views in all cases of financial importance, or where a material increase of expenditure would result from the proposed interpretation. In all such cases it is very expedient that the Treasury should be consulted. Though this recommendation is not intended to apply to trifling questions of interpretation, on which the Secretary of State may properly give a formal decision forthwith, yet it must not be lost sight of that a question, which at first sight appears trivial, may become serious if it gives rise to controversy between the department and the Comptroller and Auditor General, or which may be found to involve an important principle as its bearings become more fully known. If such occasions arise, the question should properly be referred to the Treasury.

Idem,
T.M.

Cp. 2 R.
1898, 8

Contracts

Mention has been made above of the necessity of treasury sanction in relation to special payments in connection with contracts. The making of a contract is an administrative act for which the department concerned, if not a department subordinate to the Treasury, is solely responsible. 'The responsibility of entering into contracts for the performance of any work or service, the undertaking of which has been or may afterwards be authorised by Parliament, properly rests upon the executive alone. But it is equally clear that the government has no constitutional authority to make a contract which shall be binding on the House of Commons, by whom the necessary funds for carrying on the contract must be supplied.' Except in special cases the House of Commons, having approved the service, leaves the final approval of all contracts entirely to the executive, and does not require that they shall be submitted to the House for sanction before they are entered into. So far as the Treasury is concerned, if the conditions of the contract are observed, all payments made under and in accordance with it are in order. But when once

Todd,
Parl.
Gov.,
ii. 179-
180

Cp.
Hans.,
3 s. clvii.
1412, &
clxxxix.
702

the contract is made, any variations from its terms, such for example as the waiving of prescribed tests, or any special payments made by way of forfeit or compensation in respect of it, must be reported and treasury sanction obtained. ' If a department contracts, on behalf of the public, to pay a certain sum for goods, on proof of their bearing successfully specified tests of excellence, and subsequently waives those tests, and pays the money without them or any other equivalent to them, the contract is departed from, the protection it was meant to secure to the public is abandoned, and the public may not get the precise return for its money which the contract entitled it to receive. It is this risk of public loss, where the amount involved is considerable, that calls for the intervention of the Treasury, for it is important that under such circumstances the responsibility should be assumed by an outside impartial tribunal.

R. 1912,
Ev. 3245
-6

2 R.
1892, 5,
App. to
T.M.,

W.O.
Org.
Ev. 3133
et seq.

To this rule, however, there is one exception. If a contract provides for the appointment of an arbitrator, and such arbitrator makes a legal award of compensation to a contractor, no question of treasury sanction arises, the payment of the compensation being in effect made under the conditions of the contract, and not as an act of grace. Otherwise, however small the amount, any payment made to a contractor outside the terms of a contract must receive treasury authority, and be noted in the account for the information of Parliament. Even if an extra payment is made as a concession by way of making an equitable correction of a *bonâ fide* mistake in tendering, treasury authority must be obtained. The department has no unfettered discretion in this respect. The treasury rule is to the effect that every case in which it is proposed to make a payment, as an act of grace, in excess of contract rates, is to be submitted for approval. This would only be given in very exceptional circumstances when it involves an interference with the express terms of a bargain, and the Public Accounts Committee demands that deviations from the terms of contracts in favour of the contractors should be jealously scrutinised. A department having made a definite contract is in duty bound to see that the terms are complied with. It has no power to waive any of the terms formally or informally without treasury sanction. Cases may arise in which it may be proper and

1 R.
1906, 13
1 R.
1907, 22

R. 1910,
Ev. 885

4 R.
1897, 2

2 R.
1901, 6,
& T.M.

R. 1905,
App. 16

even necessary to depart from the customary forms of tender and contracts, but in such cases the contracts should embody the terms actually agreed upon, and not embody stipulations which the department has no intention of enforcing, still less terms and conditions which the department or its agent may, by antecedent negotiation, have nullified any authority to enforce.

Expenditure incurred for extensions of works contracts and extras is on a different footing, in that the payments are not on account of the work originally contracted for but are usually made under further contracts. Normally, therefore, treasury sanction would not be required; and no question would arise as to its being necessary if the extensions were put out to open tender. From the nature of the case this is not generally practicable, as it may be expedient and more economical to give the work to the contractor already on the ground.

Cp. 1 R.
1906, 8,
& T.M.

4 R.
1909, 1

R. 1909,
App. 8

5 R.
1909, 17

2 R.
1910, 20,
T.M.

This is especially so in the case of extras which it would not be practicable to hand over to anybody other than the contractor who is carrying out the main work. Recognising this the Treasury and the Public Accounts Committee agree that the War Office and the Admiralty should be given the necessary power to deal with such cases even though tender is not resorted to. In the case of the Admiralty certain conditions must be fulfilled, while in the case of the War Office the written authority of the Secretary of State, or of the Financial Secretary, according to the amount involved, is accepted as sufficient. If these conditions are fulfilled reference would only have to be made to the Treasury in exceptional cases. The payment for extras requires to be carefully safeguarded since they are departures from the original contract, though technically not classed as transactions outside the terms of the contract which require treasury approval. They are in effect separate transactions supplemental to the original contract. Payment is made for the work done on agreed terms, and must be distinguished from payments made as compensation to the contractor for loss owing to departures from the original contract, which would require treasury sanction. Such extras must, however, almost inevitably affect the work on the original contract, and it is therefore desirable that they should be restricted, as far as the interests of the public service will permit. If departures are admitted, contract penalties cannot readily be enforced; and

the advantages of competitive tender are lost—in the case of services classed as extras—by the general necessity for accepting the contractor's own terms for the uncovenanted work.'

1 R.
1906, 8,
T.M.

The importance of bringing all exceptional payments clearly to the notice of Parliament has been frequently emphasised. The method by which this should be carried out is dealt with elsewhere.

There remains for consideration the question of the extent of the treasury functions in relation to the administrative act of making an original contract. There is a very important difference between the question of the effect of a contract when made and the question of the process by which it is made by the administrative officer. The province of the process of making contracts is not subject matter for fixed rules, but for the exercise of a very real and lively discretion on the part of the officer who makes them. The directors of contracts in the various departments should therefore have just as much freedom from precedent as a business man has in making his own contracts. Complete and undivided responsibility of the administering department, to be answered for in the last resort by ministers in Parliament, is the only real safeguard for a proper administration. Such responsibility would be weakened if the department were permitted in any way to shelter itself behind the Treasury. In practice, almost all big contracts of the civil departments come before the Treasury, although they may be within the amounts of the estimates which have been voted; but those of the army and navy are so numerous that the Treasury cannot undertake to supervise them, after the department has made them, with a view to offering criticism or suggestions for the future. The big contracts made by the Office of Works especially come directly before the Treasury, since that office is a subordinate department of the Treasury and its building experts are directly under treasury control, and similarly every stationery office contract requires treasury approval.

R. 1912,
Ev. 2671

5 R.
1909, 17

C.N.E.,
Ev. 1411
-26

Idem.
Ev. 1441
-3

The fundamental rules in making public contracts are that each should be put out to competitive tender, open or limited, and that the lowest should be accepted. There may, however, often be reasons for not following these rules, and it has been argued that if the non-observance of one or the other is found to be necessary, treasury authority should be obtained;

4 R.
1909, 1
Cp. 4 R.
1889, 51
2 R.
1893, 4

and the Public Accounts Committee has on more than one occasion in the past expressed strong opinions on the advisability of the Treasury being consulted before contracts are entered into without competitive tenders. Such a procedure would, however, interfere with the responsibility of the department, which must be better informed of the necessities of the case and the moment than the Treasury. The safeguarding of the public against waste and extravagance is equally effected by the knowledge that a divergence from one of the fundamental rules may have to be justified to the Public Accounts Committee on the Comptroller and Auditor General's report. In the case of the Admiralty, it is true that certain general rules have been laid down, but in the case of the War Office, the Treasury is never consulted; the only restriction being that the written authority of the Secretary of State must be given if a new order of £10,000 or an extension of £5,000 is not put out to tender, and of the Financial Secretary for an order of £200 in either case. This procedure ensures that personal responsibility which is necessary in any case in which a departure from the accepted normal course of competition is authorised.

Even, however, though treasury authority may not be necessary for any step taken in the making of a contract, that department being responsible for the soundness of systems must give its sanction to the rules which a department may lay down for its own guidance. As the department responsible to the House for financial regularity, it must watch and approve the system.

Cash Losses and Abandonment of Claims

The powers and status of the Treasury in relation to the writing off of losses, the abandonment of claims, and the remission of loans, are of importance, in view not only of the unnecessary burden which is thrown upon the public purse, but also of the questions of principle and system involved.

The waiving of any claim for money due to the state, or the writing off of a loss, directly or indirectly affects the public purse; for, if realised or recovered, the exchequer is benefited to that extent, the balance to be surrendered by the department at the end of the year being increased *pro tanto*. Although

3 R.
1906, 19
1 R.
1907, 10
& 14
3 R.
1908, 2
N. Est.
Com.,
Ev. 6570
et seq.

R. 1909,
App. 8.

2 R.
1910, 20,
& Ev.
690

5 R.
1909, 17

2 R.
1910,
20 T.M.
C.N.E.,
Ev. 592

the parliamentary grant is not affected, but solely exchequer issues, the supreme control of Parliament over finance implies its control over reduction of revenue equally with its control over expenditure. But as it is impossible, as well as inexpedient, for it to exercise direct control over all the details of expenditure, so it is equally impossible for it to control the details of loss of revenue. Some dispensing power must necessarily be held by the Treasury for waiving claims : not only on grounds of personal hardship, but also in cases in which ' the difficulty and disadvantages in pressing claims outweigh the loss which would accrue to the public by the abandonment.' But however strong a case there may be for the waiving of a claim, or of a class of claims, it is most important, as a salutary check on departmental financial arrangements, that the power of compelling payment should exist and be exercised when necessary, and equally so that this power should be vested in the Treasury, except where it is delegated to the department.

R. 1882,
35

2 R.
1884, 48

No general power has been conferred on the Treasury to remit duties that are imposed by statute ; but that department has claimed that it possesses the power of sanctioning, in the absence of express statutory prohibition, the abandonment of any claim due for payment to the exchequer. Such a claim, however, based on usage rather than expressed authority, must have limitations if parliamentary control is to be supreme. It is admitted that any abandonment of a claim due to the public, which involves an important principle or an amount of magnitude, may properly be made the subject of ratification by Parliament ; but, on the other hand, to require a similar ratification to every small remission of no significance in principle or amount would be inexpedient, if not impossible. Some latitude must be left to the Treasury, both in the interests of smooth administrative working and also to relieve Parliament of small and unimportant matters. Parliamentary control is, moreover, fully safeguarded by the fact that all cases are brought to the notice of the Comptroller and Auditor General, who would report upon any case in which he considered that the Treasury had exercised its discretion in a questionable or improper manner. The ability of the Treasury to exercise its powers depends on information being supplied to it. This is especially important in the cases of abandonment of claims

4 R.
1894, 20

3 R.
1883, 4

Idem,
T.M.

Cp. 2 R.
1909, 17

which involve no book-keeping entry and which, if not recorded by a note in the appropriation account, are liable to be kept from the notice of the Treasury and Parliament altogether. It is therefore incumbent upon a department to bring to the special notice of the Treasury every case in which it is proposed to relinquish a claim to sums due to the public.

1 R.
1871, 2,
T.M.

In the case of loans, the Treasury has no power of remission since it is provided by act of Parliament (38 & 39 Vict. c. 89, § 33) that 'every sum payable in respect of a loan . . . shall be compounded for or released only under the authority of Parliament in each case.'

2 R.
1897,
11-19,
T.M.
Cp. R.
Sess. 2,
1880, 80

The recovery of fines, liquidated damages, or overpayments, may, however, be waived by the Treasury, or, within limits, by a department with treasury sanction, or by the department without treasury authority if the power of waiver is vested in the department by the express terms of a contract, subject to the fact being noted in the appropriation account. Such authority is, however, not necessarily final, as it is still open to the Comptroller and Auditor General to report any payment involved as not properly chargeable against the grant, and non-recoveries according to their circumstances. But though the Public Accounts Committee has the power to report finally to Parliament in favour of disallowance, the circumstances under which such action would be taken would be most exceptional, and, in view of the difficulty of enforcing a disallowance against any responsible person, after the Treasury had expressed a considered opinion relieving him of liability, would be such that the committee would usually content itself with an expression of disapproval if of opinion that the circumstances did not justify the action taken.

1 R.
1904, 5,
T.M.
Cp. R.
1910,
Ev. 365-
7

Similarly, in the case of the abandonment of claims on account of revenue made in favour of individuals from motives of equity or from compassion, a dispensing power is essential to enable more prompt action to be taken, and from the nature of such cases the authority for the waiver must be in effect final, subject only to censure, but rarely to reversal, if improperly exercised. When, however, a remission in these cases is founded on a fixed principle of general application affecting classes, the effect may be far reaching, but the need

2 R.
1897, 11,
T.M.

for immediate individual action is absent. Such cases should, therefore, whenever possible, be made the subject of specific legislative enactment, and be excluded from the dispensing power of the Treasury.

2 R.
1909, 17
2 R.
1913, 8

Losses of cash may be placed in the same category as overpayments, so far as the authority for writing off is concerned, though the consideration of the justification for a write-off is dependent on different considerations and causes, and is more akin to that necessary in the case of stores. Treasury authority must be obtained—except in so far as it has been delegated to departments—and such authority is in effect final, though, as in other instances of treasury action, subject to the report of the Comptroller and Auditor General and the criticism of the Public Accounts Committee.

2 R.
1884, 29,
T.M.

A somewhat different class of cases in which the public suffers loss is that of fruitless or nugatory payments. 'A nugatory payment is one involving an immediate or formal loss—that is, the payment of money in return for which no service is rendered. It does not include constructive loss—that is, cases where due service is rendered in return for the payment, although, owing to a change of policy, error of judgment, or otherwise, the service rendered does not have the utility intended.' Thus a payment for stores not delivered, owing to the cancellation of the contract, would be a nugatory payment; but a payment for stores delivered, but useless owing to a change of pattern having been decided on, would be a loss, but not nugatory. Constructive losses of this nature do not require to be written off as such. The expenditure is a legitimate charge to the vote. 'The policy under which the money has been expended in accordance with the decision of Parliament is not subject to review as a matter of account; and, as a general rule, the account records of the department do not furnish such information as would enable a correct judgment to be formed upon the economic results of that policy.' Parliament, however, has the right to be informed as far as possible of any financial loss resulting from a change of policy, and the Comptroller and Auditor General would be justified in bringing to notice any case he was aware of, even though the account were in order.

King's
Regns.
for the
Army,
1914,
App.
xxii.

5 R.
1909, 19

Cp. 2 R.
1907, 40

Mention should be made of a class of losses written off

59 & 60
Vict.
c. 42
50 & 51
Vict.
c. 16
R. 1910,
Ev. 2660
-3

directly by Parliament without any intervention on the part of the Treasury. The public works and local loans funds, as created by acts of Parliament, are administered by the Public Works Loan Commissioners, who have statutory authority to make loans at their discretion. When losses occur, they are written off from the assets of the funds in the annual Public Loans Bill, and the loss to the fund is made good by a parliamentary vote. It is only on the taking of this vote that the action of the commissioners can be questioned. Neither the Treasury nor the Comptroller and Auditor General can check their discretion or question the grounds on which the loans were made or the adequacy of the security. Since this is so, it would obviously be valueless to require treasury sanction to the write-off.

Control over and Losses of Stores

Before concluding the consideration of the functions of the Treasury, reference should be made to its control in the case of stores—that is to say, to the control subsequent to approval for purchase as conveyed by the approval of the estimates, except when its authority is necessary as to the method of tender, and as to varying the conditions of contracts after acceptance. Over the purchase itself the Treasury has no control, as that is an administrative act, though, as pointed out previously, cases of questionable or extravagant administration are liable to be reported by the Comptroller and Auditor General. Over the custody of the stores by the department, treasury control is limited to general approval of the system under which it is carried out. The expense of the stores, again, is a matter of administration, in which the Treasury has generally no voice, provided it is in accordance with the programme of the year, though undue depletions of stocks would require explanation if there were a possibility of the money provided by Parliament for replenishment being utilised on other services. The test audit of store accounts established in 1886 has, however, gradually brought these accounts under more direct treasury control. The activities of the Treasury in this connection are mainly directed to losses of stores, and to their disposal otherwise than contemplated by Parliament. Stores are

2 R.
1895, 69,
T.M.

really cash in another form, and, subject to certain natural modifications, it is but reasonable from the public and parliamentary point of view that they should be treated on the same principles. Parliament in granting the money to purchase stores, does so on the understanding that the stores shall be used for the purposes for which they are intended when the grant is asked for. Any other application of them is as much a misappropriation as if the grant itself were applied to another purpose than the purchase of stores. The constitutional principle of parliamentary control over expenditure is equally applicable to gifts in the name of, or on behalf of, the Crown, whether of stores or money, and public departments are not at liberty to give away stores without the sanction of Parliament, prior or subsequent. So long ago as 1871, it was pointed out that the rule that no public property should be disposed of in kind had been one of the most difficult achievements of financial reform to secure. The most usual justifiable misappropriation of stores, in the technical sense, is that in which free issues are made for charitable purposes. Treasury approval is necessary for such gifts, and the power to authorise them is claimed as a prescriptive right, whatever the amount, Parliament being informed by a note in the appropriation account under the vote which bore the original cost. This claim is, however, disputed by the Public Accounts Committee, which says that, 'strictly speaking, no such power exists, . . . all that the Treasury really does—by giving a covering sanction to such a misappropriation, and directing its record on the face of the appropriation account—is to signify that the circumstances were such as, in their opinion, Parliament would probably hold to justify the act.' If the question of urgency does not arise, prior treasury sanction should be obtained; but these cases usually occur as matters of emergency—such as the grant of relief to sufferers by an earthquake abroad, when immediate action is necessary.

It is agreed that it is impracticable to forbid gifts of this kind wholly, and if the occasion for an issue does arise, it is further agreed that the assistance given should be in the shape of avowed and absolute donations. Religious or charitable societies should not be assisted by issues of public stores on credit. In every case, however, it is imperative upon the

Todd,
Parl.
Gov.,
ii. 198

2 R.
1894. 10

4 R.
1894. 55

Idem, 57

2 R.
1879, 62,
T.M.

2 R.
1894, 10

departments, whose officers have taken upon themselves the responsibility, to report them to the Treasury. If this is not done, and there is a failure to make the necessary note on the appropriation account, it may happen that the transaction, possibly involving stores of considerable value, may not be brought to the notice of Parliament at all, since the Comptroller and Auditor General's audit of the store accounts is a test examination of a very limited character.

Idem

Idem,
T.M.

If the stores do not require replacement no money need be voted, and the note is made, as stated, in the appropriation account of the department which was primarily responsible for the gift. If, however, the stores require to be replaced, a parliamentary vote becomes necessary if no savings are available to meet the charge. The value may be advanced by the Treasury from the civil contingencies fund to replace stores given by a civil department, in which case the vote comes before Parliament when that fund has to be replenished—usually in the following year. If this is not done, a supplementary estimate is necessary. If the stores are issued from naval or military stocks the Public Accounts Committee considers that, as the service is really a civil service, the replacement, if necessary, should be made from civil votes. The Treasury, however, demurs to such a course on the ground that the effect would be to withdraw the record from the appropriation account of the responsible department. If, therefore, replacement is necessary when the gift was made from army or navy stores, an army or navy supplementary estimate would be necessary if replenishment could not be carried out without exceeding the total grant, with or without the exercise of the powers of virement. If the Public Accounts Committee were to press its view that the charge should be met by a civil vote, it would either be necessary to do so from savings or to present a supplementary estimate for the civil vote, as an advance could not be made properly from the civil contingencies fund, which is limited to purely civil purposes.¹

C.P.M.
1856,
App. i.,
p. 557

¹ A case occurred in 1856 in which the Treasury refused to exercise its powers of virement for the purpose of allowing the Admiralty to pay for a new service not estimated for, and directed that it should be placed on the following year's estimates, while a loan of £10,000 was made from the civil contingencies fund to enable the Admiralty to meet its liability under the contract which had been made. Such a use of the fund would, however, hardly be permitted nowadays.

Losses, whether of cash or stores, may be considered as being due to one or other of the following heads :—

1. Fraud within the department, either alone or in collusion with external accomplices. Incendiarism.

2. Culpable negligence within the department, enabling a fraud to be perpetrated from outside.

3. Defects in the system, errors in accounting or inexplicable mistakes, for which no one can be held or proved to be culpable, but which have enabled a fraud to be perpetrated.

4. The same causes leading to an unexplained loss, which may or may not have been the result of fraud.

5. Negligence, in varying degrees, in accounting, or failure to comply with regulations, resulting in overpayments or over issues into which no question of fraud enters.

6. Accidents for which no individual can be held directly responsible but which may be due to lack of proper precautions, bad organisation or similar causes.

7. Natural causes such as fire, dry-rot, and the act of God.

8. Deliberate destruction :

(a) on sanitary grounds.

(b) for military reasons.

As regards losses of stores, the general rule is that treasury authority is required in all cases to write them off. The circumstances under which and the extent to which the public purse may suffer through the loss of stores vary greatly, and it is therefore but natural that relaxations in the general rule should be permitted. It would obviously be of little effect to require that treasury authority should be obtained to write off the value of stores lost by an accident for which no one was culpable, however great the loss ; while on the other hand, the necessity of reporting to the Treasury all losses by fraud ensures that external control which the Treasury, as the department responsible for financial order and systems, has the right to exercise. In the former case, equally with the latter, however, Parliament must be informed of the loss by a note on the account ; for, whether it is due to avoidable or unavoidable causes, the public is out of pocket to that amount.

In the case of the civil votes, the Treasury exercises a much closer control than in the case of army and navy votes, and requires that its authority should be obtained for all but

2 R.
1895, 69,
T.M.

2 R.
1883, 111

minor losses involving no fraud, or those due to uncontrollable accident as mentioned below. The loss of naval and military stores inevitably takes place on a larger scale, owing to the conditions of service, and the latitude allowed varies in proportion to the degree of culpability of the department and its servants. The present system of dealing with such losses is mainly based on the recommendations made by an inter-departmental committee in 1896, accepted with modifications by the Treasury. The first principle agreed upon is that all cases of loss by fraud should be reported to the Treasury. This rule was, however, slightly modified in 1907 by the delegation to the War Office and Admiralty of the power to write off losses by petty theft up to £5. The fact that it is not possible to fix responsibility for the loss on any individual or that a fraud is only assumed but not proved, does not relieve the department of its responsibility for reporting to the Treasury. If a loss occurs or stores disappear from some unexplained cause, there must be responsibility somewhere, if not directly traceable to an individual, then presumably to faults in the system. In every case of loss or deficiency of stores, the responsibility of the officer in charge of the stores is involved. Such cases are clearly in a different category from losses occurring from natural causes, for which no one can be blamed. 'The fact that after full inquiry no one can be held *culpably* responsible, is a reason for the Treasury's consenting to the write-off, not for omitting to submit the case to the Treasury.' Not only, therefore, should all cases be reported to the Treasury in which fraud may be presumed, either within or without the department, but all those cases in which the loss cannot be explained and it is doubtful whether any one has benefited by it.

Losses due to uncontrollable accident need not be reported to the Treasury, whatever the amount, but are brought to the notice of Parliament in the store accounts. When such a loss affecting the army or navy exceeds £1,000, the department is further required to note it in the appropriation account. Other losses need only be reported to the Treasury if over £100 in value net, but all cases of loss over £20 must be reported in detail in the accounts. But though losses of between £20 and £100 are not reported as they occur to the Treasury, they are in effect submitted to that department because the appro-

2 R.
1898,
App.,
p. 163
H.C.
38/1908
P. 150;
51/1908
P. 214
4 R.
1892, 63

2 R.
1895, 69,
T.M.
4 R.
1892, 63,
T.M.

3 R.
1903, 14

priation accounts, with their schedules, have to be submitted to the Treasury before being sent to the Comptroller and Auditor General. The Treasury is then able to judge whether any of the cases set out are such as should have been submitted specially for authority to write off.

As regards the last heading mentioned above, namely cases of deliberate destruction, no treasury authority is required to the write-off, as (from the circumstances of the case) the matter must be one of policy, administration or military expediency. Except in the case of active service, where store accounting is not carried beyond the depots, all such cases would be brought to the notice of Parliament in the accounts, and the Public Accounts Committee would therefore have the opportunity of examining the causes. 2 R.
1908, 28

One further point remains to be mentioned in this connection. It frequently happens that a department, on discovering a deficiency of stores, at the same time finds that it has a surplus of other stores. Though there may be a distinct connection between the two discrepancies, owing possibly to errors of accounting, it is clear that there may equally be cases in which there is no such connection. 'For instance, the loss of a pair of trousers at the clothing factory would be in no way accounted for or extenuated by the discovery of a surplus wooden leg at Chelsea Hospital.' To allow a department to set off the value of all its surpluses against the gross value of its deficiencies, and to treat the net result only as a surplus or deficiency, would have the effect of hiding from Parliament many actual deficiencies, possibly involving large sums. Only particular circumstances can justify the setting off of a surplus against a deficiency. Sometimes it is evident that goods have been taken on charge, or issued, under a wrong denomination, and then, of course, the correlative errors are rightly held to cancel each other. But where no relation whatever can be established between the surplus and the deficiency, it is hardly justifiable to set off one against the other. The justification, therefore, for setting off surpluses against deficiencies rests upon the ability to prove correlation between the two, and the Public Accounts Committee expressed the opinion that, unless such correlation be clearly established, the one should not be set off against the other by the sole 2 R.
1895, 74.
T.M.

2 R.
1893, 30.
T.M.

2 R.
1895, 74

2 R.
1895,
71-74,
T.M.

2 R.
1898,
App.,
p. 163

Cp. 2 R.
1893, 30

authority of the Secretary of State. It is obvious that if a store-keeper erroneously charges himself with one description of stores instead of another, so that a single mistake causes a deficiency of one kind and a surplus of another, the community of cause creates a correlation which warrants the set-off of the surplus against the deficiency. In such cases it would be unreasonable, if not erroneous, to write off the deficiency as a loss and to take the surplus on as a gain. The principle involved has been accepted and is embodied in the final recommendation of the inter-departmental committee previously referred to, which lays down that 'surpluses may be set off against deficiencies of corresponding number and quantity in the case of stores described under the same generic headings in the army vocabulary or navy rate-book.' When such set-off are permissible, the submission to the Treasury would only refer to a net deficiency; but in all other cases the gross deficiency would have to be dealt with, reference being however made to the amount of surpluses discovered at the same time of stores of different categories.

CHAPTER V

THE ACCOUNTING DEPARTMENT

- I. THE MINISTER.
- II. THE ACCOUNTING OFFICER : Status—Personal Responsibility—Administration of Votes—General Functions—The Internal System as Affecting Responsibility.
- III. THE APPROPRIATION ACCOUNT : Date for Rendering the Account—Form of the Account—Account of Votes of Credit—Classification—Indelibility of Expenditure.
- IV. SUPPLEMENTARY INFORMATION APPENDED TO THE APPROPRIATION ACCOUNT : Notes—Statements and Papers—Correspondence.
- V. LOAN ACCOUNTS.
- VI. ORDNANCE FACTORIES ACCOUNTS.
- VII. ACTIVE SERVICE : Limitation of Power of Control—Safeguards against Waste—Other Sources of Danger—Political Considerations as Affecting War Preparations in Peace Time.

I. THE MINISTER

TRUE responsibility consists of two elements : power to act, and liability to be called to account.' This second element can only be effective if personal and individual. In fact no control of any description can be satisfactorily secured, unless the system involves a personal responsibility entailing personal liability. A department as a whole may be held generally responsible for sins of omission or commission, but censure on a corporate body is in the main ineffective, unless that body is able in turn to fix personal responsibility on an individual. The liability to personal censure and personal penalties alone can act as a practical deterrent against abuse and irregularity.

In theory this may not appear to be the case when dealing with bodies subject to election, or those which are dependent for their existence on the confidence of their supporters. But here, too, though the acts of the body may be theoretically corporate, they are, generally speaking, taken on the initiative of one or more particular individual members, who are

Army
Fin.,
p. 68

Gov. of Eng., p. 135 responsible to that body, if not outside its circle. The accountability of ministers to Parliament, and through Parliament to the nation, is the theoretical basis of our modern English constitution. Constitutionally, the cabinet as a whole is responsible for the acts of each of its members; but in practice it is the minister himself who is attacked in Parliament. 'Notwithstanding the modern rule of parliamentary government, whereby responsibility is attached to the whole administration for the acts of the several members of which the same is composed, the ancient rule, that the constitution of this country always selects for responsibility the individual minister who does any particular act, continues to hold good.' 'The cabinet is collectively responsible for the acts of its members, but the minister is individually responsible for the business of his office.' In matters of policy deliberately adopted by the cabinet, a vote of censure carried against the government would usually entail the fall of the ministry as a whole, but other issues may be solved by the resignation of the minister more particularly concerned; and herein is seen the personal responsibility which in practice rests upon the representative of a department. Thus, while the House of Commons controls the general policy of the executive through its support of the government, it at the same time exercises a perhaps stronger control over each separate department by its power of criticism of the responsible minister for the acts of his department. The function of the House of Commons is 'to exert a watchful but general control over the executive government, with a view to prevent unnecessary outlay, and to check abuses in the public expenditure,' but to the minister properly belongs the responsibility of asking for the necessary supplies, and having obtained them, of enforcing the strictest economy in their use compatible with the efficiency of the service.

It follows, therefore, that on constitutional grounds the headship of a department must be a political appointment, thus ensuring that direct parliamentary control which is essential to secure the personal responsibility of the holder to Parliament. Dealing with this point in relation to the War Office and Admiralty, the Royal Commission on Civil Establishments said: 'It would be contrary to the spirit and principles of our constitution that the Secretary of State for War and the

Todd,
Parl.
Gov.,
ii. 113

Anson,
Con.,
i. 369,
&
ii. Pt. I.
p. xxxii.

Cp. Gov.
of Eng.,
pp. 143,
147*et seq.*

R.C. Civ.
Estab.,
I R. 12

First Lord of the Admiralty should be other than high parliamentary officers holding cabinet office, and owing their position to political and not merely to professional qualifications. It is no doubt necessary that the highest professional skill should be at the disposal of these responsible ministers to advise upon military and naval questions; but if such advice and its sufficient continuity is provided for, there is no insuperable difficulty in reconciling parliamentary headship and control with a completely adequate maintenance of the defensive forces of the country. The key of the whole position is to fix the points in both our administrative and executive system to which we should attach direct responsibility for expenditure; for while, on the one hand, it is most desirable to give an interest in economical management to as many as possible of the heads of the various departments, it is necessary at the same time to guard against divided responsibility, which is almost always accompanied by extravagance and waste.' The failure on the part of one of Gladstone's ministers to appreciate or act up to this personal responsibility was the cause of his removal from office, the prime minister observing that 'he does not seem very thoroughly to understand pecuniary responsibility and the management of estimates, and there is no doubt whatever that in his department the present House of Commons will be vigilant and exacting, while the rapid growth of expenditure certainly shows that it should be filled by some one capable of exercising control.'

The ministerial head of a department is the final arbiter within the department. He is responsible to Parliament alone for his actions. His business is not to work his department, but to see that it is properly worked. His function is to bring outside sense and outside animation to bear upon the inside working of his department, to combat the tendency to crystallisation of bureaucratic ideas and routine when they conduce to loss of efficiency. But he acts, too, as the protecting buffer between the natural criticism by Parliament of the executive and the permanent staff of the department, who cannot defend their actions personally in the House. For this reason the House of Commons should, as pointed out by Gladstone, be careful to avoid the cardinal error of treating the permanent servants of a public department as proper

Cp. Rep.
Gov.,
P. 245

Life of
Gladstone,
ii. 419

Cp. N.
Est.
Com.,
4R., p.iii.
Bagehot,
Eng.
Con.,
pp. 187,
200-201
Cp.
Anson,
Con.
ii. I. 219
Hans.,
3 s.
cxcvii.
1229

Parl.
Deb. 5 s.
xxii.
2129

objects of parliamentary censure. The minister 'is responsible for every detail to this House, for all his acts he is subject to interrogation, discussion and censure. It is his business to surround himself by the best expert advice which he can secure. It is his business to make himself thoroughly familiar with all the details of the vast administrative machine over which he has control, and it is his special province to hold firm the rudder of general policy placed in his hands by this House.'

Gov. of
Eng.,
p. 137

The above declaration must not, however, be taken to mean that he is to himself possess expert knowledge of all the details, but rather that he should secure such a general grasp of the administration that no detail which might be (or be likely to become) important could escape his notice, if his attention were needed. Precise and comprehensive knowledge of the details of his office is not what is required of him. 'It is for his official subordinates to supply him with the technical details, and generally to look to the business of the department. He brings to bear on it the cool matured judgment of a shrewd man of the world; he is able to vindicate and explain its doings in Parliament and generally to be responsible for it in the eyes of the great council of the nation.'

Bagehot,
Eng.
Con.,
p. 200

Cp.
C.N.E.,
Ev. 2406

As an extrinsic chief, he is in a position to guide and control his department on broad lines, unhampered by the narrow views and traditions which long contact with any single office is likely to engender. He is, however, but a bird of passage who, even during his term of office, cannot devote his whole time to the work of his department. It would not be possible, nor is it intended, that he should usurp the proper functions of the permanent heads of the department. He is a director, but not a managing director. He cannot compete with the experts—those whose lives are spent in the office. If he attempts to do so, to exercise his powers in technical matters in opposition to the experienced advice of his permanent staff—in a word, to rule where he should only control—the result will be disastrous.

This principle holds good as regards both the technical and the financial work of the department. In the region of finance, however, it is more especially conspicuous, since the constitutional question of parliamentary control over

expenditure is involved. Primarily in order to safeguard this control, and secondarily to relieve the minister of responsibility in accounting, which he cannot reasonably be expected to undertake, Parliament provides for the appointment of a special officer for accounting for parliamentary grants. In questions of finance dependent on policy, as well as in the exercise of statutory powers vested in him by Parliament, the responsibility of the minister as a member of the cabinet is unimpaired and he is necessarily subject to the control of the government as a whole; but in accounting his responsibility is strictly limited, except in so far as he accepts responsibility deliberately in special cases in virtue of his supreme power. 'The parliamentary chiefs are, of course, in the first instance, and generally, responsible to Parliament for the orderly administration of the departments entrusted to their charge. The service of the state, however, could not be carried on if they did not delegate considerable powers to their subordinates. Hence, in every large department, the permanent officers have, and must have, a large discretion in authorising expenditure, and means must be found for bringing home to them their individual responsibility for the rightful exercise of this power.' The head of a great spending department cannot for a moment undertake his immense responsibilities unless he has at his side a staff able to assure him that his financial directions and his financial policy are faithfully carried out and obeyed. Though the responsibility for administration falls ultimately on the ministerial head of the department, it would be, generally speaking, neither advisable nor practicable that the responsibility for accounting for the parliamentary grants should fall upon him. The temporary character of his tenure of office, and the burden of his parliamentary in addition to his strictly executive duties, unfit him for a real and satisfactory performance of the duties connected with the rendering of the appropriation account. The appending of his signature to the account rendered to Parliament could not involve that personal responsibility which Parliament is justified in demanding, and which provides a guarantee to Parliament of its substantial correctness. Nor would the desired object be obtained were he to countersign the account after it had been certified by one or more subordinate officials. On the other hand,

Hans.,
3 s.
ccxvii.
1268

R. 1877,
T.L.
13/3/77,
Epitome,
p. 69

R.C. Civ.
Estab.,
2 R. Ev.
10808

2 R.
1872, 50.
T.M. III.

responsibility for the proper conduct of financial business cannot be delegated to the subordinate officers who may be placed in charge of the departmental accounts. If the accounting responsibility is to be real, effective and practical, it must be placed not only upon a single officer, but upon one who 'occupies a sufficient standing to enable him not only to exercise a direct supervision and control over the persons executing the detailed business of accounts and book-keeping, but also to influence the working of his department in all those respects which affect the method of its receipt or expenditure. He should also be qualified to represent his department before the parliamentary Committee of Public Accounts.' This responsibility so placed upon an officer other than the minister is limited, however, to the accounting for the grants. It cannot be extended to the amount of the grants, which are matters of policy, for which the minister alone must be held responsible. Such responsibility he can neither delegate nor repudiate. This important maxim was clearly established in 1872 when the First Commissioner of Works attempted to disclaim responsibility for an estimate, on the grounds that he had been obliged by his office to present it to the House with amendments made by the Treasury. The nature and limits of ministerial responsibility were then authoritatively laid down by the Prime Minister of the day, and have not since been in dispute. It was not, said Gladstone, within the power of a minister representing a department to remove himself from responsibility for the public expenditure of that department by saying that it had been ordered by the Treasury. The control of the subordinate Treasury cannot be so exercised as to modify the policy of the government or of a minister as a member of the government. The Chancellor of the Exchequer alone can so act, and in cases of disagreement between him and the minister the cabinet is the final arbiter. If the minister is unable to accept responsibility for the decision of the latter, he has no option but to resign; but, if he is prepared to accept the decision, he must also accept the ministerial responsibility entailed in carrying out the policy, and defend in the House of Commons the estimates of his department prepared by and based on the experience of his financial advisers as being the necessary concomitants of that policy.

2 R.
1872, 50,
T.M. III.

May,
Con.
Hist.,
1912 ed.,
iii. 85

Hans.,
3 s.
ccxvii.
1266-8

II. THE ACCOUNTING OFFICER

Status

The Exchequer and Audit Act, which requires the departments concerned to prepare 'accounts of the appropriation of the several supply grants comprised in the Appropriation Act of each year,' imposes upon the Treasury the duty of deciding which officer of each department shall certify the account, and thereby accept the burden of responsibility for it. Influenced by the above-mentioned considerations the Treasury decided that, whenever practicable, the permanent head of the department should be nominated for this duty except in the case of the War Office and Admiralty which have finance branches of their own, not under the Treasury, in which case the duty is naturally imposed upon the permanent head of that branch—the chief financial officer—namely, the Assistant Financial Secretary of the War Office, and the Accountant General of the Admiralty. In the case of certain civil departments also—such as offices of secretaries of state or those presided over by a board—in place of the permanent head the salaried person holding the next highest position is appointed; while 'in those departments in which officers of high standing and performing duties of a strictly financial character are included,' such officers would be nominated.

These officials are, from their positions, able to certify the account with knowledge and to bear the responsibility which that certificate entails. Their functions would indeed be logically incomplete if they were not to be held responsible for the due discharge of financial as of other business transacted in their respective departments. On the other hand, the appointment of such public officers, mainly on account of their high and responsible position in their respective departments, to render and certify the appropriation accounts, cannot carry with it any obligation upon the officer so appointed to be answerable for the correctness of the book-keeping, so far as that involves knowledge of a technical character; in fact, any view of the functions of the accounting officer which makes

E. & A.
Act, § 22

2 R. 1872,
50, T.M.
Cp. R.C.
Civ.
Estab.,
2 R. Ev.
10807
R. 1874.
App. 1

2 R.
1872. 50.
T.M. II.

R.C. Civ. him a mere book-keeper is entirely wrong ; he is the permanent officer in whom finance centres, though this principle has never been fully developed in the case of the Admiralty. The officer is nominated for the purpose of answering to Parliament for the financial administration of the grant for the services under the control of his department, and as being primarily responsible for the balance in the custody of the department. He is not an accountant in the technical sense, and need possess no technical knowledge of book-keeping or accounts, in order to discharge himself of the responsibility which his signature implies. In order, therefore, to make clear this particular status, the official holding this position is designated the 'accounting officer.' Such a title denotes the relation in which he stands towards Parliament, and at the same time avoids ascribing to the position a technical character which it is not intended that it should possess. He is the officer, in the department which administers the service provided for by the vote, on whom the duty is imposed of rendering the appropriation account of that vote. The account must be signed by him, and he is responsible for seeing that the expenditure corresponds with the vote and is spent in proper fashion. For the amount of the vote which the department considers necessary, he is not, in his capacity as accounting officer, responsible ; for that responsibility rests with the minister, as previously stated. So far as his responsibility goes, it must be sole and undivided. It cannot be delegated. 'Responsibility is null when nobody knows who is responsible. Nor even when real, can it be divided without being weakened. To maintain it at its highest, there must be one person who receives the whole praise of what is well done, the whole blame of what is ill.'

Estab.,
1 R., 91,
& Ev.
10192-3,
10199

2 R.
1872, 50,
T.M. II.

C.N.E.,
Ev. 6

Idem,
Ev. 172

Rep.
Gov.,
p. 243

Personal Responsibility

Apart from technical questions, the personal responsibility of the accounting officer is a very real one and is a most important factor in the system of parliamentary control. It is, however, obvious that no single individual can be expected to have a personal knowledge of every financial transaction, or to give a personal decision in every case of doubt. He must be dependent in a large measure on his staff, and

the efficiency of the system in force. The scope of responsibility of accounting officers has been defined by the Treasury in the following words: 'It is incumbent upon them, before making or allowing payments, to satisfy themselves, by means of statements duly certified by the officers entrusted with the detailed duties of the account, as to the correctness and propriety of the transaction. If they can show that they have not acted except on such statements, that they have not failed in a due exercise of their own common sense and administrative experience, and that in any case of serious doubt or difficulty they have consulted the Treasury, they will be considered to have discharged themselves of their responsibility.'

2 R.
1872, 50,
T.M. II.

Cp. R.C.
Civ.
Estab.,
2 R. Ev.
10797-
801

It would be unreasonable to attach responsibility where there is no real power of control. 'You do not increase the responsibility of men by simply enlarging the range of their duties. Rather do you increase their responsibility by reducing the range.' Whatever control the accounting officer may and should have over the system generally, he cannot personally control the detailed execution of that system. It is true, and must remain true, that, in the main, accounting of all kinds must be based upon the certificates of officers who are actually in touch with the facts. The accounting officer is obliged to certify the account which he sends on to the House of Commons without any personal knowledge of the majority of the facts, and therefore he must rely upon the certificates of those officers who do know and are in a position to certify to the facts. If he acts in good faith and an irrecoverable overpayment results, the Treasury would be justified in sanctioning the charge against moneys provided by Parliament, subject to review by the Public Accounts Committee. Even if an irregularity occurs as the result of a serious error of judgment on his part, provided there is no suggestion of *mala fides*, the tendency would be not to enforce personal liability.

2 R.
1905, 8,
T. M.
Parl.
Deb. 5 s.
xxxvii.
416

R. 1911,
Ev. 2858

Idem,
Ev. 578

T.L.
13/3/77,
Epitome,
p. 69
Cp. R.
1882,

Cases may, however, arise in which there is a doubt as to the financial propriety of a payment. The parliamentary head of the department for the time being is in supreme executive control and must be the final arbiter within the department as to the legality of payments, his decision being subject

to the will of Parliament alone, to whom he must justify his action if necessary. Since, therefore, the accounting officer may be overruled and ordered to make a payment against his own judgment, it is but natural that he should be relieved of responsibility for such payments when included in the account which he certifies. In order that there may be no doubt as to the onus of responsibility in such cases, a definite line of action has been prescribed. 'If accounting officers are desired by their superior officers to order a payment, which, under act of Parliament, order in council, royal warrant, treasury minute, or otherwise, they believe to be wrong, they must represent their objection and the reason for it to such superior officer in writing. If the order is then repeated in writing, they may obey without further responsibility; but if the officer directing the payment is not the supreme chief of the department, they should ask to obtain the authority in writing of such chief before obeying. The responsibility is then transferred to the directing officer, who will be held personally liable.' The Public Accounts Committee expressed its entire concurrence in these instructions, and stated that the Treasury, in enforcing such liability of the accounting officer, might rely on the support of the Committee.

R. 1882,
33, T.M.,
para.
28, I.

2 R.
1883, 5

Cp. 2 R.
1907, 6

The inclusion in an appropriation account of a payment which the accounting officer considers to be irregular can therefore only be made by him: firstly under protest, and secondly under the direct orders of the supreme head of the department. Moreover, it is the ministerial head of the department alone who can override a protest of the accounting officer as regards a payment. He cannot delegate his power to any other officer or body. His decision must be a personal one entailing personal responsibility, and, in order to preclude any possibility of misunderstanding, should be given in writing. That he cannot delegate this responsibility was made clear by the Public Accounts Committee in 1907, when a question was raised as to whether a written protest made by the accounting officer against doubtful expenditure, and brought before the Army Council by the finance member, could be overruled by a majority of that body acting without the Secretary of State, or by a majority acting in opposition to the Secretary of State. The committee thereupon placed on record its most distinct

opinion that, though the order in council which constituted the Army Council 'makes a division of certain functions of the Secretary of State among the members of the Army Council, it is the Secretary of State alone who can override a protest of the accounting officer as regards a payment.' A decision of a majority of the Army Council would, as a corporate decision, not carry that personal and individual responsibility which is essential. The authority of the supreme head of the department cannot, however, legalise an illegal payment. It is merely evidence of his conviction that the payment is legitimate, in spite of the opinion to the contrary of his financial advisers, and implies that he is prepared to accept responsibility, and justify to Parliament his opinion.

The same principle precludes an accounting officer from divesting himself of responsibility by including a payment 'subject to the Comptroller and Auditor General agreeing that it is not irregular or improper.' The responsibility should not be thrown on the Comptroller and Auditor General of discharging duties which are either those of the department which makes the payment, or those of the Treasury, to whom the department should apply in a case where the authority to make the payment is doubtful. Every item inserted in the account is subject to review by the Comptroller and Auditor General, but the responsibility for the inclusion of the item cannot be placed upon him.

That the responsibility of heads of departments and accounting officers in ordering expenditure not permitted by superior authority, or in excess of the authorised amount, involves an actual personal pecuniary liability, is a principle which has received the concurrence of the Public Accounts Committee on more than one occasion, and which is accepted as an essential feature of the system of control.

This personal responsibility is, moreover, not merely limited to irregular or erroneous payments, but covers also errors in system and procedure. It is his duty to safeguard financial order, and therefore he must see that higher authority is obtained not only for payments, but for deviations from regulations and procedure when such higher authority is necessary. Where Parliament provides the special machinery of treasury sanction to meet urgent cases 'any departure

2 R.
1907, 29

4 R.
1889, 46

R. 1877,
76

R. 1887,
55 & 96

3 R. from the authorised practice is open to the severest criticism,'
1906, 19, and the Treasury makes it clear that the accounting officer
& T.M. is personally responsible for guarding against such departures.

Administration of Votes

3 R. It follows naturally that if this responsibility on the part
1890, 6 of accounting officers is to be effective, the duty of accounting
& 7 officers who are more immediately associated with the administration
of the service for which the money is voted, and who would,
further, in that capacity, be more capable of giving evidence
before the Public Accounts Committee than another accounting
officer more remote from the service in question, and not
closely connected with that department and its administration.

2 R. As a matter of rule, therefore, all expenditure should, when
1879, 24 possible, be charged to the vote of the department which
administers the service. One important exception to this
general principle should be mentioned. It is customary to
append to the appropriation account of each department an
approximate statement of the value of services rendered by
one department for another, the cost being left to be borne
entirely by the administering department; but there are many
circumstances in which it may be convenient, for statistical
purposes, to apportion charges between separate votes in a
more or less arbitrary manner, with the result that charges are
made against the votes of one department in respect of a ser-
vice which is wholly or mainly administered by another depart-
ment. Instances of such services are the maintenance of

Cp. 2 R. public buildings used jointly for county courts and for revenue
1891, 15, purposes, the charge for which is divided between the vote
T.M. for miscellaneous legal buildings and that for revenue depart-
ment buildings, and the cost of works and buildings divided
between army and navy votes, even when carried out exclu-
sively by the War Office. Whether it is advisable to adopt
one course or the other as regards any particular service is
for the Treasury to decide; but it is guided by the expressed
wish of the Public Accounts Committee that charges should
not be divided. When it is decided that division should

Cp. 2 R. take place, the classification is clearly shown in the estimates
1879, 48

and so brought to the notice of Parliament, if the service was then known. If the service is an unforeseen one, the Treasury would be guided by the special circumstances in deciding upon the classification, and would adopt that line which would tend most to simplicity and clearness of accounting, in preference to a too minute distribution of the charge among the several departments affected. The opinion of the Public Accounts Committee is that, if additional expense is entailed in performing a duty (outside its own sphere) for another department, the extra expenses ought clearly, in the absence of treasury directions to the contrary, to be borne by the votes of the department for which the service was rendered, and that the fact that this might entail the taking of a supplementary estimate by that department should not prevent the adoption of the only correct course of action. In all such cases the necessary information is supplied to Parliament by means of cross references in the appropriation accounts when the charge is divided up, and by a note against the charge when it appears wholly in the accounts of one department. The extent of responsibility of each accounting officer is therefore clearly seen.

2 R.
1892, 6,
& T.M.

It is an important principle, both on financial and administrative grounds, that a service should be administered by the department which can do so with the greatest economy and convenience; and, further, it is a sound rule of accounting that the department which administers a service should also estimate and account for its cost. It is in accordance with the above principle and rule that legal expenses of the different departments are charged to the law vote; that, so far as administration makes it possible, charges for public buildings in Great Britain and Ireland are collected respectively into the estimates of the English and Irish Offices of Works; and that stationery services for all departments are administered by the Stationery Office. One of the advantages of such a system is the economy resulting from the ability to make large contracts for many services. In the case of stationery, for instance, the consolidation of purchases for all departments enables better terms to be secured than if each department were its own purchaser, resulting in numerous contracts being made, each on behalf of the state, for the same article, with the added danger of enhanced

2 R.
1879, 34
-5
Cp.
A. Est.
Com.,
1 R.

2 R. 1879,
33. T.M.

Cp.
R.D.
Est.
Com.,
Ev. 2674
-81
Cp. 1 R.
1907, 21

prices as the result of the inevitable competition. The above-mentioned departments administer the services, and their accounting officers estimate and account for them, and in such cases no adjustment or repayment is made as between the two departments concerned.

Apart, however, from the advantage gained in increased control to the accounting officer by imposing upon him the duty of accounting finally for the services which his department administers, there would be serious drawbacks in attempting to make any subsequent repayment or adjustment in order to show actual expenditure in the appropriation account of the department concerned. The rule laid down by the Treasury is to the effect that one department should not pay another department for service rendered to it, and also that one department should not repay to another department the cost of stores, etc., supplied, when such payment or repayment involves duplicate charges on exchequer grants, and payment to the exchequer by one department of the amount received from the other. The same principle is applicable in the case of transfers of property by one department, which has no use for it, to any other department, which requires such property for public purposes. Transfers of this nature should be carried out without any inter-departmental payment. Each department must be regarded as subordinate to the exchequer, not as independent of every other department. Each is an individual, but not an isolated, square in the scheme of national finance. A system of repayment for services rendered would tend to create confusion in the national accounts; for money would have to be voted twice over, and the whole gross national expenditure would thus be fictitiously augmented. Again, attempts at accurate adjustment would lead to much inter-departmental correspondence, and possibly to controversy, while, finally, there would be increased clerical labour necessary for additional accounting, pricing out, and charging. The disadvantages would more than counterbalance the possible additional advantage to Parliament in being informed, in each appropriation account, of the exact cost of each department, of which it now obtains an approximate idea from the table of allied services prepared by the Comptroller and Auditor General. It is therefore only in exceptional cases

R. 1882,
T.M.,
para. 28,
II. (1)

4 R.
1909, 7
3 R.
1910, 32

R. 1910,
Ev. 993-
1003

that services administered by one department are wholly or partially provided for in, and the cost charged to, the vote of the department in respect of which it was incurred.

The object of the foregoing system is twofold. In the first place, it secures uniformity by exhibiting in one estimate the expenses of all departments which are of a similar description, and in the second place, it secures financial economy and a strictly faithful appropriation of the public money by throwing upon the accounting officer of the administering department the responsibility for exercising a proper control over it. Of these, the latter is the more important and should not be sacrificed to secure the former if both are not attainable. An officer cannot be held responsible for expenditure incurred: not only without his direction and knowledge, but also by officers who are the servants of another department and who are in no sense his agents. If, therefore, expenditure of this nature is incurred by one department, under exceptional circumstances, which would normally have been estimated for and been chargeable to another department, the charge should be borne by the former department, whose accounting officer should accept the responsibility, rather than the accounting officer of the latter department, which had no voice in the expenditure.

As distinct from those cases mentioned above, in which the service is actually administered by one department as part of its normal functions, though for the benefit of another department, there remain to be considered the cases of services which are performed, but not administered, by one department on behalf of another—that is to say, where one department which administers a service makes use of another department to execute it. No advantage is to be gained by *needlessly* charging the cost of a service administered by one department to the vote of another department which merely acts as an agent for carrying it out. In such a case, the administering department estimates and accounts for the service; and the agent department, when circumstances permit, simply certifies to the correctness of the charge and sends the bill for payment to the department on whose behalf it was incurred. If this is inconvenient or impracticable, the agent department pays for the service and secures repayment,

Cp. 2 R.
1881, 2,
& T.M.

R. 1882,
T.M.,
para. 28,
II. (2)

charging the expenditure temporarily to the account of the other department. No question, therefore, arises in these cases of a double charge to the exchequer,

A similar principle is involved in the case of stores. The accounting officer who is responsible for the vote from which they are purchased should also be responsible for their keeping and use. He may not be able to supply the technical evidence, as to the accounts, before the Public Accounts Committee, but he is generally responsible for the correctness of them. Such responsibility should not be divided. 'A proper financial system should embrace all accounts, whether cash or stores, and should be administered by one officer, whose business should be finance and nothing else.' In the case of the Admiralty, however, the responsibility of the accounting officer is, in this respect, more divided, as indeed it is in other respects. The position and independence of the Accountant General of the navy is, in fact, far weaker than is that of the Assistant Financial Secretary of the War Office.

R.C. Civ.
Estab.,
1 R., 100

Cp. 1 R.
1907, 25

General Functions

Apart from the question of irregular payments, there are other points on which the accounting officer is liable to be overruled by the head of the department. The former is primarily influenced by financial and economic considerations. The latter is necessarily responsible for the general administration of his department, the needs of the public service, and, in a word, the policy of the government as it affects his department. It is the duty of the accounting officer to bring to notice the former considerations and to state the financial effect of all proposed administrative action; but it rests with the responsible minister, primarily, and the Chancellor of the Exchequer and the cabinet, ultimately, to weigh those considerations in the balance with the needs of the public service. If the money available is insufficient to carry out all the services, it rests with the administrative authorities to decide the relative importance of each and the due precedence to be given to them, after full consideration of the financial effect as submitted by the accounting officer. To the approved policy of the government the accounting officer cannot object,

C.N.E.
Rep.,
P. iii.

Cp. R.C.,
Civ.
Estab.,
1 R., 95

for departmental finance is not the master but the handmaid of administration; but within the department he is responsible for enforcing economy, in so far as that is practicable without conflicting with the public requirements, and it is his duty to criticise all proposed expenditure from the standpoint of cost, and, so to speak, to put on their defence all the professional officers when suggesting new forms of expenditure, just as he in his turn is put on his defence when putting forward proposals for increased expenditure to the Treasury. He is not responsible for matters of policy, but he is responsible for seeing that the money voted is properly spent. In a word, subject to being overruled on grounds of policy, he is generally responsible for the economy and financial regularity of the department. It is his duty to call attention to all expenditure which has become obsolete, to guard against financial irregularities, and generally to see that the money voted is expended in accordance with the intentions of Parliament. He provides, from inside the department, that check on extravagant expenditure or methods which is similarly exercised from outside by the Treasury through him; while, further, the permanency of his tenure of office ensures the existence of continuous financial criticism independent of changes of ministry and of the varying phases of public opinion.

Upon his relations with the Treasury, and the ungrudging assistance which he is able to afford, the efficiency of treasury control must mainly depend. He should forestall treasury objections rather than allow them to be raised as a result of the Comptroller and Auditor General's examination. His aim should be identical with that of the Treasury—the promotion of economy and financial regularity, subject at all times to the primary object of efficiency. Control is based on knowledge. He, from his position, is able to obtain the knowledge, and it is his duty to place it at the disposal of the Treasury freely and impartially. In order to enable him to discharge his duties efficiently it is clear that he must not only be acquainted with the expenditure after it has been incurred, but that he should also be consulted on all matters involving expenditure, and be kept fully informed of the course of the expenditure, not only of that incurred centrally

W.O.
Reconst.
Part III.
§ x., para.
11

Cp.
C.N.E.
Rep.,
p. iii.

Cp. R.C.
Civ.
Estab.,
I R. 96

Cp. I R.
1883, 13
-20

but also of that incurred by all sub-accounting officers. He will thus be able to watch the general flow as compared with the original estimates, to control it and to regulate it, to obtain early information as to the possibilities of a supplementary estimate being required, and generally throughout the year to so keep in touch with the financial transactions as to be enabled to accept the responsibility for eventually certifying the account. Although in the case of the army and navy the Appropriation Act sanctions the application, if necessary, of the surplus of one vote to meet the deficiencies in another, provisionally, yet the distribution of charge of actual expenditure amongst the several votes may not be able to be accurately ascertained immediately, and it may not be possible within the year to obtain the necessary treasury authority to the virement eventually found to be necessary; but the expenditure, as a whole, must be watched within the year in order to see that the parliamentary provision is not exceeded. The accounting officer is further responsible for seeing that the expenditure corresponds with the vote, and he must be able to explain all variations.

The Internal System as Affecting Responsibility

The personal responsibility of the accounting officer necessitates a system within the department which will safeguard him personally and at the same time safeguard the constitutional principle of parliamentary control. The essential feature of the system in this respect is that there should be no authority within or under the department, which has power to order or conduct expenditure without its coming to the notice of the accounting officer for financial review, or contrary to the regulations as interpreted by him. This important maxim of parliamentary control was emphasised in 1905 when, in the case of the army, on the formation of the army accounts department, it was sought by an army order to place the accounting officer's representative in the commands directly under the orders of the general officer commanding—an officer not responsible to the accounting officer as such. The Public Accounts Committee at once pointed

1 R.

1905, 30

R. 1910,

Ev. 1077

out that the step, which has been referred to as 'a new and insolent attack on parliamentary control of expenditure,' gave rise to doubts as to its consistency with the constitutional control of Parliament over public expenditure, and affirmed the necessity for maintaining unimpaired the established system of accounting to Parliament for the application of public moneys to the purposes for which they are intended by Parliament to provide. The point was emphasised still more strongly by a declaration that 'neither can the existing system of parliamentary control be altered, nor the strict responsibility attached by it to the accounting officers appointed to carry it out be removed, otherwise than by Parliament itself.'

Bowles,
Nat. Fin.
in 1908,
Pref., p. 7

1 R.
1905, 30

The constitutional position was then clearly defined in the following terms :—

1. The duty of accounting for moneys received, expended, or in hand, and the responsibility for them, lies upon the chief accounting officer of the department.

2. The authority over and the responsibility for all sub-accounting officers belong to him.

3. No part of that authority or responsibility can be diverted from him to any other person whatever.

Cp. H.C.
39/1917,
pp. 20-22

4. In all matters of account, and of payment or receipt, whether matters in dispute or not, the sub-accounting officer is authorised and required to communicate directly with the chief accounting officer.

As a result of this opinion of the Public Accounts Committee and clear definition of the constitutional aspect, an amending army order was published, so regulating the respective positions of the general officer commanding and the local representative of the accounting officer as to ensure that no payment out of army moneys should be allowed except by the officers of the accounting officer, acting under powers delegated to them by him, and subject therein to no authority other than his. But just as in the War Office the accounting officer may be overruled by the Secretary of State, if in his opinion the financial view is incorrect or will militate against efficiency, so, too, the local military authority may accept personal responsibility and overrule the local sub-accounting officer, in order to secure immediate payment, if considered

1 R.
1905, 30,
T.M.
Cp. 3 R.
1904, 2,
T.M.

necessary in the interests of the public service, subject to appeal to the superiors of each at the War Office. Thus the constitutional principle is safeguarded, while at the same time the risk is minimised of the public interests suffering through financial objections.

The committee reverted to the subject in 1908, and again placed on record a strong expression of opinion on the constitutional position. 'Under no circumstances,' it stated, 'should any change in the administration of the War Office be permitted to impair the independence of the accounts branch, or to lessen the direct financial power and responsibility of the accounting officer and his staff. As Director of Army Finance,¹ he is charged with advising the administrative officers at the War Office, and in commands, on all questions of army expenditure. As accounting officer, he is the sole judge of whether army expenditure should or should not be allowed, and nothing but the authority of the Secretary of State, given personally and expressly in writing under his own hand, can discharge him of this responsibility. Your committee regard this independence and undivided responsibility of accounting officers as essential to the proper discharge of their duties, and to the maintenance of effective parliamentary control over military administration and expenditure.' The same principle holds good in the case of accounting officers of other departments.

The point is of special importance in the case of a department such as the War Office in which local audit constitutes part of the system, for then this audit becomes the final audit, so far as the department is concerned. If the auditor of the expenditure, which is ordered to be incurred by the local executive authority, were responsible to that authority which is not answerable to the accounting officer as such, the responsibility of the latter would be weakened. It is therefore essential that there should be a direct channel of communication and chain of responsibility between the local sub-accounting officer and the accounting officer.

When the army accounts department was reorganised in 1909 and the army pay department reconstituted, the Public Accounts Committee again raised the question as to

¹ Now styled Assistant Financial Secretary.

² R.
1908, 39

R. 1910,
Ev. 1077

² R.
1910, 19

whether due precautions had been taken for the maintenance of the conditions of parliamentary control, the possibility being that the personnel of the army pay department, being military, might therefore be directly under the orders of, and responsible to, the local military authorities and deprived of a direct channel of communication with the accounting officer. The Treasury, however, assured the committee that, before consenting to the reorganisation, it had satisfied itself that no change was being made which might have the effect of impairing the financial responsibility of the chief accounting officer in accordance with the recognised principles for securing parliamentary control over expenditure. As a matter of financial principle, the new system was preferable to the old, for, whereas the army accounts department was a self-auditing department, the same body of men both conducting the expenditure and passing the accounts of it, under the new system a separate personnel was provided for audit duties.

2 R.
1910, 19,
T.M.

R. 1910,
Ev. 694-
5

In the case of the Admiralty, the principle is to some extent relaxed, though without any loss of control in practice. The Public Accounts Committee recognises that the circumstances of the navy are in some respects exceptional. The accounting officer's representatives must, for disciplinary reasons, be under the orders of the captain of the ship, and financial objections to expenditure ordered by him must be forwarded through him. Actually, therefore, an executive official is interposed between the accounting officer and his local sub-accountant, and the accounting officer has not that 'authority over and responsibility for all sub-accounting officers' which, strictly speaking, he should have and which exists in other departments. Theoretically the position involves two difficulties. In the first place, the accounting officer may not become personally aware of the particulars of financial transactions which appear in the account, and, secondly, expenditure may be incurred which he cannot allow and to which he has not had the opportunity of objecting in advance. Though the naval accountant officers have full right of access at all times, through the recognised channel, to the Accountant General of the navy, and have full power of communicating to him their doubts as to the propriety

2 R.
1910, 18,
& T.M.

2 R.
1910, 18

2 R.
1910,
T.M., &
Ev. 1077

of any payment they may be ordered to make, it may happen that their representations might be influenced by the fact of their submission through the officer against whom they may be said to be directed. They might be deprived of that free expression of opinion which direct communication with the accounting officer would permit, and to which the latter is entitled in view of his personal responsibility. The first objection, however, is diminished by the fact that all accounts are audited at the Admiralty, and such audit may be trusted to bring all proper questions before the notice of the accounting officer personally, when by further communication, if necessary, he will be able to inform himself more fully of all the facts and circumstances of each case. As regards the second objection, a great pecuniary responsibility is placed upon the captain of a ship in regard to expenditure which he may order; while at the same time his powers are closely guarded by regulation, and any excessive or improper expenditure which he authorised would be disallowed against him personally. Thus, though the system possesses features which are objectionable in theory, it is one which is necessitated to meet the conditions of the fleet, and in practice provides for the proper control of payments and their subsequent allowance by the Accountant General only after due examination by him.

R. 1911,
Ev. 1768
-9

R.C. Civ.
Estab.,
1 R., 103

In all departments executive officers are bound to send on financial questions to a financial authority, even though it may be considered that no financial objections can be allowed to overrule the requirements of the public service in the case. On no other basis is there any sufficient security for economical administration than this principle alone—that every demand for expenditure should be subject to the criticism of the proper financial authority, the final decision resting, where necessary, with the responsible minister. The accounting officer must necessarily be kept fully informed of transactions which are intended to be incorporated in his account, in order that he may take steps to have them sanctioned by higher authority, if necessary, or, if he considers them irregular, to have them removed from the account or supported by the order of the head of the department. Further, while the system is such that no extraneous authority is interposed, it must ensure

that no authority subordinate to the accounting officer is able by its action to undermine his responsibility. His direct and personal responsibility for the due expenditure of public money must be maintained, and none of his subordinates should be able to issue instructions which involve expenditure, if such expenditure is not clearly covered by warrant or regulation, without previous reference to him. The power to authorise legitimate expenditure is on a different footing. Some delegation of power is essential in order to avoid undue centralisation. 'The same person or body may be able to control everything, but cannot possibly do everything; and in many cases its control over everything will be more perfect the less it personally attempts to do.' Devolution, accompanied by wise supervision, is the test of a good administrator. The extent to which delegation is carried must be at the discretion of the accounting officer whose responsibility remains. Neither devolution to local audit nor delegation of authority to subordinates can affect the position in which he personally stands to the House of Commons. He is the official responsible for ensuring that all expenditure, which requires higher authority than that of the department, is sanctioned before it is included in the account; and in the case of the army and navy he adds a certificate to the account to the effect that, to the best of his knowledge and belief, no part of the expenditure has been incurred without authority superior to that of the department—in cases where such superior authority is required by the regulations.¹ Inasmuch, however, as it may be impossible in many cases—especially abroad—for the accounting officer to be approached before the expenditure takes place, the personal responsibility of the administrative officer must be a real one, and this is fully recognised by the Public Accounts Committee. 'Authorities entrusted with public money must remember that, on ordering any unusual and exceptional expenditure on their own responsibility, they incur a personal liability.' To this all officers, of whatever rank, are equally subject. If such expenditure is ordered by an administrative

3 R.
1903, 2,
T.M.

Rep.
Gov.,
p. 89

W.O.
Reconst.
Part III.
§ x.
para. 7

3 R.
1904, 2,
T.M.

R. 1887,
96

¹ A recommendation to this effect was made by the Public Accounts Committee in 1867, but it was cancelled in the case of the army in 1877, the Public Accounts Committee considering that the Comptroller and Auditor General's audit of authority rendered it unnecessary. It was reimposed in 1903 at the wish of the Public Accounts Committee of that year.

2 R. 1867
R. 1877, 115
3 R. 1903, 2
3 R. 1904, 1

- officer and objected to by the accounting officer, it rests with him to disallow it against the officer who ordered it and exclude it from the account, or to include it under protest on the order of the supreme head of the department. *A fortiori* does personal responsibility rest upon sub-accounting or other officers whose negligence or failure to comply with regulations results in loss to the public ; and such responsibility must also rest upon an officer if he fails to take the due precautions which it may be his duty to take and loss by the fraud of a subordinate occurs. On this point the Public Accounts Committee holds strong views, and considers that if the regulations contemplate a pecuniary liability, such liability should be a real and not a nominal one. Again, in the prevention of waste there must be a personal responsibility attaching to the officer in control, whose duty is to safeguard the public purse not only in cases of irregularities, negligence, and fraud, but also against extravagant or wasteful methods of administration. The fact that such may be carried on without any technical financial irregularity or breach of regulations cannot acquit him of his responsibility for discovering and preventing it, and he cannot shelter himself by the excuse that he depended on a subordinate to bring it to notice. Even in cases where no question of fraud or loss arises, an officer whose duty it is to prepare and render accounts must be held personally responsible for their strict accuracy ; for, subject to subsequent examination, they will be incorporated in the main account which the accounting officer will have to certify—often without direct knowledge of their correctness.
- Cp. 2 R. 1895, 56 ;
 3 R. 1895, 28
 Cp. 6 R. 1902
- Cp. 2 R. 1907, 42 ;
 3 R. 1907, 19
- Any adjustment made for such a purpose as effecting agreement between the expenditure and the estimate is practically a falsification of accounts, though no fraud may be involved, and is a most serious irregularity. So, too, in the case of certificates given by officers throughout the public services, and on the correctness of which the accounting officer has to rely so greatly. An officer, of whatever rank, who signs a certificate is personally responsible for the facts certified to, so far as it is his duty to know them or to the extent to which he may reasonably be expected to be aware of them. The fact that a certificate is printed can be no justification for his signing it unless it represents the facts of the case. If in its

printed form it does not so represent the facts it is his duty to make any necessary amendment which will call attention to the deviation, and so to give the accounting officer the opportunity of deciding whether the amendment covers requirements.

The control of the accounting officer must necessarily be primarily exercised by the issue of departmental instructions; for persons usually err through ignorance rather than intention. Such instructions are peculiarly necessary when individuals or bodies are entrusted with the expenditure of public money for special purposes which do not come within the ordinary ambit of departmental routine or within the purview of the normal sub-accounting officers. In such cases it is incumbent on the accounting officer to issue special instructions to safeguard his personal liability.

The extent to which departmental expenditure is conducted economically, as distinct from regularly, must in a great measure depend on the system of control exercised, and on the personal qualifications not only of the officials at the head of the department, but also of those who are away from headquarters. 'Expenditure of a most useless and wasteful kind may be perfectly in accordance with regulation, while on the other hand very good business may be done though regulations are ignored.' It is in fact possible to conduct expenditure entirely in accordance with regulations, without doing much in the way of economy. A system of control which is too much centralised, or too much formularised, is liable to create a feeling that there is no necessity to look for or suggest economies locally, as everything possible will have been done by the central authority. It tends to discourage initiative. It puts forward regularity of accounting as the only object to be aimed at by the local officials. Thereby it is true that the accounting officer is safeguarded; but it is equally his duty to safeguard the public purse not merely by securing that the money spent is spent regularly, but also that no more is spent than is necessary. To allow greater freedom to the local authorities may in some cases involve loss; but if it encourages initiative and intelligent action it may, and probably will, result in many economies which would otherwise not be suggested or occur to the central

2 R.
1884, 95
-96, &
T.M.

2 R.
1885, 55,
& T.M.

4 R.
1902, 9

Army
Fin.,
p. 72

R.E.C.
1914,
Ev. 891

W.O.
Reconst.
Part II.
§ 3.
paras. 7
& 8

authority. Demanding 'a rigid adherence to elaborate regulations may effect small savings, but does not, and cannot, secure real economy'; for if money is doled out in compartments, and no discretion as to its allocation is permitted, savings are not likely to accrue. The system of paying rewards to inventors and giving gratuities to those who suggest improvements in the ordnance factories, of whatever grade, encourages enterprise and brings to notice ideas from which the public gains. Suggestions for economy in administration may be equally prolific of gain to the public purse, but the chances of reward for such are infinitesimal. It is the hope of reward which sweetens labour, and the subordinate who knows he has nothing to gain by going outside the regular routine, will seldom trouble to do so. A good system which aims at economy as well as regularity should provide for the encouragement of every official, however subordinate, in effecting economies and seeking occasions for them. The Public Accounts Committee draws attention to this very point in its most recent report, observing that, in connection with the proper use of rations, though many units of the army and individual officers took a great interest in preventing waste, yet 'there was no system under which special recognition was given to their good work either in the command to which they were attached or by the War Office.' It will always remain true that a system which relies solely upon the pains and penalties of disciplinary action to prevent irregularities, but fails to encourage its administrators to rise above the bare safety level, will never conduce to real economy. But, on the other hand, there is an essential connection between efficiency and control of expenditure, which is frequently overlooked or not appreciated by the administrator, who may find his proposals blocked or modified by the effect of financial criticism. The financial authority is not, primarily, concerned with efficiency, for that is essentially the field of the administrator; but, indirectly, the operative effect of financial control is to secure efficiency by its tendency to promote economy, for the amount of funds available is limited, and economy means the production of the highest efficiency on a given sum. Financial control, therefore, while exercised by the accounting officer primarily from the parliamentary

Cp. R.C.,
Civ.
Estab.,
2 R. Ev.
18265

2 R.
1916, 45

point of view, is in fact exercised no less in the interests of the spending administrator himself. A more full appreciation of this truth would reduce the number of grievances which administrators in the various public departments may labour under as a result of what they consider arbitrary and unintelligible action on the part of the financial authority.

There remains now to be considered the question of the nature and extent of the departmental examination of accounts which is necessary to safeguard the personal liability of the accounting officer. It has been argued in the past that as the accounts are audited by the Comptroller and Auditor General any prior examination within the department is an unnecessary duplication of work and might be dispensed with. It is true that the Comptroller and Auditor General audits the accounts of civil votes in detail, but he only makes a test audit of army and navy votes ; but even if he audited the latter in as great detail as the civil votes, this would be entirely immaterial to the question. Such an argument as the above ignores two most important principles : that of the constitutional status of the Comptroller and Auditor General, and that of the personal responsibility of the accounting officer.

No properly organised system of accounting, whether public or private, relies upon the audit of the accounts alone. It provides also for an internal examination to secure accuracy in the accounts as presented for audit. The term audit may also, under certain conditions, be correctly applied to this internal examination, and hence confusion has been apt to arise, when dealing with parliamentary accounts, as to the existence of a double audit. It is therefore advisable to be clear as to the meaning of and distinction between the terms. Audit implies an examination given on behalf of an external authority, having the right to call for evidence to satisfy itself that the expenditure has been correctly carried out ; it is an examination on behalf of a superior controlling body, to ascertain that the body or individual entrusted with a particular expenditure has conducted that expenditure in accordance with the wishes of the controlling authority. Examination is that which is given by the department itself on behalf of the head

A. Est.
Com.,
Ev. 1189
& 1296-9

Cp. W.O.
Org.
R. 46

R.C. Civ.
Estab.,
1 R. Ev.
9764

of the department to see that its own orders are duly kept, and that its own expenditure is conducted with due regularity, economy, and thorough propriety ; it is given for the purpose of satisfying the person responsible for the money that the money he has expended has been rightly expended by him, or his sub-agents, before he renders his accounts. The examination is carried out for the head of the department and his satisfaction, but it provides no control over or check upon him ; the audit furnishes the check upon the head of the department himself, and it is there that the difference of principle comes in. Examination and audit may be alike in practice to a certain extent, but the principles are wholly distinct. So far as the public accounts of parliamentary grants are concerned, the audit is carried out by the Comptroller and Auditor General, the external authority acting on behalf of the controlling authority—the House of Commons—and the examination is carried out by the departmental officers on behalf of the accounting officer.

W.O.
Org.,
Ev. 3195

Within the department again, however, the term audit may be and is properly used to designate the final examination given on behalf of the accounting officer to the accounts of sub-accountants, which will have been examined by them as to their correctness before submission for that departmental audit. The term is then correctly used ; for the departmental auditors are the authority external to the sub-accountants acting on behalf of the controlling authority—the accounting officer. From the point of view of the Comptroller and Auditor General, however, this departmental audit would be technically an examination and not an audit, and it has been suggested that, in order to prevent a confusion of terms, it should be so styled.

Any attempt to remove this examination to the audit office, or to replace it by the Comptroller and Auditor General's audit, would necessarily entail one of two evil results : it would either relieve the accounting officer of his responsibility or it would make the Comptroller and Auditor General dependent upon the accounting officer ; while it has also been argued that the effect might be the reverse, making the accounting officer entirely subservient to the Comptroller and Auditor General. When the suggestion was first made in 1876, the Treasury

Idem,
Ev. 3194
-5

immediately opposed it, stating that it 'rested on a vicious principle. It would in fact relieve those great officers (the Secretary of State for War and the First Lord of the Admiralty) of a most important part of their responsibility. As administrators they are bound to see that the services which they direct are duly maintained, and that the expenditure incurred for that purpose is duly and orderly met. The proposal is open to the further objection that it would mix up the Comptroller and Auditor General in the work of administration—a confusion of functions that could not fail in the end to impair his quasi-judicial functions. It is his business to examine the completed accounts of the executive government, and to report upon them to the House of Commons. It is not his business to prepare or complete those accounts for the satisfaction of the executive government.' Such, indeed, is a basic principle of all auditorial work. In commercial audit it is no part of the auditor's duty to prepare accounts, but to examine and report upon those prepared by, or on behalf of, the directors.

The Public Accounts Committee has expressed an equally strong opinion. 'The accounting department,' it said, 'is solely responsible for its own accounts, and is bound to satisfy itself of their accuracy before submitting them to the Comptroller and Auditor General, who examines and audits them not on behalf of the accounting department, but on behalf of Parliament. It would be a grave mistake, therefore, for any accounting department to think that any action by the Comptroller and Auditor General could relieve it of its own duty of departmental examination of accounts.' Strong objection to similar proposals, when again put forward in 1887 and 1888, was also taken by the Comptroller and Auditor General as to the effect which their adoption would have on his status and position. He pointed out that 'to transfer the responsibility for the examination of the sub-accountants' accounts to the audit office, instead of retaining it in the Secretary of State's department, would be to take away from him his position as an independent officer of Parliament, and to make him practically a subordinate of the Secretary of State—an entire weakening of his position as an officer of the House of Commons.' While, however, the Permanent Under Secretary of State for War and the Accountant General of the army of the day

3 R.
1876,
App. i.,
T.M.
20/3/76,
para. 24

Dicksee,
P. 331,
footnote

3 R.
1888, 48

A. Est.
Com.,
Ev. 1145

Idem,
Ev. 222—
3

A. & N.
Est.
Com.,
Ev. 2942
-3
R.C. Civ.
Estab.,
1 R. Ev.
830-40,
1235, &
5908

approved of the proposals, the Accountant General of the navy correctly took the opposite view. He observed that there was no double audit, but that the preliminary examination was the proper control which the Admiralty should have over its disbursing officers. 'Parliament gives the Admiralty a sum of money to expend, and it is only right that that department should, through its own officers, examine in the first instance the account which shows how that money is expended. The Comptroller and Auditor General audits that account from a parliamentary point of view, in order that he may report whether the regulations laid down by the Admiralty and by the Treasury have been complied with.'

W.O.
Org.,
R. 44

The proposal was again put forward in 1901, as regards the War Office, to the committee on war office organisation, which upheld the previous decisions. 'The Secretary of State is responsible,' it reported, 'for the proper expenditure of the money voted for his department, and must discharge that responsibility through his own officers and regulations; while the Comptroller and Auditor General is an independent authority, responsible to Parliament alone, and expressly appointed for auditing the public accounts.' This is the keystone of the scheme for public accounting. The departmental examination, moreover, differs in degree in one respect from that of the official auditor, for it is also an audit of control. The department can give orders as to expenditure. The Comptroller and Auditor General cannot order that expenditure either shall or shall not be incurred. He accepts the vouchers, and can only intervene after action has been taken. The departmental examination includes not only audit in the usual sense of the word, but also the examination of expenditure with reference to the regulations by which it is controlled, as does also the Comptroller and Auditor General's administrative audit, though it goes further than the latter in controlling proposed expenditure in advance from this point of view.

Idem,
Ev. 3193
C.N.E.,
Ev. 1180

Apart from the question of the constitutional position of the Comptroller and Auditor General it is obvious that the personal responsibility resting upon the accounting officer for the correct expenditure of the grants, and the necessity for his having to certify the account, demand that the departmental examination conducted by him and on his behalf should

be detailed and thorough. The system of such examination must necessarily vary in different departments to suit the varying conditions, but the fundamental principle remains the same in all. The examination must be such as the accounting officer can rely on for the purpose of enabling him to safely sign and present the account.

III. THE APPROPRIATION ACCOUNT

Date for Rendering the Account

Since the grants made by Parliament are for the service of the year only, and cannot be otherwise applied, an annual account is necessary. The Exchequer and Audit Act requires that these accounts shall be rendered by all departments to the Comptroller and Auditor General on 30th November in each year, except in the case of the army and navy,¹ the accounts of which may be rendered a month later. But though these are the statutory limits, it is important that the accounts should be rendered at as early a date as possible in order that audit may follow closely upon the transactions of the account, and to provide the Comptroller and Auditor General with ample time for the preparation of his report, which must be presented by a fixed date—31st January.

E. & A.
Act.,
Sch. A

2 R.
1888, 51

In the case of those civil votes which contain no payments outside the United Kingdom, the Treasury is of opinion that they might readily be rendered by the 30th September. For the accounts of the army and navy more particularly, and of other services which necessarily include payments made abroad, an extended period is necessary in order to enable a complete account to be prepared. Though the financial year ends on 31st March, a further six months elapses before the account is finally closed, to enable the accounts of all sub-accountants and agency accounts to be rendered, examined and incorporated in the account. Such accounts, however, can only include payments and receipts which occurred during the financial year. The final six months is a period for examination and booking alone.

Cp. R.
1865,
App. 1,
para. 50,
note E

¹ The date fixed by the act for the navy is 30th November, but the Public Accounts Committee, with the concurrence of the Treasury, extended it to 31st December in 1870. 2 R. 1870, 7

So far as the army and navy are concerned, the annual appropriation account is the only account rendered as a complete account to the Comptroller and Auditor General, though he has access to the periodical accounts, and by his continuous audit is kept in touch with the course of expenditure. In the case, however, of each civil service and revenue department vote, the accounting officer is required to render to him periodical accounts, monthly or quarterly as may be directed. Such accounts are not appropriation accounts, but abstracted statements of cash transactions during the period of the account, of those of the previously expired period of the financial year, and of those of the combined periods. They show, moreover, the amount of the parliamentary grants voted and the balance unspent at the beginning and end of the period. They are accompanied by all the necessary vouchers and authorities, and therefore supply the Comptroller and Auditor General with all the information required for his audit, the annual appropriation account, when rendered, embodying the periodical figures in a different form.

Form of the Account

The actual form in which the appropriation accounts are presented to Parliament is on the same lines as those of the estimates, that is to say, they appear in three main divisions—one account for the army, one for the navy, and thirdly the various appropriation accounts of the civil services and revenue departments, summarised under classes, and prefaced by one general summary of the whole. But while each of the former is treated as a single service, of which the account is rendered by a single accounting officer, and on which the Comptroller and Auditor General makes a single report, the last mentioned, though brought together in one volume and summarised for the information of Parliament, are actually a series of separate and distinct accounts which are rendered by various accounting officers and are separately as well as jointly reported on by the Comptroller and Auditor General, and the balances on which have to be surrendered or made good by Parliament independently of the other accounts.

It is important that the entries made in the appropriation

account as printed should be correct, since the account is a published document which gets public currency. The correction of any inaccuracy could only be made later in Parliament or before the Public Accounts Committee, but it is doubtful whether such a correction would obtain the same notice as the original printed document.

R. 1913,
Ev. 349

The army account, the navy account, and each class of the civil and revenue departments accounts is preceded by a summary of the votes constituting the service, showing first the estimated expenditure and receipts and the net parliamentary grant, together with any supplementary grants that may have been made, set forth under each vote, secondly the actual expenditure, the realised receipts and the net expenditure, and finally the balance surplus due for surrender to the exchequer, or the balance to be voted if a deficit arises, as a result of the year's transactions. The form of the summary of the army and navy accounts varies somewhat from that which precedes each class of the civil accounts, owing to differing circumstances which determine the amount of the balances to be surrendered; for whereas, in the case of the army and navy, the combined effect of all the votes is taken together to arrive at a net result, in the case of the civil departments the gross amount for surrender is the total for surrender of the individual votes taken separately. The operation of this will be more readily seen if the causes which produce surpluses or deficits are considered.

Under-expenditure and over-realisation of receipts tend to create a surplus. Over-expenditure and under-realisation of receipts tend to create a deficit. But the extent of variation under both expenditure and receipts together must be taken into consideration to ascertain the net result. It follows, therefore, that a surplus or a deficit may arise from any one of three conditions.

A total surplus on a vote may be caused by under-expenditure on the gross estimated expenditure, accompanied by an over-realisation of the estimated receipts; and a net surplus by an under-expenditure accompanied by an under-realisation of receipts smaller in extent than the amount of under-expenditure, or by an over-expenditure accompanied by a still greater over-realisation of receipts.

Similarly a total deficit may be caused by an over-expenditure accompanied by under-realisation of receipts; and a net deficit by an over-expenditure, accompanied by an over-realisation of receipts, but of insufficient amount to cover the over-expenditure, or by an under-expenditure accompanied by a still greater under-realisation of receipts.

In the case of the army and navy all these several combinations may appear, as (owing to the treasury powers of virement conferred by the Appropriation Act) it is possible for these departments both to exceed expenditure on any particular vote and also to utilise over-realisation of receipts for the purpose of excess expenditure, provided the total provision authorised by Parliament for the service as a whole is not exceeded. If the gross expenditure exceeds the gross estimate, an excess vote is necessary. The votes of the civil services and revenue departments are, however, on a different footing, in that no power of virement between them is permitted, and the gross expenditure on any single vote cannot be exceeded without obtaining parliamentary authority by means of a supplementary estimate or an excess vote. If, then, the third condition mentioned above should arise, that is to say—if a civil service or revenue department appropriation account shows a net surplus as a result of an over-expenditure accompanied by a still greater over-realisation of receipts, an excess vote is necessary; for the surplus appropriations in aid cannot be appropriated without parliamentary sanction to meet expenditure in excess of the gross estimate. Similarly, an excess vote is necessary for a net deficit shown on an appropriation account, as a result of the second combination mentioned as tending to create a deficit; namely, that in which over-expenditure is accompanied by over-realisation of receipts of smaller amount; for the latter cannot be set off against part of the over-expenditure without the authority of Parliament, and the vote must be shown with a (net) excess of the over-expenditure and a surplus of appropriations in aid. In such eventualities, the excess receipts beyond the estimate are strictly due for payment to the exchequer, and the total excess expenditure should be met by an excess vote. In practice this is not done, as it would be inconvenient, and lead to a fictitious increase in the national revenue, to pay

Cp. I R.
1912

Cp. Civ.
Serv.
App.
Acct.,
1911/12,
Cl. II.
Vote 9, &
Cl. III.
Vote 3
P.P. LV.
1912/13,
pp. 619
& 711.

in the whole of the excess receipts while simultaneously a sum would have to be immediately voted by Parliament to meet the excess expenditure. When, therefore, a civil department has committed the irregularity of exceeding the parliamentary provision by the utilisation wholly or partly of its excess receipts, Parliament is asked to appropriate either such portion of the excess receipts in aid of the excess expenditure as will leave a nominal sum to be voted, if the excess receipts are greater than the excess expenditure; or, if less, to appropriate the whole and to vote the remaining net deficit. The point may be exemplified by the account for mercantile marine services for 1911-12. In that year the gross estimated expenditure on the vote was exceeded by £1,601 17s. 9d., while the receipts exceeded the estimate by £15,663 5s. 2d. It was therefore proposed to appropriate £1,591 17s. 9d. of the surplus receipts towards the excess expenditure, so as to leave the nominal sum of £10 to be voted by Parliament in the form of an excess vote, the remainder of the surplus receipts being surrendered to the exchequer. In neither of the above classes of cases could the surplus receipts be appropriated with a view to converting a deficit into a surplus, or of reducing the deficit, except with the authority of Parliament given when the excess vote is passed, for, although the department is in possession of the necessary funds, the use of them brings about an excess of the gross provision made by Parliament. In the case of the civil service and revenue department votes, a deficit—from whichever of the three combinations it arises—is an irregularity which, if not discovered before the end of the financial year, can only be rectified by an excess vote. In the first two cases, the financial offence is the greater in that the gross expenditure authorised is exceeded; whereas, when a deficit on a vote results from an under-realisation of receipts, the offence consists only in the failure to present a supplementary estimate within the year, thus obviating the need for an excess vote.

While, then, the summaries or abstracts of the appropriation accounts of the army and navy set forth the net differences on each vote, those of the civil services and revenue departments show the amounts to be surrendered, as stated, on each vote, which are not necessarily the amounts actually surren-

1 R.
1913.
See also
1 R.
1898, 1
4 R.
1905, 1

dered. In the former cases, the various surpluses and deficits are temporarily set off against each other under treasury authority, and a single net surplus or deficit on the whole arrived at. No accounting record, however, appears in the account of the effect of the treasury authority for virement between the votes. Such transfers are not finally effective until they have received the covering sanction of Parliament, to be given in the next following Appropriation Act. The account as rendered shows the actual result, as compared with the provision made by Parliament in the annual and supplementary estimates. The correctness of the surrender to the exchequer of an amount shown as a net surplus is, therefore, dependent upon the covering sanction of Parliament being given to the virement temporarily authorised by the Treasury.

The existence and operation of the powers of virement in the case of the army and navy make the abstract complete, with the addition solely of the columns of net differences, deduced directly from the net grants and net expenditures, and showing immediately the extent to which these powers have been exercised. A further statement is, however, added to show to which causes the various surpluses and deficits are due. This statement compares the estimated and actual expenditure and the estimated and actual receipts under each vote, showing firstly the surpluses on each from each cause and the total surpluses; and secondly, the deficits from each cause and the total deficits; and finally, the net surpluses and net deficits agreeing with those shown in the general abstract. It therefore shows at a glance to what extent a net surplus or deficit on any vote is due to the effect of expenditure or receipts separately or conjointly. This statement, which is rendered under act of Parliament, was formerly rendered separately from the account and contained the explanations as to causes of variations, but was amalgamated with it on the recommendation of the Public Accounts Committee in 1870 and the explanations were thenceforth given in the detailed statements of the expenditure under votes. Except in certain cases where there may be some general explanation which affects a whole vote, the explanations are given separately under each sub-head.

The guiding principle which determines the form of the account is the necessity of the production of evidence of the extent to which the intentions of Parliament and the direc-

tions of the Treasury have been carried out. Since the intentions of Parliament are expressed in the estimates of the year on which the grant is made, the form of the appropriation account necessarily is based upon the general form of the estimates. The form of the appropriation account is prescribed in general terms only by the Exchequer and Audit Act. It must exhibit on the charge side the sum or sums appropriated by Parliament, and on the discharge side those sums which have actually come in course of payment within the year and which have been accounted for and passed, and must further be supported by an explanatory statement of any excesses of expenditure over grants. But although the Exchequer and Audit Act only so defines the account required in general terms, it at the same time invests the Treasury with the power of issuing regulations to the departments, and implies therefore that the account as rendered should embody the result of such regulations in order that Parliament may be informed not only of the result of its direct orders, but also of those issued by the Treasury under its delegated authority. Consequently the precise form of the account, and the extent of detailed information which it shall supply, are left to the determination of the Treasury, upon whom is imposed the duty of designing the plan of account books and accounts most suitable to each service; and the account as rendered includes particulars, not only of the votes as a whole but also of the sub-heads.¹ The sub-heads having been determined by the Treasury, and the estimates presented thereunder, the department is bound to account for its expenditure accordingly, and to explain the saving or deficit on each in the appropriation account.

E. & A.
Act,
§ 24

Idem.
§ 23

The books kept must, moreover, contain complete records of all transactions involving either the receipt or issue of public money by a department; for such books not only furnish the department with the means of keeping a faithful record of its various transactions, but also furnish the Comptroller and Auditor General with the means of verifying the balance on the appropriation account, and of ascertaining whether any money but that which has been granted by Parliament has been received, and, if so, how disposed of.

R. 1865,
App. 1,
para. 50,
Note B

In the general abstracts and summaries of the appropriation

¹ Sub-heads were first started in 1867.

account, it is the votes only that appear. These statements are not affected by the expenditure under sub-heads, except by their cumulative effect on the vote total. Though the estimates are presented in great detail and set forth the proposed expenditure under sub-heads, the parliamentary grant is made for the vote as a whole, and consequently the abstract or summary, setting out the net result of the year's working as compared with the actual parliamentary provision, is only concerned with the gross and net votes. The comparison of the detailed expenditure under sub-heads with the detailed estimates follows in separate papers under the different votes; and though the presentation to Parliament of the expenditure under sub-heads is not a statutory requirement, it is carried out under treasury direction to enable Parliament to judge of the vote expenditure by examining the sub-head results in detail, and to see to what extent the estimated expenditure under sub-heads has been realised, even though parliamentary sanction be not required to variations.

2 R.
1890, 15,
T.M.
(Army)

The account of each vote is not merely an account of payments and receipts. It is also, as in the case of the total votes in the general abstract, a comparative account. The estimate figures are repeated and the divergence of expenditure or receipt recorded under each heading, with an added explanation of the cause of variation. Such explanations should always be given in sufficient detail to cover all the facts of the respective cases. The Treasury admits that it is not easy to lay down rules as to the extent of these explanations; but they should be explicit, and general terms which do not give any clue to the real causes of difference should be avoided whenever it is possible to give a precise explanation in a small compass. Such an expression, therefore, as 'casual variation,' which is merely a statement of the fact, should not be used when the cause of variation is definite, even though it may be of small amount. This is especially so if the sub-head, on which the excess may be small and apparently casual, includes a special item not provided for in the estimates, and but for the inclusion of which the variation would possibly not have been small. If various causes contribute to a surplus or a deficit, it is not sufficient that the several causes should be recapitulated, but as far as possible the approximate amounts due to each cause

3 R.
1891, 5

2 R.
1894, 6,
T.M.

2 R.
1884, 61

2 R.
1910, 25

should be given in the explanation. This is particularly so when the causes are in entirely different categories, of which some are only variations for the year and do not ultimately affect the cost to the public, such as delays in contractors' deliveries, while others are questions of the accounts of the year and result in an actual saving to the public, such as a fall in prices.

R. 1910.
Ev. 895-
901

So, too, if a net surplus or deficit would have been greater but for an unexpected cause having reduced it, the explanation should set forth both factors, and not deal with the net result alone. The explanations so furnished are given on the authority of the department, and may be accepted by the Comptroller and Auditor General as administrative representations which it is not normally within his province to verify or criticise, though in practice he checks them as far as possible, and not infrequently suggests amendments to accounting officers.

The sub-heads are the normal heads; but, in addition to these, the record of expenditure under auxiliary sub-heads is also required by the Treasury in certain cases, and when such is the case, the account presented to Parliament must be further detailed under such heads, and explanations of variations given if necessary. The most important class of cases under this head is the works vote, of which statements are appended to the account, setting out all the items in full and comparing them, not only with the provision made in the year, but showing also the total estimate of each work and the total cost up to date. Similarly, when remnants of expenditure on works appear, for which no provision has been made in the year's estimates, the total expenditure as compared with the original or revised total estimate for the item should be stated for the information of Parliament. A statement of grants in aid of works is also furnished under a works vote.

3 R.
1894, 12,
T.M.

A statement of receipts appropriated in aid of the votes is required in all cases; in the civil accounts it is only necessary to give particulars of the larger items, but in the army and navy accounts greater detail is required. These statements are prepared showing the estimate, the actual receipts, and the surplus or deficit on each item. Apart from the general information contained in this statement, it is of special importance for two reasons. Under the system of net

2 R.
1913, 4

parliamentary grants, the department obtains the sanction of Parliament to appropriate the amount of its estimated receipts in aid of its expenditure. In effect, therefore, such receipts become, or, more correctly speaking, take the place of parliamentary grants. In the case of grants issued from the exchequer, Parliament is aware of their actual origin and source of production. Receipts appropriated in aid not passing through the exchequer, it is natural that Parliament should be kept informed of the details of realisation more strictly than by the bulked total under each vote, in order that the actual sources of revenue, from which a portion of the expenditure is made, may be known. The statement, in fact, furnishes the information which would appear in the finance accounts if the sums in question were paid, as formerly, as extra receipts direct to the exchequer.

54 & 55
Vic.
c. 24,
§ 2 (3)

The second cause of importance of this statement is due to the power conferred on the Treasury, under the Public Accounts and Charges Act of 1891, of treating any departmental receipt as an appropriation in aid. The total shown under each vote contains no information as to whether sums are included other than those already brought to the notice of Parliament in the estimates. The detailed statement gives this information and therefore confirms the information furnished to Parliament in the treasury minute laid before it, when the power is exercised, as to the extent to which, and the cases in which, if any, the Treasury has exercised its powers of permitting receipts, other than those estimated for, to be appropriated in place of those estimated for, while further, in the case of the army and navy, it supplies information as to the particulars and origin of excess receipts which are applied, under the temporary powers of virement conferred by the Appropriation Act, to make good deficiencies of estimated receipts under other votes or excess expenditure under the same or other votes.

Account of Votes of Credit

The conditions, under which votes of credit are granted, have been considered in a previous chapter. It now remains to be seen how they should be accounted for, and in what

respects variations from the normal form of appropriation accounts are necessary and permissible in recording the special expenditure for which they provide. A vote of credit being taken by the Treasury and not by the spending department, it is in the first place necessary that an appropriation account of the vote itself should be prepared by the Treasury, in accordance with section 22 of the Exchequer and Audit Act, and audited by the Comptroller and Auditor General. Such an account, however, merely records the appropriation of issues from the vote to the department or departments concerned, except in the case of issues for services outside the ambit of any parliamentary estimate the expenditure on account of which is incorporated in the appropriation account of the vote of credit in detail. The appropriation accounts of the issues made to the departments must be prepared by them on the same lines as in the case of parliamentary grants made direct to accounting departments; that is to say, the department renders the usual account for its original vote as supplemented by the vote of credit. To this there is the one exception alluded to above, which arises only in such exceptional cases as the present war. Normally, a vote of credit is taken for the fighting services only, and all the expenditure incurred may be properly charged to one or other of the regular votes as being covered by the terms of the resolution granting the vote. The exceptional circumstances of the present war, necessitating the votes of credit being drawn in the widest possible terms, have introduced other considerations and permit of expenditure being incurred which cannot legally be charged to any of the normal votes; as, for instance, expenditure on war refugees and loans to allies. Expenditure of the votes of credit taken during this war is therefore of two classes:—(1) that which properly comes within the terms of part I of the estimates for normal votes, and (2) that which is entirely outside the ambit of any parliamentary estimate other than that for the vote of credit.

For this second class of expenditure, funds are issued on imprest to the department which administers the service, which opens the necessary accounts in its books and renders an account of the expenditure to the Treasury for incorporation in the appropriation account of the vote of credit. This,

Cp. Vote
of Credit,
App.
Acct.,
Relief of
Gen.
Gordon,
H.C.
89/1886

App.Acc.
Vote of
Cr. 1914
C.&A.G.,
R. 3
H.C.
24/1916

T.M.
20/8/14;
H.C.
458/14
T.M.
22/11/15;
H.C.
392/15.

mutatis mutandis, follows the form of an appropriation account of an ordinary parliamentary grant.

The preparation of the appropriation account of vote of credit issues for expenditure which can be properly classified to the normal votes is dependent on the circumstances which have necessitated a vote of credit. The fundamental rule applicable to all parliamentary grants, that the department is bound to supply Parliament with a full and detailed account of its expenditure, is just as applicable to votes of credit as to appropriated grants. The fact that Parliament, in effect, leaves the appropriation to the Treasury, in no way relieves the department of the obligation of rendering to Parliament an account of the expenditure under that appropriation, whatever it may be. As the circumstances, however, in which votes of credit are granted, vary, so, too, must the form in which the account is rendered. In ordinary cases in which the normal services of the year are not materially affected, and the vote of credit is taken for some special purpose supplementary to those services, the account of the expenditure under it should be kept, as far as possible, distinct, and Parliament should be informed, by the account rendered, both of the result of the expenditure under the normal grants as well as of the special expenditure, thus facilitating its control. The approved method of doing this is by the introduction of additional columns in the appropriation account, in order to show the surpluses and deficits on ordinary grants, after deduction of the expenditure charged against the vote of credit.

2 R.
1869

2 R.
1879, 92

2 R.
1884,
174

In rendering any account of expenditure in respect of a special service, however, it must be remembered that such expenditure must of necessity be very much mixed up with the ordinary expenditure of the service; and that an exact calculation of the total expenditure, however interesting and instructive it would be if obtainable, would be difficult to make and could scarcely be accurate. Apart from direct expenditure, there must inevitably be much indirect expenditure resulting from an occasion of emergency; due not only to the desire of a prudent government, at such times, to gradually increase the supply of stores, men, ships and war material; but, in a still greater degree, to the diminution of stores, as the result of naval and military operations. It is the direct rather than

the indirect expenditure which is required to be brought out in the accounts, and it is with such direct expenditure that the Public Accounts Committee is primarily concerned.

Speaking generally, if a vote of credit is taken in addition to the annual votes, the same general rules as to accounting for it are applicable as in the case of supplementary estimates; that is to say, the effect of the additional provision should be clearly shown in the account, and, when possible, vote of credit expenditure earmarked as such. Except where authority is obtained to open special sub-heads, the expenditure should be charged to existing sub-heads, as far as possible, and the ordinary expenditure shown separately from the extraordinary; while, further, the latter must include no charges which cannot be identified as directly occasioned by, or for, the event or object to meet which the vote was taken. The exceptional circumstances of the present war have necessitated various modifications in the normal procedure, not only in regard to naval and military expenditure, but also as regards vote of credit issues to civil votes. So far as naval and military expenditure is concerned, it has been pointed out that the position normally, when a vote of credit has been required in the past, has been that the peace system continued in operation as a whole, disturbed locally only by a war in some part, but that for this war, in which the whole resources of the country are involved, 'any attempt to distinguish between ordinary charges for navy and army services, and expenditure arising out of the war must be entirely arbitrary and artificial'; but, on the other hand, it is 'very desirable, in the interests of sound administration and for the preservation and continuity of practice and record, that navy and army expenditure, both of a recurrent nature and that arising out of the war, should be accounted for under the customary heads and sub-heads,' as shown in pre-war estimates, subject only to such variations as the nature of the expenditure might require. It was therefore agreed that the whole of the ordinary grants for army and navy votes should be regarded as available for war expenditure equally with vote of credit issues for those services. Subsequent to 1914-15 no normal substantive grants were made for the army and navy, which were financed entirely from vote of credit issues; but, in order to provide a statutory basis for

2R.
1884,
175

T.M.,
20/8/14;
H.C.
458/14

T.M.
22/11/15
H.C.,
392/15.

T.M.
5/2/15.
Cd. 7790

the appropriation account, token sums of £1,000 for each normal vote were taken for 1915-16, with the intention that the whole of the expenditure should be classified to such votes, a gross deficit being shown as chargeable to the votes of credit, after allowing for the token provision and for the departmental receipts which would be separately appropriated by supplementary estimates. By this means, the same fundamental principles are followed as in the case of votes of credit taken during a year in which substantive votes have also been taken, as has been the case throughout for civil votes. The latter are not affected to the same extent, in that normal peace expenditure continues, undisturbed, to a greater or less degree, by war conditions. It was hoped, at first, that vote of credit issues would be able to be accounted for on the lines generally applicable in the past to such cases. Difficulties of administration in attempting to carry out the general principles arose, however, and it was found in practice that, owing to so many payments being of a composite nature, any comprehensive earmarking of payable orders to vote of credit services was impracticable. It was consequently decided that normal expenditure need not be distinguished from extraordinary under sub-heads, but that the excess on the whole vote might be charged as vote of credit expenditure, provided only that the whole expenditure charged to the vote could be shown as properly chargeable thereto in terms of part I of the estimates, and that of this expenditure an amount, at least equal to the issue from the vote of credit, could be definitely earmarked as arising out of the war. These conditions being fulfilled, no further detail of vote of credit expenditure, as such, is required in the appropriation account itself; but the explanations of variations between estimates and expenditure should also, when possible, distinguish between variations due to the war and those not so due.

Again, in the case of the present war, further considerations are involved, as, owing to its continuance beyond the end of the financial year and the consequent necessity for secrecy as regards even the completed accounts, the publication of these in full has been temporarily abandoned. The navy accounts for 1914-15 were, with the concurrence of the Treasury, confined to the abstract only, and even in that the expenditure

T.M.
22/11/15;
H.C.
392/15

H.C.
10/1916

under the main votes was grouped. The army account was published with only slight modifications from the ordinary form, though variations, statements and detailed information as to expenditure under sub-heads were omitted, as well as any attempt at explanation of differences which, under the circumstances, would have been meaningless.

H.C.
7/1916
2 R.
1916, 21

Parliamentary control, in these abnormal situations, has been safeguarded by two important provisos. The Treasury stipulated that an account containing more detailed information of navy expenditure should be prepared for issue, if so ordered, when the objections to publicity no longer apply, and that such an account should be transmitted forthwith confidentially to the Comptroller and Auditor General. To this procedure the Public Accounts Committee agreed, subject to later publication. In the second place, the non-publication of details in no way affected the Comptroller and Auditor General's audit, as he had access to all necessary documents and records relating to charges in the accounts. The extent to which he was able to report on the accounts immediately was necessarily a matter for his discretion; but, since he has the full information, Parliament has the assurance that all necessary matters will be brought before it, if not at once, when the need for secrecy has passed.

H.C.
10/1916,
p. 16;
T.L.
30010/15

2 R.
1916, 1

C. &
A.G.'s
Report,
1914-15,
Army,
para. 3;
Navy,
para. 2

Classification

Having dealt with the form of the appropriation account and the method in which it is rendered, there remains to be considered the question of the classification of expenditure and receipts generally in the preparation of the account.

Broadly speaking, classification of charges and receipts to the appropriate head follows the provision made by Parliament, but correct classification is dependent on certain recognised principles which require to be understood. The subject falls naturally into two main heads—the determination as to the particular year's account to which any given item should be classified; and, when this is settled, the determination as to the heading in that year's account to which the charge or credit should be given. Of these, the former is of the greater importance, so far as the correctness of the balance to be surrendered

is concerned; the latter is of the greater importance so far as the correctness of the appropriation of the parliamentary grants for the year is concerned.

The necessity for the surrender of the unspent balances of grants each year demands that the amount of such balances should be accurately determined in accordance with the principles and practice under which parliamentary accounts are prepared. It is not permissible for a department to increase or reduce one year's balance by the inter-transfer of charges between that and the succeeding year, even though such action would not in the long run affect the public purse. Each year is separately and independently provided for by Parliament, and its accounts can only include items which are legitimately chargeable to the year, and should include all legitimate payments made in that year. All such payments, that is to say, which are made in respect of a given service within the year, should properly be recorded in the appropriation account of the vote for that service. Consideration is therefore necessary of the principles which determine the admissibility of charges against the year's accounts.

2 R.

1893, 51;
Cp.
C.P.M.
R., 8

The intention and purpose of appropriation accounts is that they should be complete and conclusive records of the cash transactions of each financial year. They follow the estimates in form, and naturally also their figures follow more or less closely those of the estimates; but although the latter are a statement of the contemplated expenditure for the year, and although they are voted by Parliament as such, the fact of any particular item being included therein is in itself no authority for its inclusion in the account for that year.

2 R.

1885, 50

With regard to small, no less than to large sums, strict accuracy in accounting for public expenditure is essential. To ensure this there must be a full understanding of the four essential conditions to be fulfilled before a charge item can be included in an appropriation account.

In the first place, payment must have been made in the course of the year covered by the account, and proof of such payment must be forthcoming.

Secondly, the payment must be legitimately due within the year.

Thirdly, the account of the payment must have been examined and passed.

And lastly, the payment must, with certain exceptions, be a final payment.

The classification of receipts as between one year and another follows the same general rules, and, *mutatis mutandis*, the above-mentioned conditions are equally applicable.

As regards the first condition, it is to be borne in mind that an appropriation account is a cash account of sums coming 'in course of payment' within the financial year, and consequently that, as regards the classification of items as between one year and another, the date of the cash transaction is the first consideration. That is to say, in accounting for public expenditure the date of payment governs the date of charge. The period for which emoluments are drawn, or in which stores are supplied, or work is done, does not affect the classification.

The determining factor is the date on which the payee is sent or receives the money, if it was then due for payment. The crediting of a sum to the banking account of a payee, when duly evidenced by the banker's receipt, is regarded as an actual payment. It is immaterial whether the payment is made by the accounting officer or by one of his sub-accountants. The governing date is that on which the payee to whom the money is finally due by the public receives it, or on which, in the case of drafts or cheques, it is sent to him. All payments made by a sub-accountant, or made by the sub-accountant of a sub-accountant must be brought to account in the appropriation account for the period in which payments were actually made; that is to say, payments made by a sub-accountant on or before 31st March, must be included in the account for the financial year ended on that day. It follows, therefore, that credits cannot take the place of actual payments, and that pay due but unissued on 31st March must be excluded from the account. Any credits of this nature therefore, which have been charged to the vote and do not materialise into cash issues by 31st March, must be re-credited to the vote. Up to 1890 it had been considered that, under certain circumstances, a credit was equivalent to an actual payment, and that the placing of a soldier's pay to his credit in the pay list placed the money as completely at his disposal as if it were placed to the credit of his private

2 R.
1881, 55.
T.M.

2 R.
1894, 14
Cp. 4 R.
1892, 35
-38

3 R.
1876,
App. 5,
T.M.
21/6/76

2 R.
1881, 55.
T.M.

banking account, and accordingly all pay so credited was treated as a payment and charged to the vote, irrespectively of whether the man had drawn it in cash or not. The law officers, moreover, to whom the question was referred, reported that the system in force fulfilled the requirements of the Exchequer and Audit Act, section 24, which restricts the sums that may be charged in the account to those which 'actually come in course of payment' within the year. The question, however, was again reopened on the institution of monthly pay lists for the army in 1890. The Treasury admitted then that it would be more correct, and therefore desirable, if practicable, to confine the charge to actual payments, and, after consideration, agreed to the adoption of the present system.

2 R.
1883, 58

2 R.
1890, 5,
T.M.

R. 1891,
Ev. 550

In the case of a cash payment, the date of charge is the date of acknowledgment of receipt of the amount, or the date of the certificate of payment when individual receipts are not taken and the payments are made in the presence of witnesses. In the case of a payment by draft or cheque, the date of the draft or cheque is taken as the date of final payment and governs the classification as between one year and another, in the sense that if a draft be drawn for a sum due at the time of drawing, and sent to the payee not later than the last day of the current financial year, any delay on his part to cash the draft within the period for which it is available does not affect the classification. The draft represents a fully matured liability of the year, and its delivery to the payee or his agent constitutes a virtual discharge of that liability. Payments by draft or cheque are, however, not chargeable against the year if the draft or cheque is not presented within the prescribed period. If the draft for an army or navy service is not cashed before the account is finally closed (that is to say, within six months of the end of the financial year) it must be cancelled, and the vote relieved of the charge, as no cash payment will have been effected. In the case of payments chargeable to civil votes, the draft must have been presented for payment within three months of the end of the financial year.

4 R.
1892,
T.M., 9

4 R.
1899, 17

It must be borne in mind, moreover, that the cancellation of drafts and cheques, for whatever reason, is absolute; and the issue of fresh ones in lieu, or the redating of the original cheques, must be regarded as a new transaction, which should be recorded under dates when the cheques last leave the

drawer's hands. Thus, when a cheque drawn in the prior year is redated in the present year, or is cancelled and a fresh one is issued, the item to which it relates must at the same time be transferred from the prior to the current year's account. If, however, the cheque or draft is merely reissued with instructions to the bank to pay, the amount still remains chargeable to the year in which it was first issued. But if a draft be drawn before it is due, and be retained by the department until it has become due at some date after the close of the year, it does not represent a fully matured liability of the former year, even though specifically provided for in that year's estimates. In such a case, the date of the draft cannot govern classification; that is to say, a payment cannot by simple post-dating or ante-dating be brought into legitimate charge against the vote for a year in which the payment neither became due nor was actually made. This rule may entail inconvenience when its effect is to throw a charge off the year in which Parliament has provided for it on to a year in which no provision has been made for it, but no other ruling would be consistent with section 24 of the Exchequer and Audit Act. A similar inconvenience is caused in a class of cases which will be referred to later; namely, those in which, although the money has been provided and spent within the year, the third condition as to admissibility is not fulfilled.

Again, the rule is not applicable when the order for payment, though drawn before the 31st March, has been issued, not to the vendor or payee, but to an agent of the accounting department, and has only reached the former on the maturity of his claim in the succeeding financial year. In other words, a payment to an agent is not in itself a final payment within the year, otherwise a door would be open to adjustments in an objectionable sense; such payments, therefore, do not satisfy the fourth condition.

It follows from this first condition that no item can be included in the account which does not involve a cash payment or a cash receipt. This point has been emphasised by a declaration of the Treasury that it is 'not prepared to include in the public cash accounts, as actual receipts of money, sums which have not been received, or to record sums as actual payments of money which have not been paid.' Such a rule

Cp. 2 R.
1872, 10

2 R.
1894, 14
T.M.

2 R.
1905, 12

2 R.
1894, 14

3 R.
1894, 39

Cp. 2 R.
1883, 87
& 88

R.
1882, 1,
T.M.

obviously does not apply to contra entries in the books for the correction of classification, or for the relieving a vote of an incorrect charge or overpayment by transferring it to a suspense account or to the item balances irrecoverable. Nor does it apply to the cases which will be referred to later, in which a department under statutory or other power withholds pay or emoluments to meet a public claim. A somewhat similar principle is involved when a department owes money to a colonial government or to another department against which it has a counter claim. In such a case the credit in the departmental ledger of the amount due in reduction of the counterclaim may be charged to the vote as a payment, although no actual cash payment is made. In accordance with the general principle, when pay is forfeited and not issued, or when a salary is withheld to make good defalcations, or when a fine is inflicted on a contractor, no charge is made against the vote, the short issue being merely recorded.

See P. 443

R. 1887, 108

R. 1882, 1 T.M.

C.S. Appr. Accts., 1880-1; C. & A.G. R., H.C. 38/1882

R. 1882, App. to T.M.

'Sound principles of account must not be violated or simple rules of book-keeping complicated on insufficient grounds, especially when the result will give incorrect statements of the cost of the public service and when it does not tend to increase or to preserve the financial control of either the Treasury or the House of Commons.' It has been argued that when a service had been performed the contract price (meaning the maximum limit of the contract) had been earned, and should be charged in the account, while any fine imposed should be treated as a receipt, and in this view the Public Accounts Committee originally agreed: a further argument in favour of such a course being that the alternative method of charging the net amount only would result in placing at the disposal of the department a larger sum than Parliament had granted it. It might, however, be argued on these lines that whenever a department effects the purchase of supplies or materials at cheaper rates than were estimated for, it obtains more money than Parliament intended, and that therefore the full estimated price should be charged to the vote and the difference treated as a receipt. Such an argument is clearly unsound as a matter of account and book-keeping. No estimates are intended to be absolutely accurate in details, and Parliament in making its grants recognises that

there will inevitably be savings on some heads. It cannot, therefore, be said that a department which effects savings obtains money which Parliament did not intend it to have. The safeguard which Parliament has against an improper use of such savings lies in the review by the Public Accounts Committee of the expenditure of the department as set out in the accounts and reported on by the Comptroller and Auditor General. As regards the former point, the price earned by a contractor is the sum which is payable and which the contractor could recover in a court of law. The full price of the contract has only been 'earned' when the service has been performed in strict accordance with the stipulations to which the full price is attached. If a fine is inflicted, the balance is the only amount earned. The fine is neither claimable nor due, and therefore not even technically paid, or technically received back, and it cannot be properly charged in the accounts as a payment, and simultaneously credited as a receipt.

R. 1882,
App. to
T.M.

An apparent exception to the general principle is in the case of income-tax payable on public salaries, which is deducted at the source. In strict accordance with the rule, only the net amount issued in cash should be charged to the vote, the amount of tax deducted being recorded as a short issue. Section 10 of the Exchequer and Audit Act requires, however, the payment into the exchequer of 'gross revenues,' and this is held to entail the necessity of charging the vote with the gross salaries for the purpose of transferring the deductions on account of tax to the Commissioners of Inland Revenue. The deduction is made to simplify collection of an amount earned and due, and is essentially different from a deduction on account of a fine or forfeiture of pay. The exception is therefore more apparent than real.

The second condition precedent to the inclusion of an item in the year's account is equally important. Payment must be due within the year. It must be in respect of a fully matured liability, whether for service rendered, for work executed, for property acquired, or for supplies delivered. If it is not due and fully matured it cannot be charged, even though specifically provided for in the estimates and though money is available to effect payment. Nor, as explained

2 R.
1896, 4

2 R.
1891, 1-9,
T.M.

above, can this condition be circumvented by drawing a cheque within the year and holding it over until payment becomes due. A payment for stores, works, etc., is not due and fully matured until all steps (inspection, examination, etc.) have been taken which in the regular course are antecedent to payment, and such period is always to be allowed for those steps as the ordinary practice or special exigencies of the department may require.

R. 1877,
91

2 R.
1885, 8
2 R.
1909, 16

But while on the one hand a payment which is not due must not be paid, on the other hand a claim which has become due must not be postponed from one financial year to another, even to avoid the evil of an excess upon the vote or to keep the expenditure within the parliamentary grant. This is equally the case even if expenditure not provided for has been necessarily incurred in exceptional circumstances, and even though the necessary provision may have been made in the next year's estimates. A case which occurred in 1908 may be mentioned to illustrate this. The customs had ordered a quantity of cloth and made provision for payment in the 1909-10 estimates, but the cloth was delivered and taken on charge in March, 1909. Payment was therefore due and fully matured within that financial year, and should have been made. The department, however, postponed payment until 1st April on the ground that if payment had been made in the year in which the cloth was delivered, it would, in effect, have relieved the estimates of the following year in which provision was made, and thereby created a surplus on the sub-head. The department, in so acting, committed a breach of the strict rule that payment for a service should be made in the year in which it is due. 'On general grounds it is desirable that, so far as possible, expenditure should be met in the year in which the liability is incurred,' and be then brought to account in that year: that is to say, 'payments which come within the provision made by Parliament, and which are due and fully matured, must not be postponed, even for the purpose of avoiding an excess' and whether or not it be requisite to open a new sub-head for any payments that are so in excess. The irregularity of the excess would consist in incurring expenditure not authorised by Parliament, and would be increased rather than diminished by not

C.S.
Appn.
Acct.,
1913-14,
p. 132
2 R.
1891, 7
2 R.
1912, 15,
& T.M.
R. 1877,
91, &
T.M.

defraying it when it has been actually incurred. Moreover, even if it were postponed, such postponement would not in fact keep the expenditure within the limits sanctioned by Parliament, but would only serve to keep from the knowledge of Parliament the fact that those limits had been exceeded. It is a sound principle that all liabilities should be discharged as soon as they are fully matured, irrespective of the result which such payment may have on the account. The doctrine that postponement tends to effect economy in the administration of the department in the succeeding year is unsound, as every desirable and practicable economy should be practised without the pressure produced upon the department by the necessity of meeting liabilities postponed from a previous year.

In former days the Treasury, accepting the constitutional rule that a department is not to spend money which Parliament has not given it, had been inclined to look upon postponements of matured liabilities as a lesser evil than expenditure by a department in excess of its spending power, which is the height of irregularity, provided that such postponements were duly recorded by a note in the appropriation account, and had given official cognisance to the practice; while such an authority as Sir William Anderson stated in 1862 that it was more legitimate to put off a payment under contract and throw it on to a subsequent year than to expend money in excess of the grant. The Public Accounts Committee also had never before 1891 definitely condemned the practice, though expressing its dislike of it, stating in 1885 that if exceptional expenditure must be incurred it should be charged to the vote, and shown, even if it occasioned an excess. In 1891, after a full discussion of the point, the present practice was definitely laid down, and a treasury minute was issued directing that payments should not be so postponed. The Public Accounts Committee then expressed the opinion that if an excess were apprehended, it was the duty of the department, in the first place, to exercise economy by postponing any works or services which could so be dealt with without injury to the public interests; in the second place, if this were inexpedient or impracticable, to present a supplementary estimate; and finally, if there were no time to do this, to make all payments due and fully matured even at the risk of incurring an excess. An exception to this rule is,

2 R.
1878, 18

2 R.
1891, 9

2 R.
1891, 1-9,
T.M.

Cp. 2 R.
1886, 24
-27, &
T.M.

R. 1887,
60

R. 1862,
Ev.
1853-4

2 R.
1885, 8

2 R.
1891, 1-9,
& T.M.

2 R.
1891, 1-9,
T.M.

R. 1912,
Ev. 3427
-3442

5 R.
1895, 48
& 49,
T.M.

2 R.
1908, 1,
& T.M.

however, admissible in cases in which, with treasury sanction, it may have been agreed with the recipient that a payment shall be made in two instalments falling in different financial years, but in such cases a note of the postponed liability should be appended to the appropriation account. This naturally refers only to those cases in which the second instalment has been actually earned, and represents a matured liability within the year, but where, with the consent of the recipient and the sanction of the Treasury, payment of part of the price is postponed to the following year. There is, moreover, a difference between an outstanding liability and a postponed liability. A second instalment, which had not been earned, would be an outstanding liability; but as it would not have been payable within the year there would be no necessity to note it in the appropriation account. Many contracts are entered into extending over more than one year, and in all such cases there are necessarily outstanding contingent liabilities. It has never been contemplated or suggested that the appropriation account should be burdened with notes of every contingent liability for payment resting upon the country which has not been discharged within the year, nor would such a record serve any useful or practical purpose. It must, moreover, always happen in the case of large departments that, without any deliberate postponement of payment to the succeeding year, some claims, either because they give rise to correspondence or because they cannot be examined and passed in time, remain outstanding on 31st March. In the ordinary course there will be an equilibrium between claims thus normally brought and carried forward at the beginning and the end of the year respectively, and cognisance is taken of this fact when preparing the estimates. A department, therefore, which anticipates having a surplus in hand at the end of the year is not justified in hastening the delivery of stores or the execution of works in order to be able to make payment for them within the year solely to avoid a subsequent surrender, though 'it does right to call in and defray its matured liabilities, so far as the funds placed at its disposal by Parliament and treasury regulations permit.' If the payments would normally be made in the following year the effect of expediting the work or delivery, and paying in the current year, would be to relieve the burden of expenditure in

the following year and thus, by upsetting the normal anticipated equilibrium mentioned above, vitiate the comparison between one year's expenditure and the next. Payments should as far as possible follow the normal course from year to year, irrespective of the question of surrender of an unspent balance, and any deliberate attempt to act otherwise is much to be reprehended.

A corollary of this financial rule is that, when it is known that payments will have been earned and be due within the year, provision should be made for them in the estimates in order that they may be brought into the expenditure of the financial year in which they are earned. The deliberate exclusion from that year's estimate, with the intention of making provision and paying in the following year, would not remove the objection to the transaction as being a breach of financial regularity.

The third necessary condition to be fulfilled is the examination and passing of the charge before the account, in which it is to be included, is closed. Even though money is voted and spent within the year, yet if the accounts of it are not received, or if received are not examined, before the appropriation account is closed, the charge must be excluded and thrown forward to the succeeding year, and the balance to be surrendered to the exchequer will be proportionately increased. The most definite knowledge of the expenditure could not justify its inclusion in the account in the absence of the vouchers, unless these were lost and authority had been obtained to charge the sum as unvouched expenditure, in which case treasury sanction is substituted for the missing voucher, and the payment is placed in a position to be admitted by the Comptroller and Auditor General if he thinks fit. No other system would be consistent with the certificate of correctness given by the accounting officer. On the other hand, if the department is satisfied that a payment came properly in the course of payment within the year, but is unable to finally substantiate it at the time to its satisfaction, it may justifiably charge it to the year, leaving the Comptroller and Auditor General, if he is not satisfied with the evidence which the department considered sufficient, to report the payment as not properly chargeable to the vote. A voucher to be

4 R.
1903, 6,
& T.M.
2 R.
1904, 8

3 R.
1901, 1

2 R.
1888, 68

R. 1882,
68

complete should, firstly, bear the receipt of the payee ; secondly, specify the service in respect of which payment is made ; and thirdly, bear or refer to evidence showing that the service has been duly authorised and satisfactorily performed. The justification for including in the accounts an item supported by an incomplete voucher must necessarily be a matter of opinion to be decided on the merits of each case as it arises. A voucher may be complete in all material points and yet require amendment in detail. To withdraw it from the account of the year in which payment had been made, though possibly the technically correct method, would be contrary to the spirit of the system.

It has already been explained that in order to allow all the transactions of the year to be included in the account, the latter is kept open for a period after the close of the financial year for the receipt, examination, and booking of all sub-accountants' accounts. In the case of the army and navy accounts a period of six months is prescribed ; for civil accounts no date is fixed, but it is considered that they should all be completed within a not longer period. In view of the importance of Parliament being informed of the extent, if any, to which charges for money voted and spent are finally excluded from the account, an explanatory paper is appended to the army account, which in practice is the only one so affected, detailing the excluded accounts or stating that there are none. The necessity for the exclusion, the effect of which would be to throw the charges upon a year in which provision had not been made for them, would then have to be explained to the Public Accounts Committee.

The last condition remains to be considered. Only final payments can be included in the accounts. 'No imprest or advance, of the application of which an account may not have been rendered to and allowed by the accounting department, shall be included on the discharge side thereof.' The underlying principle that differentiates imprest from final payments is that any unexpended balance in the former case is repayable to the exchequer. Payments of this nature must be charged to a personal or suspense account until accounted for by the production of accounts which enable the vouched expenditure to be transferred from the personal account to the vote.

E. & A.
Act, § 24

2 R.
1878, 25

Again, payments which it is known will be repaid are not to be treated as final payments and charged to the vote, but as imprests—except in those cases in which special provision is made in the estimates for the charge of the expenditure against the vote and for the credit of the repayment when made to appropriations in aid.

A final payment is a payment made in final discharge of an obligation of the government to the public creditor—that is to say, it is one which is legally due and is vouched as having been received by the payee to whom the money is due from the public, and, normally, there can be little doubt as to admissibility of charges on this ground. They may be made only in respect of fully matured liabilities, whether for services rendered, for work executed, for property acquired, or for supplies delivered. Erroneous or over-payments cannot, therefore, properly be charged to the vote, even with the intention of giving a subsequent recredit when they are refunded. The vote should be relieved of such a charge, if already made against it, as soon as the error is discovered, unless there are exceptional circumstances involved which make such a procedure difficult.

An imprest¹ is an advance of public money to enable the person to whom it may be made to carry on some public service. Such advances are obviously not final payments, and no question can arise normally as to their being charged in the account. A doubt may, however, sometimes exist as to whether a grant is made as a grant in aid which may be properly charged finally to the vote irrespective of whether the money is spent or not, or as an imprest of which only the actual expenditure may be charged. As an illustration of this may be mentioned the provision made for the technical training of soldiers for civil employment. An allotment of funds was made to the local military authorities for that purpose, and the gross issue was made a final charge to the vote, the

¹ The word is derived immediately from the Norman French *in prest*, and thence from the Latin *præsto*, and was in very early use to denote sums advanced on loan to carry out special services. 'Sometimes the King's money was issued by way of Prest or Imprest, *de præstito*' (Madox, *Antiquities of the Exchequer*). An entry appears in *Mag. Rot.* 5 Ste. Rot. 16 a (1140) 'De præstitis regis, quas rex ei præstitit quando Imperatrix venit in Angliam.'

1 R.
1876, 67

2 R.
1896, 4

2 R.
1879, 12,
& T.M.

R. 1865,
App. i.
para. 24,
footnote.

2 R.
1900, 11

Cp.
C.P.M.
1856,
App. i,
p. 480.

unexpended balance being carried forward. Such grants were, however, in the nature of imprests, of which only the actual expenditure, up to the amount of provision made by Parliament, was a legitimate charge. The intention of Parliament was not to make a grant in aid on the ordinary lines, but merely to make provision for a class of expenditure of which the actual requirements could not be gauged, as the scheme was experimental, and therefore any unexpended balance was liable to surrender. A converse case occurred in 1893 when, by an oversight, a grant which was intended to be a grant in aid was not so described in the estimates, and in the absence of vouchers the sum issued was disallowed by the Comptroller and Auditor General. In such cases, if the heading of the vote is sufficiently explicit, or if a note as to the conditions is added to the estimates, the actual nature of the grant, and consequently of the conditions, is seen, and any possibility of doubt is removed.

4 R.
1894, 15

In the case, however, of advances made to contractors and others, and of payments by instalments, a question may often arise as to whether the advance or instalment is legitimately chargeable to the account of the year in which it is paid, or whether it should be charged to a personal account, pending the issue of the final payment or instalment possibly in a subsequent year. The introduction as final charges in an appropriation account of sums, other than those that are substantially final payments, is to be deprecated on general grounds as contrary to the principles of sound finance; but cases may and do arise in which exception to this rule may be legitimate and even expedient—as for instance, when payment, though an instalment, secures a legal title to, or legal rights over, property, without any risk of a loss of public money. Payments to contractors should, whenever possible, be spread over the year, and not made in large sums at the end of the financial year. It is therefore desirable that forms of contract should be adopted which provide for payment by frequent instalments for defined portions of completed work. If this is done no doubt can arise as to the legitimacy of charging such instalments as paid to the vote.

3 R.
1894, 43,
T.M.

2 R.
1881, 83

3 R.
1891, 12

2 R.
1892, 3

4 R.
1890, 5-9,
T.M.

Though the conditions under which it is permissible to make advances are not material to a consideration of the question of their classification when made, yet the attendant

circumstances in each case must be taken into account as governing factors of classification. So far as the latter is concerned, the general principles are much the same as in the case of final payments.

1. The maximum with which the vote can be charged is the total actually paid out as advances during the year, and nothing more.

2. Only so much of this can be charged as is for stores or work of the requisite quality.

If payment was actually made for stores within the year, it is not material that they should have been inspected and passed within the year; but until they have been passed and the conditions of the contract fulfilled, the vote cannot be charged. This must necessarily be done before 30th September. Except in certain cases (specified below), the stores must, however, be delivered within the year, otherwise the payments made should be treated as imprests and not as final payments. When, in admissible exceptional cases, the broad rule is departed from, the department should inform the Comptroller and Auditor General of the reasons for its action. If advances are made for stores delivered, but not inspected, the correct procedure is to charge the advance payment in the first instance to the contractor's personal account and not to the vote. When the stores are accepted, the value of such as pass proof, up to a maximum of the amount advanced, will be charged against the vote for the year in which the advance was made (if the accounts are still open), the personal account being cleared to that extent. Any portion of an advance which represents the value of stores delivered, but rejected, can only be charged to the vote of that year, if the stores are replaced within the year and duly passed, but not otherwise.

Similarly, the fact that payment may be made to a contractor under guarantee to make good, if necessary, any defects in the stores supplied is no justification for the charge against the vote of the value of such stores in the absence of the receipt of a satisfactory certificate of inspection, unless the contract actually requires the payment to be made within the year, and the contractor gives a guarantee to repay the sum advanced if the stores fail to pass inspection, when the payment may be charged to the vote.

Generally speaking, therefore, payments should not be

1 R.
1873, 7
(2)
R. 1874.
132
2 R.
1890, 17,
T.M.
1 R.
1908, 19
2 R.
1908, 18,
& T.M.
5 R.
1909, 6

3 R.
1911, 6;
T.M.

- 2 R.
1881, 84 made, except in very special cases, until the conditions entitling the contractors to receive such payments have been fulfilled, especially as there is a natural tendency at the close of a financial year to make advances or payments on account rather than to have to surrender a balance and increase the burden of a subsequent year. In no case should payments or advances be made before the contract is signed. It does not, however, follow that all advances not claimable under contract are irregular in themselves and are only made to avoid a surrender. Although a payment may be made at an earlier date than is named in the contract, it may be quite regular and may have been fairly earned. If money has been voted for a particular purpose and has been actually earned in the fulfilment of that purpose, it is clearly to the public advantage that it should be paid away for such purpose instead of being surrendered to the exchequer, for, otherwise, the charge would be thrown from one year, in which provision had been made, into another year in which provision for the work has not and could not have been made. A contractor may not be in a position to legally enforce a payment, and yet the payment may not be inconsistent with his contract.
- 4 R.
1890, 9
- 3 R.
1889, 14,
T.L.
Epitome
p. 230
- 2 R.
1888, 84

It follows, therefore, that there is an important exception to the general rule mentioned above as to the conditions which must be fulfilled before it is permissible to charge advances to the vote direct. If (1) the advance has been really earned, although not due; (2) the work done for which the contractor cannot claim payment at so early a date is work which has not been provided for in the estimates of the following year, but formed part of the programme of the current year, and has in that year been provided for by grant of Parliament; (3) the work done and the materials used are capable of identification on the premises of the contractors as having virtually become the property of the Crown; then payment in part or in full may be made at the close of a financial year and charged to the vote of that year direct, even though the payment is not claimable under the specific conditions of the contract. Interest, however, should be charged on all such advances, not provided for by contract, made at the request of the contractor and which he cannot have expected to receive. The payment of an advance not claimable, presupposes the existence of available money on the vote. If such a payment is likely to

- 4 R.
1890, 6
Cp. R.
1909,
App. 15
- 4 R.
1890, 5-9,
T.M.
- 2 R.
1885, 108

necessitate an excess vote there can be no justification for it. While exceptional advances to contractors should normally only be made under the above-mentioned conditions, it may yet happen that other circumstances might arise, in which these conditions are not fulfilled, where an advance might be justifiable in the public interests—such, for instance, as where, owing to the failure of the contractors, special advances are made to the receivers and managers of the company in liquidation to enable them to complete the work the contractors had in hand at the time of their failure. Under such circumstances, the advances would be justifiable as benefiting the public in securing completion of the work, but treasury sanction would be required.

1 R.
1886, 8,
T.M.

2 R.
1901, 5

The deduction of a fine from a contractor's bill in one year, and the remission and payment in the following year, make the original transaction practically an advance or payment on account. In such cases the normal rule should be followed and each portion charged under date of payment.

A somewhat similar type of case in which advances are frequently made is that of the purchase of property. It may happen that the whole or part of the purchase money is lodged in court, or deposited in a bank, or that an instalment is paid to the vendor in one year, but that the purchase is not completed till the following year. Generally speaking, sums cannot be considered as final payments when paid in respect of the purchase of property for the conveyance of which deeds have not been completed before the close of the financial year. The deposit of purchase money in a bank or in court pending litigation or negotiations cannot be regarded as an equivalent to a legal discharge on the part of the vendors. If, however, the department were in a position at the time to enforce the contract or agreement, such a payment might be admitted as a final charge, but not otherwise. The determining factor is, in fact, the question as to whether the transaction is practically final and irrevocable, and it is no longer possible for either party to recede from their bargain. In these, as in other cases, the responsibility for including an item in the account rests primarily with the department. The latter cannot include the item 'subject to the Comptroller and Auditor General's concurrence,' but if satisfied itself of the legitimacy of the charge it may include it and leave the

3 R.
1894, 43

R. 1887,
10

2 R.
1888, 6,
& T.M.

Comptroller and Auditor General to report it for disallowance if not himself satisfied. If the Public Accounts Committee agrees with the contention of the Comptroller and Auditor General, disallowance would ensue, and the balance to be surrendered be increased *pro tanto*.

R. 1884,
146,
T.M.

It is to be understood, however, that this procedure would be adopted only in cases in which the expenditure is reported as being not chargeable to the year's accounts. If the error were merely one of classification as between different votes of the same year, and there were no intention to finally disallow the charge, a record of the fact of the erroneous classification and of the proper course to be taken in future would sufficiently meet the needs of the case. The effect of a definite disallowance against the expenditure of the year in which the charge was incurred would be merely to transfer it as a charge of identical amount to the account of a later year under a different head; while the department would be required to surrender a balance which had been correctly spent though wrongly classified, and Parliament to re-vote the amount in the following year. Simplicity and accurate representation of the facts are the objects to be aimed at, and these are secured by allowing the charge to stand against the account of the year in which it was incurred, and calling attention to the erroneous classification in the subsequent reports on the account.

It has previously been pointed out that a payment to an agent is not a final payment and cannot be included in the account as such, but that the date of payment to the ultimate payee determines the account in which the vote is to be charged. The same principle holds good in the case of agent departments. One department of the state frequently acts as an agent, and makes payment or receives sums on behalf of another department. It has already been explained that transactions of this nature are distinct from those which one department renders to another, and for which it has been laid down that no payment shall be made. In the latter case, the service is performed as the normal function of the department which renders it—as for instance, the supply of stationery and similar stores to public departments by the Stationery Office. In the former case the service is performed because facilities

exist for its more convenient administration by the agent department or for other such reasons—as for example, the payment of army, navy, and old age pensioners at post offices. For such services, the agent department must obtain afterwards repayment from the principal department or receive advances from it in respect of such transactions. So far as the agent department is concerned the payments are merely in the nature of provisional advances, which are recoverable from the principal department. When, therefore, such payments are made which are capable of being treated as advances and charged direct to the department at whose instance they have been made, neither should the amount estimated to be received in repayment be included in the estimates as an appropriation in aid, nor should the expenditure incurred in the capacity of an agent department be estimated for under that department's vote. By this method of procedure, fictitious increases of the public expenditure are avoided. The Indian or a colonial government may also act similarly as the agent of a department of the home government for the payment of pensions and other specific purposes. The necessity for a cash adjustment in such cases is obvious, since other than Imperial funds are involved.

The method of repayment by the principal to an agent department varies according to circumstances. It may be made by instalments during the year or in bulk when the accounts have all been received and examined by the principal department. It may be made partly within the year in which the payments are made by the agent department and partly after the close of the year, or it may be made wholly after the close of the year. The question as to the date of recording such payments was finally decided in 1877, after having been the subject of discussion for some years, the point at issue being as to whether they should be finally charged to the vote of the principal department as occurring at the date of advance by the agent department or at the date of repayment by the principal department. The decision arrived at by the Treasury, in which the Comptroller and Auditor General and the Public Accounts Committee concurred, was to the effect that such payments should be charged against the vote of the principal department as occurring at the date of the advance by the

R. 1882,
T.M.,
28, II.

R. 1877,
53, &
H.C.
18/1877,
Epitome
P. 67

agent department, provided that the appropriation account of that vote, for the year in which the advance was made, be still open. If, however, the appropriation account be closed, the payment must be charged to the earliest vote of the same account still open at the principal department, and, if there be no longer a vote for that special service, application must be made to the Treasury to provide funds. Whichever method of adjustment is adopted, therefore, between the departments, and whatever the date or dates on which the payment in refund is made by the principal to the agent department, the classification in the account of the former as between one year and another is not affected. In this respect the payments to the agent department are treated on similar lines to those made to a sub-accountant—that is to say, the date of charge in the account of the principal department is governed by the date of payment by the agent department. The same rule holds good in the case of receipts by one department on behalf of another, and also in regard to the value of stores issued by one department to another on repayment, up to the extent to which the transaction is covered by advances made prior to 1st April.

The extent to which this rule can be complied with depends on the promptness with which inter-departmental claims are rendered. The decision arrived at is not merely arbitrary, nor the arrangement permissive, but intended to be obligatory as defining a principle, and the Treasury impressed upon departments the importance of the early settlement of all inter-departmental accounts, in order that the desired result might be attained. The Public Accounts Committee endorsed the opinion of the Comptroller and Auditor General that 'it is of the highest importance to secure that all moneys spent by one department acting as agent for another should be included in the appropriation account of the latter for the year in which the expenditure took place, and the same rule should be enforced, as far as possible, in the case of supplies issued by one department to another on repayment.' It is to be remembered, however, that when a department has bought stores for its own use, the cost has of necessity been charged at the time of payment to its own vote, and the above procedure is therefore only applicable either when it is necessary to replace

3 R.
1881, 15

R. 1882,
T.M.,
28, II. (2)

the stores sold—as, otherwise, no repayment takes place—
or when one department buys stores as an agent for another
department and is able to charge the cost direct to that
department.

A further point remains to be mentioned in considering
the question of final payments. Care must be taken not to
exclude from the account sums which ought to be made final
payments. Normally a loan is not a proper charge against the
vote unless there is provision made in the estimates for it.
If work is done on repayment, and necessarily or advisedly
paid for by the public, provision should be made for the service
in the estimates, and for the repayment under appropriations
in aid. If it is not foreseen, a special sub-head should be
opened subsequently with treasury sanction, indicating that
it is a loan to be repaid. And so, too, with loans of magnitude
for other purposes. The charging of loans to a suspense ac-
count, pending recovery, is only applicable to charges of small
amount, because the suspense account has usually to be financed
out of voted money, and, subject to the Comptroller and Auditor
General's report, Parliament might have no knowledge of the
fact that public money was being so utilised. The effect of
charging a large loan to a suspense account might be that the
exchequer would be unable to issue the full amount of the
grants, and if the department immediately concerned found
it necessary to spend the whole amount granted by Parlia-
ment on the services provided for in the estimates, the result
would be an overdraft on the vote account. The objection
to a suspense account with a debtor balance is therefore,
in principle, very strong. If public money is legitimately
used for such a purpose as a loan, it is consequently preferable
to make the loan a final charge to the vote and to give up the
repayments, when made, to appropriations in aid. Advances
made by way of loan to contractors in respect of additional
capital to enable them to undertake a contract, or banking
advances made to assist them in financing their commitments,
and other advances of a like character, might be treated in
this manner. The Treasury is of opinion that although such
advances or loans are not final payments, yet they can be
legitimately charged to the vote, and are not to be included
in the phrase 'imprest or advance' in Section 24, Exchequer

3 R.
1881, 6
(b)

R. 1909,
Ev. 18,
25, 42

Army
Appn.
Acct.,
1915/16,
pp. 63-66
H.C.
34/1916

and Audit Act, 'which refers primarily to sums advanced by an accounting officer to his sub-accounting officers to meet expenditure on his behalf. . . . The circumstances are, however, essentially different in cases where Parliament in granting supply has, either expressly or by implication, authorised the accounting officer to make advances by way of loan.' In these cases the accounting officer who has made a loan under due authority is entitled to discharge in his account in respect of it, and the fact that it may be repayable in a subsequent year in no way affects this right. The importance of charging the vote in such cases, on making the advance, lies in three directions: in the first place it enables the condition to be fulfilled that 'the appropriation account should be narrativel and should exhibit clearly for the information of Parliament the actual transactions from voted moneys'; and in the second place it ensures the advances being brought to credit and to the notice of Parliament without delay, for 'the public accounts would bear but little relation to the facts or to the grants of supply if the record of loans issued required to be suspended until detailed particulars of their application were forthcoming'; while, finally, it obviates the necessity for using voted moneys to finance suspense accounts.

Although, however, the charging of recoverable advances to the parliamentary vote may be technically correct and even desirable, when provided for in the estimates, yet the general practice has not been viewed with favour in the past by the Public Accounts Committee. When the practice is adopted, provision should preferably be made in a special sub-head, but if this is not done the charge against a normal sub-head should be clearly brought out in the account by note or otherwise, in order to make it clear to Parliament that the expenditure concerned was in the nature of a loan. When, as in the case of the present war, such loans are made from vote of credit issues, and therefore parliamentary provision can only have been made by implication, the charges may be legitimately made direct to the vote, with treasury authority, provided that the terms of the vote of credit are drawn sufficiently wide to include items of this nature.

As has been previously stated, the same general rules apply to the classification of receipts, *mutatis mutandis*, as to that

Cp.
Navy
Appn.
Acct.,
1915/16,
p. 17;
H.C.
39/1917

of expenditure, and normally no credit should be given to a vote unless it is finally due to the public, except in those cases in which provision is made in the estimates for credit to appropriations in aid in one year of a sum which will eventually be reissued, when such reissue would be then provided for under the vote of the year in which it was to be made.

Before concluding this portion of the subject a brief reference may be made to a point which is occasionally liable to raise discussion and argument. The rule as to classification of final charges or credits alone to the vote is legally applicable only to such items as appear in the appropriation account when presented to Parliament. It is such an account only as is legislated for by the Exchequer and Audit Act, and the provisions of section 27 of the act are complied with if no items appear in the completed account which are not final. This object is best secured, however, by the strict application of the principle of that section not only to the completed account but also to each separate monthly portion. There would, however, appear to be no illegality in treating the periodical accounts on a different basis, and admitting therein items as provisional charges or credits to the votes, even though not at the time fully or properly vouched, provided that safeguards existed for ensuring that no such item remained in the completed account, unless, before the latter were rendered, the voucher were in order and supported a final charge or credit. But though it can hardly be argued that the act of itself requires the extended application of it to the periodical accounts from which the final account is prepared, yet it has been generally considered as an abstract principle that until a charge or credit can be supported by a sufficient voucher it should not be allowed, even provisionally, against a vote. Such a principle is sound and normally facilitates both the work of the audit office as well as possessing advantages for the accounting department. As regards the former, it enables the audit of each periodical account to be finally completed at the time; while, from the point of view of the accounting department, the procedure induces promptitude in the provision of complete vouchers for expenditure incurred, brings home to the spending officer the extent of his liability, and safeguards the public against loss without

Cp. 2 R.
1890, 5;
& R.
1891,
Ev. 550

requiring any special machinery to be set up for securing the production of belated vouchers or the relief of a vote which had been temporarily debited or credited. Circumstances may, however, exist in which this normal principle may be advisedly waived without such action conflicting with the Exchequer and Audit Act; as, for instance, in the admission against army votes of the total pay due to soldiers monthly, whether issued or not, subject to a final settlement at the end of the year when the vote is relieved of the amount previously charged which has not been actually issued; and, again, in the allowance provisionally against the vote, in certain cases, of charges made by army company commanders in their monthly accounts, although incompletely vouched at the time. Normally, however, the provisions of section 27 of the act are in practice applied to the periodical accounts as well as to the final account, and the vote should not be used as a suspense account, even provisionally, except in special cases which have been approved by the Treasury.

In the foregoing remarks, the question of the correctness of classification as between one financial year and another has been considered as affecting the amount of balance to be surrendered; an equally important point for investigation, as bearing on that point, is the justifiability and legality of expenditure. Broadly speaking, all expenditure is justifiable which has been estimated for, if spent in accordance with treasury or departmental instructions and regulations; but since the estimates are framed considerably in advance of the expenditure, and can only state the proposals in most cases in general terms, there must necessarily occur both expenditure which cannot be definitely identified with the estimates, as well as expenditure which is found to be necessary though not estimated for. For incurring such expenditure, the effect of which is to reduce the balance to be surrendered to the exchequer, a department must be prepared to justify its action, if required, by proving that it is in accordance with the intentions of Parliament or has been specially approved by competent authority. The fact that a department finds itself towards the close of the year with an available balance, due to an original over-estimate, is in itself no justification for its arranging to use such balance on other services not previously estimated for, nor can it legally

use that balance for services other than those for which it was appropriated by Parliament, without superior authority. So far as the classification of such expenditure is concerned the normal rules apply. The fact of services being carried out which ought to have been postponed is immaterial to the question. Provided the expenditure has in point of fact been incurred, and is otherwise in order, it is chargeable against the year in which incurred. The same is true of expenditure in excess of parliamentary provision. In other words, the rules of classification are not affected by the fact that their application will either on the one hand reduce the amount to be surrendered, or on the other hand necessitate or increase the size of an excess vote.

There now remains to be considered the second class of questions of classification—that in which no question arises as to whether the item concerns one year rather than another, but as to the pertinent heading of the account to be charged or credited.

The strict appropriation made by Parliament of its grants requires that the classification of all expenditure should correctly follow that appropriation, and the audit of the Comptroller and Auditor General, in so far as it is an appropriation audit, is devoted to this purpose. Since the estimate is the precursor and foundation of the account, the estimates for the year afford the primary basis by which the classification of that year's transactions is mainly to be governed. 'A detailed classification of services in the estimates facilitates the classification of payments, limits the discretion of the accountants, and leaves less room for difference of opinion as to the vote to which a payment is properly chargeable;' the descriptive titles and explanations of the various heads should therefore be framed with the utmost possible precision. But for various reasons these estimates, however carefully and exactly prepared, cannot be an exact forecast of the year's expenditure or receipts either in amount or in kind; nor would it be possible, without unduly increasing their bulk, to specify in detail all the particulars which govern classification. Belated payments provided for in a previous year have to be made, or payments

C.P.M.
1857,
APP. I,
P. 527

2 R.
1878, 13

provided for in the current year's estimates have to be postponed ; errors in previous years' accounts are brought to light and have to be dealt with ; unexpected payments have to be brought to account for new services not contemplated when the estimates were framed ; unforeseen receipts may be realised ; services provided for in the estimates are abandoned ; and even in the case of services provided for and performed, some doubt may arise as to the head under which provision was intended to be made.

If no question of doubt arises as to the head under which provision was made, it is essential that the charge in the appropriation account should be strictly classified in accordance with the estimates. No such consideration as to whether any other vote has received the benefit of the service should be allowed to interfere with the correct classification of the charge to the vote under which it was estimated for, though no doubt it is desirable as a general rule that the vote which receives the benefit should bear the charge. If, however, a service is one for which no estimate has been taken, the cost must be borne by the vote under which provision would have been made had the service been foreseen ; and the fact that a supplementary estimate would be necessary or that an excess would be caused should not prevent the adoption of such a course. In the case of transfers of stores between votes, the same principle holds good as regards the original charge, whatever subsequent adjustment may be made.

But again, items are sure to occur which may not improperly be charged to one or other of two votes. They may, for instance, be either charged under their technical description or with the service to which they belong, and it may be a matter of opinion as to which heading they should be charged under if the estimates afford no specific information on the point. It is important that facts should be recorded in such a manner that they will not escape attention, and therefore the classification to the latter heading would probably be preferable as, from a practical point of view, the total cost of a service is often required, if not at the time, possibly in the future. The classification to the former head might, however, be equally correct from the appropriation point of view. Care should, of course, be taken in either case to see that the heading

2 R.
1888, 80

2 R.
1892, 6

2 R.
1883,
6-7,
T.M.

of the vote will cover the expenditure which it is proposed to charge to it. To make the point clearer, two instances may be given. Land is bought for the Houses of Parliament and the purchase involves some legal expense. The latter is clearly a law charge and if classified according to its technical description, should be charged to the law charges vote. On the other hand, it is clearly part of the charge for the site of the Houses of Parliament and could properly be charged as such. The advantage of such procedure would be that the facts would be so recorded that there would be no possibility of the charge being lost sight of, as part of the cost of the service, in case it became necessary to ascertain the actual cost, whereas if charged to the law vote it might escape the notice of anyone preparing a total cost statement in the future. Again, the expenditure involved by damage to colliers might go to the cost of fuel, as being part of the cost of the service of provision of fuel, or to the heading for compensation. The expenditure would be a legitimate charge to either head in the absence of special provision having been made in the estimates for the service under one or the other head. In all cases of this sort, however, if the charge is made under the technical head, information as to the total cost of the service can be conveyed by means of a note ; thus the cost of the damage done to colliers in the process of coaling during the year, if charged to compensation, would be noted against the heading 'cost of fuel.'

While, then, the estimates supply the main foundation for dealing with general questions of classification, there must be transactions frequently arising as to which no information can be obtained therefrom, and about which some doubt may be felt as to how they should be treated. Further, it must be borne in mind that the fact of a service not being specifically mentioned in the details of the estimate is no evidence of its being irregular or unauthorised ; for a vote is legally applicable to any service covered by the terms of the resolution granting the vote. The circumstances under which such cases arise vary so much that no hard and fast rules can or should be laid down. Each must be dealt with as it arises, all the attendant circumstances must be considered, and the general principles applicable to the preparation of all public accounts must be reviewed to ascertain to what extent they will affect it.

2 R.
1883,
6-7,
T.M.

R. 1910,
Ev. 163-
-173, &
576

Cp. 2 R.
1881, 54

2 R.
1911, 6,
T.M.

On the other hand, if a service is estimated for under a certain vote, the expenditure thereon is correctly chargeable to that vote even though it may be thought later that provision would more correctly have been made under another vote. Thus, in 1909-10 a works service was provided for in, and charged to, the office of works vote. The Public Accounts Committee recommended that the charge should be borne by army votes, but the Treasury pointed out that, as provision was made in the former, the course recommended would be directly contrary to the general rule that charge follows provision. Still less can there be any justification for transferring a charge from one vote or item, where it has been correctly provided for, to another in order to save an excess or reduce the amount of variation from the estimates. 'Though criticism may be directed against bad estimates, far more serious consequences will follow if, in order to make it appear that the expenditure agrees with the estimate, the accounts are falsified,' e.g. by the transfer of stores and wages from one item to another. If such transactions were considered justifiable, no system of accounting would be of any value.

3 R.
1907, 19

2 R.
1907, 42

1 R.
1876, 65,
& T.M.

If no provision has been made in the estimates for the continuation of a service which was commenced in the prior year, the charge should still be made against the corresponding sub-head to that under which the service was commenced in order to enable the total cost to be more easily traced, in preference to classifying it to a miscellaneous heading.

The estimates of the year are framed to show anticipated expenditure and receipts separately, the former being classified under the different debit sub-heads of the votes, while the latter appear mainly as sums to be appropriated in aid of each vote or subdivision of a vote. In the normal course of events, therefore, every payment made during the year is chargeable to one or other of the debit sub-heads, while every sum received during the same period is credited to one of the credit sub-heads to be appropriated in aid of the vote. The correct heading to which an item should be classified is that under which provision has been made; and though, for purposes of comparison, provision is usually made under

the same vote for the same class of services in successive years, this is not always or necessarily the case. It is, therefore, not possible or desirable to lay down any rules as to classification of this nature other than the general one,—that classification follows provision. Some consideration is necessary, however, of the circumstances under which a credit may be given to a debit sub-head or a charge made against a credit sub-head.

It will be convenient to first state briefly the general underlying principles, and to discuss them in more detail afterwards.

1. Credits to debit sub-heads are only admissible :—
 - (a) When such credits are specifically provided for in the estimates.
 - (b) When it is necessary to adjust an overpayment or incorrect charge in the current year, or in the prior year if the accounts are still open.
2. Charges against appropriations in aid are permissible :—
 - (a) In respect of sums previously credited thereto in the current year (or the prior year if the account is still open) to adjust an error of classification, or when repaying an erroneous credit.
 - (b) In respect of sums previously credited in a closed year's accounts, when repayment of the previous credit has to be made in the current year.

On general grounds the system of giving credits to debit sub-heads is objectionable, as it increases the spending power of a department beyond the provision made for it by Parliament. Unless such credits are unavoidable, they are in principle wrong. If deliberately made for the purpose of financing the vote and increasing the spending power, the objection is all the stronger. It will, however, be at once seen that this objection is not applicable to the two classes mentioned above, in which credits to debit sub-heads are admissible.

In the first case, provision having been made in the estimates, the effect of the credit has been brought to the cognisance of Parliament, and only the net amount of the debit sub-head is voted. The nature of the service is set out clearly and specifically against the sub-head concerned, and the credit of receipts for that service to the sub-head, instead of

3 R.
1895, 17
Cp. 3 R.
1891, 18

Cp. 2 R.
1892, 9—
11

to appropriations in aid, follows the provision made. This method of estimating in particular cases is solely a matter of financial administration. Its effect is, as is the intention when the estimates are framed, that receipts for the particular service are appropriated in aid of the sub-head which bears the cost of that service instead of in aid of a group of sub-heads or of the vote as a whole.

The correctness of the procedure of crediting the debit sub-head to adjust overpayments or incorrect charges in an open account is obvious, if it is realised that the effect of the overpayment has been to spend money otherwise than provided for by Parliament. It must be further borne in mind that votes are appropriated to the exclusive service of each particular year, and consequently the vote of one year is independent of the vote of the preceding or succeeding year. An overcharge against the vote of one year cannot therefore be adjusted, or indeed affected, by giving credit to the same vote of another year. From this it follows that if the debit sub-head has been erroneously charged it must be relieved at the earliest possible moment, and such relief can only correctly be given by re-crediting the sub-head with the amount overcharged, so long as the accounts are open. It would be wrong to leave the debit sub-head of one year charged with an overpayment, with the intention of recouping the public by crediting recoveries when made, either to appropriations in aid of a succeeding year—for this would still leave the earlier year's accounts charged with an inadmissible item—or even to appropriations in aid of the same vote for the same year; for in such case, although the net result to the vote as a whole as well as to the year's accounts would not be affected, yet the debit sub-head would remain improperly charged, and appropriations in aid at the same time improperly credited with an item not provided for in the estimates of either.

If the erroneous charge was merely due to a mistake of accounting, the necessary transfer can be effected at once by charging the correct sub-head and recrediting the debit sub-head which had been charged in error. If, however, the complete adjustment cannot be made as soon as the error is discovered, the erroneous charge must be temporarily transferred to a suspense account, pending a refund of the overpayment,

when the latter account would be cleared. If, owing to the overcharge not having been discovered sooner, or for any other reason, the vote had not been relieved prior to the receipt of the cash refund, credit would then be given direct to the debit sub-head which had been overcharged, if the account were still open, irrespective of whether the cash is received before 31st March or after that date. It will be observed, therefore, that if the refund is made after 31st March and while the prior year's account is still open, the classification of the receipt does not follow the normal rule as to being credited under the date of receipt, the credit being required to relieve the erroneous charge against the prior year's vote. The exception is, however, more apparent than real; for such a refund cannot be termed a receipt in the proper sense of the term, being the correction of an error only.

Distinction must be made between cases in which the original charge was actually erroneous or inadmissible, and those in which it was properly made although its effect may have been neutralised by a subsequent transaction. Thus, in the case of stores purchased and re-sold, the original charge would correctly be made against a debit sub-head in the normal course, while the re-sale would be treated as a separate transaction and the proceeds credited to appropriations in aid, under date of receipt of the money. When provision is made in the estimates for the purchase and re-sale, and the stores are taken on charge and form a proper and final charge against the vote, there can be no difficulty about the classification and the principle on which it is based. When, however, cases arise which have not been directly estimated for or foreseen, e.g. transactions on active service, the facts of each case require to be examined before a decision can be arrived at as to whether a subsequent transaction is a genuine re-sale or not. The guiding principle to be observed is that when a payment for stores, etc., has been finally and properly charged against the vote, any subsequent transaction by which a refund is obtained must be considered as in the nature of a re-sale, credit being given to appropriations in aid of the pertinent vote under date of receipt, and not to the debit sub-head which correctly bore the original cost. It is not essential that the stores, etc., should have been actually taken on

CP. 2 R.
1893, 51
& 52,
& T.M.

charge for their value to be considered as properly chargeable to a vote ; they must, however, have been paid for, and their delivery into the hands of the department at any rate implied. This principle is not applicable to cases in which the vote has been charged on a guarantee to make good if the stores are not finally passed, or if the terms of the contract require payment to be made before inspection takes place. In such a case, if the stores are finally rejected, the vote cannot be considered as having been finally and properly charged..

The following is an interesting illustration of this and other points of classification.

3R.1911,
4 & 5,
Ev.
1842-57

The Admiralty paid for armour plates in instalments over two years—1908-9 and 1909-10. On inspection, the plates were rejected and the payments made were refunded in 1910-11, while the accounts for 1909-10 were still open. The 1908-9 accounts were of course closed and the charge for the payment made in that year was indelible. The correct procedure would therefore have been to have used the refund of the 1909-10 portion to relieve the vote for that year of the incorrect charge against it and to have credited the refund of the 1908-9 portion under date of receipt to appropriations in aid of the same vote for 1910-11, the effect being that the whole of the refund would have been surrendered to the exchequer partly in 1909-10 and partly in 1910-11. As, however, it was necessary to purchase fresh plates, the refund was credited to a suspense account and utilised to buy the new plates, the expedient being adopted in order to adhere to the provision as made in the original estimates, though from a book-keeping point of view it was wrong. Had the correct method been adopted, and the cost of the new plates when delivered charged to the 1910-11 vote, that vote would have been charged with the full amount of the purchase, although no provision had been made for it in that year, and secondly, the naval expense accounts would have shown an inaccurate record of the total expenditure on the armour, as they would have shown the indelible 1908-9 portion, in addition to the full amount again charged in 1910-11. In view of these circumstances, the Public Accounts Committee allowed the charge to stand on the understanding that the procedure adopted were not regarded as a precedent. It may be observed, however, that the objection to carrying out the

correct procedure on account of the resulting incorrectness of the expense accounts could have been obviated by the addition of an explanatory note to those accounts.

When stores are sold from one vote to another, a somewhat different principle is involved. 'The justification for charging the vote that receives the stores with their value and crediting that value to a debit sub-head of the vote that supplies the stores, is that the latter vote is assumed to need the money within the year to which it is appropriated for replacing the stores, or else to have spent the money for the immediate purpose of the transfer, and to require its repayment within the year. To withhold payment in such circumstances would upset the estimate of the selling vote and would burthen it with part of the cost of a service for which Parliament had, at least implicitly, provided in the buying vote. But if this assumption be groundless, and the one vote does not really need to replace, or recover, the value of the stores which the other vote takes from it, either no cash payment at all ought to be made for the stores, and the transaction should be simply recorded by note on the accounts, or the cash payments should be credited to appropriations in aid, not to a debit sub-head. It will be seen, therefore, that the conditions justifying a cash payment, by the buying vote to a debit sub-head of the selling vote, can only occur when the payment, and any requisite correction of it, takes place in one and the same year as the original transfer of the stores.'

2 R.
1893,
51-2,
T.M.

The value of stores returned from one vote to another, in a year subsequent to that of their supply, should, if any accounting record is made, be carried to the credit of the vote returning them as an appropriation in aid; for the debit sub-head of the vote of that year has no title to the use of this money in addition to the provision made for it by Parliament, since the return of the stores implies that it does not require to replace them, and no money has been spent out of it on their original purchase. If the return of the stores to the original selling vote saves the purchase of other stores, it is justifiable to charge that vote with the value in order to credit appropriations in aid of the vote returning the stores; but if such is not the case, the transaction will be sufficiently recorded by a note on the account. It may be stated as a general principle that, when the service *Idem*

extends over more than one year and the amount affected is small, the value of *all* stores returned by one vote to another without regard to the year of supply, should be treated as an appropriation in aid.

A different principle is involved when stores are sold, not from one vote to another, but from an Imperial vote to India or a colonial government. So far as the service is estimated for, the payment would be credited to appropriations in aid, and the department would have made provision for replacement, if necessary, under the debit sub-head of the vote. But if stores much in excess of those estimated for are purchased, the additional purchase price must still be credited to appropriations in aid as an extra receipt and not to the debit sub-head which bore the cost of the stores. The department, therefore, is not at liberty to use such sums in replacing the stores, and it must either leave its stock depleted or, if replacement is necessary, effect it from savings or present a supplementary estimate, although it has not incurred expenditure in the conduct of its own service beyond the original estimate.

In all cases in which a credit is correctly given to a debit sub-head, care must be taken to see that the record of it does not hide the fact of expenditure under that sub-head. It might happen that a small expenditure had been incurred under a temporary sub-head to which a credit of greater amount was due. In such a case the gross expenditure and receipts should be shown in an inner column of the account, as otherwise the showing merely of a net credit on the sub-head might keep the fact of expenditure having been incurred from the knowledge of Parliament.

There now remains to be considered the question of charges against appropriations in aid. The circumstances under which such charges are admissible have been already stated generally. An essential condition to be fulfilled is that appropriations in aid must have previously been credited with the sum to be charged; that is to say, only amounts already given to that head can be charged, though it is not essential that the service on which the recharge is made should be identical with that on which the original credit was given. For instance, a payment made by a contractor for purchase of old stores may be credited to appropriations in aid; if the circumstances of the

3 R.
1881,
T.M., 21

2 R.
1893, 52,
T.M.

transaction necessitated compensation being subsequently paid to the contractor, such compensation might be legitimately charged against appropriations in aid, the implication being that the original credit was excessive.

If an item has been wrongly credited to appropriations in aid by an error of accounting, a transfer can be at once effected if the accounts are still open, the debit against appropriations in aid not involving any principle, and merely correcting what is practically only a clerical error. If, however, repayment has to be made of any sum previously credited to appropriations in aid, in a closed year's accounts, the charge must be made against the appropriations in aid of the same vote for the current year; that is to say, it is made under date of payment in accordance with the rule. If the repayment is of a sum credited in the prior year's accounts which are still open, the charge should strictly be made against appropriations in aid of the prior year to relieve that head of the credit which has now to be refunded, though, in such a case, it would have been preferable to have transferred the credit to a suspense account, if it had been known beforehand that the item was not to be a final credit. The procedure in treatment of such cases varies, however, in different departments, some of which make a practice of charging such repayments under date of payment; and to this no auditorial objection is raised, provided the departmental practice remains consistent. If the credit was given in the current year, the charge is made in the ordinary course against the head which has received the credit.

It must, however, be borne in mind that when the original credit to appropriations in aid was a final and correct credit, any subsequent repayment must be treated as a separate transaction, and charged under date of payment against the appropriate debit sub-head.

Indelibility of Expenditure

Before closing this subject, reference must be made to the question, which, in practice, frequently gives rise to discussion, as to the extent to which errors in classification in a closed account may subsequently be adjusted.

The general rule governing the expenditure of parliamentary grants is that when an item has been included in an appropriation account, reported on by the Comptroller and Auditor General, and sent by him to the Treasury for presentation to Parliament, the expenditure has acquired an indelible character of which no subsequent transfer can deprive it. The transaction is considered to be finally closed so far as the correctness of classification is concerned. The reason for this is obvious if the conditions of a parliamentary grant are considered. The appropriation account is a single non-cumulative account, prepared and rendered independently of the preceding and subsequent accounts. The surplus on the account, when finally made up, is not carried forward but is surrendered to the exchequer. If, therefore, by reason of an erroneous charge, the surplus on one vote or service is less, and that on another correspondingly greater, than it would properly have been, any claim by the one department on the other, or by one vote on another of the army or navy, in respect of the error in classification, lapses with the surrender of the surpluses on the respective votes to the exchequer. The account, and with it the erroneous transaction, is thus necessarily indelible from the moment when it ceases to be possible to correct the accounts of the respective grants. Any attempt to correct the error by making a transfer between the corresponding grants of another year would not only be futile, as they could not affect the closed accounts in which the error occurred, but would also be irregular, since in the absence of specific provision in the subsequent estimates, such transfers in respect of obsolete transactions could not be held to form part of 'the service of the year' for which the grant is intended to provide. The record of the error should be made by a note on the subsequent appropriation account.

Cp. 2 R.
1911, 6,
T.M.

R. 1874,
134

To the above-mentioned general rule there is one exception. Where joint works services, of which running accounts are kept, are being carried out by more than one department, adjustments of under or over charges between the departments may be made, upon subsequent inter-departmental claims, so long as the running account of the joint service is open, even though the original under or over charge may be in a closed account. But even in this case the adjustment

should not be carried out if the intention is merely to charge the vote of one department, in order to credit appropriations in aid of another. The justification for permitting an adjustment is the assumption that the department erroneously charged requires the money for the particular item, having estimated to spread its total cost over two or more years. If this is not so, not only can there be no justification for a refund but the transaction would also be contrary to the principle that no expenditure should be charged merely for the purpose of treating it as a receipt. If such adjustments are made and give rise to a short charge or overcharge to the vote of an appreciable amount, a note should be appended to the account explaining the circumstances.

Joint works services must not, however, be confused with those services which, though distinct, are jointly administered, such as the postal, telegraphic and telephonic services of the Post Office. In such cases the expenditure incurred is classified proportionately, as far as may be, to the extent to which each service is concerned. When the accounts are closed and presented to Parliament, the expenditure becomes indelible and no subsequent adjustment can be made to rectify errors of allocation. For statistical purposes, however, it is in such cases necessary to record an error, and this should be done by a note appended to the appropriation account, stating the adjustment which should have been made between the two services.

5 R.
1890, 34,
T.M.

Somewhat different conditions prevail in the case of loan accounts and manufacturing accounts. Speaking generally, the same rule is to be applied under normal conditions; that is to say, when expenditure has been deliberately included in a loan account and reported on as loan expenditure and passed under the review of the Public Accounts Committee, it has become indelible. It has to be remembered, however, that in the case of military and naval works loans, there is no annual grant and no annual surrender of balances. The Loan Act usually provides for the rendering of an annual account and such account is cumulative so long as expenditure of the loan money continues. So far as the erroneous classification of an item to one head instead of to another of the loan is concerned, no adjustment should be made after the annual

account in which it was included has been reported on. The expenditure becomes indelible. But if the error is between the loan account and the appropriation account of an annual vote, there is more justification for permitting an adjustment ; for this involves immediately, though not ultimately, an actual gain or loss to the exchequer ; that is to say, it produces a financial effect on the year's finances and thus does not possess the inherent objection to making an adjustment which attempts to correct a past error merely by a book-keeping entry in the current year. On the other hand, the effect of adjustment is either to charge to a loan expenditure which has already been accepted by Parliament as a charge to the annual vote, or to relieve it of expenditure which has already been audited, submitted to Parliament, and accepted as a proper charge to the loan. The adjustment therefore possesses objectionable features and should only be made in the case of joint works services and in exceptional cases. If considered essential, it is preferable that it should be regularised by the inclusion of the amount in the estimates of a subsequent year under the vote or under appropriations in aid as the case may be. The justification for the adjustment should be the necessity for the money, and not merely the incorrectness of the original charge ; and, consequently, the occasion for it would be practically limited to an erroneous charge to the loan, that is to say, to the account which remains open and of which the total available money has already been fixed. If the erroneous charge has been made against the vote from which funds were then available to meet it, there would not be the same necessity for refunding the money to the corresponding vote for a subsequent year for which separate provision had been made. On the other hand, the effect of making no adjustment is, by relieving the loan of a charge which should have been made against it, to increase the spending powers of the department under the loan, or in effect to increase the amount of the loan. To this, however, the sanction of Parliament may be implied by the acceptance of the charge against the vote. Errors in ordnance factories' manufacturing accounts are on a still different footing, in that the factories are run on what is termed a commercial basis, and errors should be adjusted on the principles applicable to business transactions. If a factory has

failed to recover from a customer in a given year any portion of the expenditure incurred, it should subsequently do so by means of a claim on the department in a subsequent year, irrespective of the closing of the year's accounts. Similarly in the case of overcharges, a refund should be made by the factory to the department, even though the original overcharge has been accepted against the parliamentary vote and become indelible. So far as the vote is concerned, there is no need for a refund of the money; but it is an incorrect profit to the factory, and therefore requires adjustment. If, however, the error consists solely in the charging of the wrong department, and any adjustment would be made entirely outside the factory accounts, no such adjustment should be made except as mentioned below in the case of claims on India, the colonies, or the trade, etc., though the error in charge would be brought to the notice of Parliament by means of a note on the next appropriation account.

The foregoing rules would naturally apply only to inter-departmental transactions proper, with regard to which the exchequer is both debtor and creditor. If a charge has been made against a parliamentary vote, which should have been made against Indian or colonial revenues or other funds, the Imperial exchequer is obviously entitled to a refund, even though the charge to the vote has been audited and passed. The classification cannot then be affected, but the erroneous charge requires adjustment. The refund, therefore, is credited to appropriations in aid as an extra receipt, and not to the debit sub-head corresponding to that which bore the original erroneous charge. Similarly, too, erroneous credits in factory accounts, where other than parliamentary accounts are concerned, must be adjusted. The indelibility of the credits cannot bar a claim to refund made by any other fund than a parliamentary grant.

The same rule applies to public funds, such as savings bank funds, in which the exchequer is only indirectly interested; errors of charge or credit discovered to have been made, as between such funds and parliamentary votes, must be adjusted even though the vote account has been closed. That is to say, all cases of errors detected in closed accounts in which interests other than those of the exchequer are concerned, must be corrected by actual payment to, or recovery from, the

parties or funds interested, as the case may be, such payments or recoveries being brought to account in accordance with the ordinary rules for dealing with the assets and liabilities of public departments.

IV. SUPPLEMENTARY INFORMATION APPENDED TO THE APPROPRIATION ACCOUNT

In addition to the actual record of payments and receipts under the different heads, their comparison with the estimates and the explanation of variations, supplementary information is required on different points in order to furnish Parliament and the Public Accounts Committee with all particulars bearing upon the expenditure of the grants.

It is often inconvenient or undesirable that such information should be embodied in the account itself, especially if of a statistical nature; for the appropriation account is a cash account and should be a straightforward record of cash transactions. It should follow the form of the estimates as closely as possible, and nothing should be included which will tend to detract from its simplicity; still less should any figures be included which are not susceptible of audit. 'Accounts, properly so called, are only really valuable when they are accurate records of facts in receipt and expenditure, which can be verified and relied on. Estimates, approximations and averages have undoubtedly their value for statistical and comparative use; but they are not what is understood to be the basis of an account upon which the appropriation or parliamentary record of a vote is framed, nor can the audit department be relied upon to ascertain or certify their accuracy.' All supplementary information should therefore be given in the form of notes, explanatory papers or statements, or by the publication of correspondence. The particular method of supplying the requisite information will depend on its nature and importance, the underlying idea being that the information shall be supplied in the simplest form compatible with bringing the facts clearly and intelligently to the notice, not merely of the Comptroller and Auditor General, but of Parliament.

R. 1911,
App. 3*,
p. 210

2 R.
1895, 30

On the other hand, unnecessary duplication should be avoided. If information is contained in papers otherwise presented to Parliament there should be no need to reproduce it as an appendix to the appropriation account with a view to making it more readily available for reference, unless it bears directly upon, and is required in connection with, the parliamentary audit. ^{2 R.} 1912, 18

Notes

A note appended to the pertinent vote or item in the account is the most concise and convenient method of drawing attention to any special point and constitutes the recognised and authorised procedure in certain cases. If more votes than one are affected, the case may be met by a series of notes under the respective votes with cross references, thus saving the preparation of a special explanatory paper embodying them all.

Speaking generally, explanatory notes are added to the appropriation account in those cases in which it is desired to bring matters to the notice of Parliament which are included in, but not apparent from, the figures of the account, or which cannot conveniently or correctly be embodied or detailed in the account itself and which are not sufficiently important, numerous, or regular to require the insertion of a paper or the opening of a special sub-head. Notes of this nature may either be added at the foot of the account of each vote or be inserted after the explanation of the surplus or deficit of the sub-head concerned. Their insertion is, as a rule, due to the expressed wish of the Public Accounts Committee that certain specific charges should be brought to light in this manner, more particularly in the case of damages and compensation charges which, from their nature, must have been incurred without the prior sanction of Parliament in other than a general sense of their possibility.

It is essential that all exceptional charges of this nature should be clearly shown upon the appropriation account for the information of Parliament, and not be included among the normal and regular payments without comment. The object in view may be achieved by the opening of a special sub-head

2 R.
1881, 60,
T.M.

of the vote, and this course has been on more than one occasion recommended by the Public Accounts Committee. In 1881 the Treasury agreed that, in accordance with the recommendations of the committee, a payment by way of forfeit or compensation for loss to a contractor should be charged to a separate sub-head instead of being treated as a payment for services rendered. In the following year, however, it decided that compensation for damages should not form the subject of a special sub-head, but that cases extraordinary in character or amount should be noted in the appropriation account. With this decision the Public Accounts Committee agreed. Unless the circumstances are very exceptional and the amount involved is large, a note appended to the account is equally effective.

2 R.
1883, 61,
T.M.

The present general practice in the case of losses of this description, other than fraud, is that laid down by the Treasury in 1886. 'Any payment by way of forfeit or compensation for loss to a contractor, or any fruitless payment for goods not supplied or for freight of goods not carried, should be made evident on the face of the appropriation account, the object being to distinguish genuine payments for goods supplied or service rendered from payments that are nugatory and represent a dead loss to the public. This object, however, may be attained by means of a note on the appropriation account, as well as by opening a separate sub-head; and my Lords think that the former expedient might suffice in many cases where the amount involved is not large (say not over £300) and the circumstances are of an ordinary character not involving fraud or default on the part of officers or contractors.' A payment for the cancellation of a contract or for works abandoned should, however, preferably be made the subject of a special sub-head. When a separate sub-head is opened in such cases, it follows immediately the appropriate vote heading, and if the charge is classified to the vote heading in connection with which the payment arises, the necessary note is appended in the margin of the general state. Thus, by either method, Parliament is clearly informed of the transaction.

Navy
App.
Acct.
1885-6,
p. 131
P.P.
vol. lii.,
1887,
p. 443

2 R.
1884, 10
& 179

4 R.
1892,
T.M., 16

So, too, in the case of exceptional charges, especially if included under such headings as 'incidents' or 'miscellaneous,' for which it is neither necessary nor desirable to open a special sub-head. In order that the inclusion of the charge may be

clearly explained to Parliament, special reference should be made to it by means of a note, and indeed this course is recommended in preference to an excessive multiplication of special sub-heads. Differences of opinion will no doubt arise as to whether any particular item is sufficiently important, in respect either of its character or its amount, to deserve special notice, and the question of insertion of a note must be a matter of discretion. This would usually rest with the authority who approves the expenditure. Even, however, if the charges are not exceptional but appear to be too large in amount to be included in a sub-head without further details, a note may often be added with advantage. As an example of this, the expenditure in 1910-11 on science and art buildings was £1,500, which included £935 for minor works. The Public Accounts Committee considered that some rough analysis or note should have been added in such a case. On the other hand, where details are fully set out in the estimates it may be unnecessary to repeat them in the account, and notes may merely be given to explain variations from the estimate.

R. 1912,
Ev. 239
241

Idem,
474

A further class of exceptional expenditure which requires to be noted is that which is not supported by such vouchers as would, in the ordinary course, be produced. Cases of this sort most usually arise in connection with the loss of vouchers due to active service, miscarriage in the post, etc. The admissibility of the charge depends upon the circumstances of the case and the evidence available, or indirectly obtainable, as to the probable correctness of the charge. If no evidence is obtainable as to the nature or particulars of the expenditure which would justify its charge against the vote as vouched expenditure, it must either be charged as a loss or disallowed against the officer responsible; but if the circumstances justify a charge against the regular sub-head a note of its inclusion must be appended. It is the duty of the Comptroller and Auditor General to bring all such exceptional expenditure to notice; but this may be done by the insertion of a note on the account on his recommendation, if not previously inserted on the initiative of the department or by direction of the Treasury instead of leaving it to be mentioned in his report: and more correctly so, as the appropriation account should be as complete as possible in itself when presented to Parliament. Again, pay-

2 R.
1883. 6c
& T.M.

ments which may be quite legitimate, but are not strictly covered by the wording of a grant, should be specially brought to the notice of the Public Accounts Committee, and this may be sufficiently done by means of a note.

In the cases of loss by fire or shipwreck, it is important that Parliament should be informed of the effect on the public purse. The loss may not affect the current year's cash vote at all except in so far as replacement actually takes place during the year. Even, however, if it were possible to identify the original charges as belonging to the current or a prior year, this would be immaterial, for such charges would have represented final transactions which could not be affected by the subsequent loss. No book-keeping entry could therefore be correctly made in the cash account to adjust the loss of stores. A note under each vote, which purchased the stores, etc., originally, sufficiently explains the loss which the public has suffered, and incidentally suggests the additional burden which may be thrown on the respective votes in making it good. Such notes, as regards the army and navy, are only inserted when the net loss, after crediting any sums recovered, exceeds £1000, provided it is due to causes beyond the control of responsible persons.

3 R.
1911, 7.
T.M.

2R.1894,
15 T.M.

2 R.1895,
29-31

1 R.
1905, 29

R. 1864,
16 & 17

Cp. 2 R.
1879, 20,
T.M.

On the same principle it is necessary to inform Parliament of such transactions as exchanges of lands, which involve no money payment and therefore do not appear in or affect the cash account of the year. This information may either be given in a note or in a paper appended to the account.

When a department incurs in one year expenditure which involves future liabilities other than those arising out of current contracts, the fact of the existence of such liabilities should be made plain to Parliament, as they in effect anticipate the votes of succeeding years. In the case of works, the estimates supply this information as to buildings commenced or anticipated at the time the estimates are presented, and a statement is prepared showing the estimated total cost, the amount already spent, the amount estimated for in the next following financial year, and the further amount required for completion. For other services, the particulars of any special liabilities that may have been incurred beyond the grant should be explained in a note appended to the appropriation account:

but this applies only to cases in which the payment in respect of the liability, though due in the year to which the account relates, is postponed by agreement, or because it has not been possible to take the usual steps antecedent to payment.

Statistical figures when not set forth in a statement should, if required, be given in a note. Thus, in the case of the amounts received from the public in repayment for the material of post-cards, wrappers, etc., as distinguished from the amount representing pure postal charges, it is impossible, without disproportionate expense to distinguish the two classes of receipt so as to bring them under different heads of revenue. The estimated figures in each case are therefore only approximate, and prepared for statistical purposes, and are properly recorded by means of a note. Similarly, in such cases as the schedule of losses by default on postal and post office savings bank services, a note is added of the approximate number of transactions during the year under each of these headings and the amount of money they involved, thus supplying Parliament with statistical information as to the relative proportion of loss to transactions, which could not otherwise be obtained from the cash account.

Adjustments, when necessary, of figures in a prior appropriation account must likewise be recorded by means of a note and not by book-keeping transactions. To include in an account amounts paid in any anterior period is illegal; since each year's account is limited to cash transactions which take place within the year. When the account is finally closed, the expenditure therein recorded, as already mentioned, attains an indelible character, so far as the headings charged are concerned, and no adjustments between the headings of a subsequent year's account could alter or have any effect upon the headings of the closed account. When, therefore, it appears, after an account has been closed, that errors in classification have occurred, or that the distribution of proportionate charges between two headings requires adjustment as the result of more complete information being available, a note should be appended to the next account to be presented to explain what adjustment should be made for statistical purposes, or to record the decision arrived at on a question of principle.

The use of notes for cross references has already been alluded

2 R.
1885, 70
1 & 2 R.
1886,
50-53,
T.M.

R. 1874,
134

R. 1887,
57. T.M.

to. If a loss affects two or more votes, such notes under each vote concerned serve to draw attention not only to the separate losses under the different votes concerned, but also to the total loss occasioned by the incident. Cross references in each appropriation account are also necessary in the case of services, the cost of which is borne by two departments, in order that Parliament may review the matter as a whole.

The same principle applies in the case of personal emoluments. In 1868 the Public Accounts Committee expressed the opinion that where a public officer receives a grant or temporary increase to his fixed salary in respect of special services, provision should be made accordingly in connection with the vote upon which the fixed salary is charged, and in the following year amplified this principle by making it applicable to services rendered under the sub-head of the vote. When the fixed salary and the extra remuneration are paid by the same department, the total emoluments should therefore come under review not only in the same account, but under the same vote. If the emoluments are received from different departments, it becomes necessary to supply Parliament with the information as to extra remuneration by means of a statement appended to the estimates or the appropriation account, so that by means of cross reference the total may be arrived at in the case of any individual so remunerated; and the Public Accounts Committee attaches great importance to making the record of extra remuneration as complete as possible. If, therefore, extra remuneration is granted to a public officer and is chargeable to a different vote from that which provides his fixed salary or pension, or even from funds other than parliamentary grants, the fact should be explained in a note either on the estimates or the account; and so also in the case of a pension which is chargeable to more than one vote, while conversely, if an officer has served in more than one department, and, for administrative convenience, the whole of his pension is charged to the vote for pensions of the department in which he was serving at the time of his retirement, a cross reference should be made to the different non-effective votes concerned if the amount involved is large. In the case of the civil service votes, a detailed statement is appended of all extra remuneration granted exceeding £25, showing the amount of the

R. 1868,
2 (3)

1 R.
1869
1 R.
1873, 4
(2)
1 R.
1876, 23,
T.M.

R. Sess.
2, 1880, 3
2 R.
1886, 72,
T.M.

3 R.
1871, 16
2 R.
1888, 38

Cp. R.
1914, 4

recipient's regular salary and the vote on which it is charged. The existing practice under which notes on extra remuneration are appended to the estimates or appropriation account is that laid down by the Treasury in 1897. The necessity for bringing to the notice of Parliament all extra personal emoluments applies in principle to regular emoluments, and it has been laid down as an important principle that personal remuneration should, whenever practicable, be provided for in a different sub-head from other expenses; but that if this is impracticable the sum taken for personal remuneration should be shown as a distinct item of the sub-head, or a note made that the sub-head is intended to cover such remuneration.

H.C.
36/1911,
p. 73

2 R.
1881, 61,
T.M.

It will thus be seen that the use of notes is extensive and various. They call attention to special charges included in a gross charge in the account, both for ordinary items of exceptional amount, and also of extraordinary items—such as compensation and damage, record erroneous classification in prior years, supply statistical figures, point out the effect of losses by fire and shipwreck, supply cross references to cognate items in other votes, and generally serve as sources of information to Parliament on the many points which are not directly brought to notice by the cash account itself, and for which it is not necessary to append a paper or table.

Statements and Papers

Statements or papers are appended to the account when the information to be given is too extensive to be embodied in a note, and also for the purpose of supplying details of expenditure under certain sub-heads not for purposes of comparison with the estimate, but to inform Parliament of the particulars.

Such statements are required annually for the particulars of losses, of payments for rewards to inventors,¹ of sale, purchase, and transfer of land and buildings, of extra remuneration of war office and admiralty officials, of special missions under the diplomatic and consular vote, of passages of governors,

4 R.
1889, 10
Cp. R.
1911, 33,
T.M.

¹ The practice of publishing the names of inventors was abandoned by the Admiralty in 1913, though the Public Accounts Committee had originally recommended that this information should be given, when not secret.

R. 1915,
Ev. 1190-1

etc., under the colonial services vote, and intermittently for special services as the occasion arises.

One of the most important statements in this class is that of losses, balances irrecoverable, and claims abandoned. In the case of the majority of the civil departments where the losses are small, a note appended to the account is sufficient to call attention to any case of this nature which may have occurred; but in the case of the army, navy, inland revenue, and post office, where losses on a more or less extensive scale regularly occur, they are detailed in an explanatory paper or statement. For the inevitable losses by default which occur in the revenue departments, estimates are presented and grants made, thus obviating an annual supplementary or excess vote to cover such losses. In these cases the detailed statement follows the explanation of surplus or deficit on the sub-head. In the army and navy estimates no provision is made, although there is an annually recurring charge to be met, since the powers of virement render provision in advance unnecessary. Such losses, however, must be distinguished from cases of compensation for losses to contractors and others, and cognate matters, which, though involving loss to the public, are on a different footing and constitute correct charges to the appropriate vote, being rather in the nature of incidents of business transactions, or payable under contract, agreement, or regulations. All other losses than these, including losses of specie, must be charged to a special sub-head of a civil vote, if not otherwise provided for, or to the army and navy heads 'balances irrecoverable,' which are entered as non-voted services at the end of the account and show the gross expenditure thereon as a deficit. Such deficit must be made good from surpluses on the votes if available, or by a supplementary estimate or an excess vote. Owing to the special nature of these items and of the voted items of civil votes it may be readily understood that Parliament requires to be informed of the particulars; sums under £20 are, however, not entered in detail, but shown in one amount.¹

The statements rendered with the army and navy accounts discriminate between cash losses of the year to which the

¹ These statements were first appended to the inland revenue account in 1889 and the post office account in 1909.

Cp. 4 R.
1889, 52
2 R.
1909, 18
3 R.
1910, 31

2 R.
1886, 65

R. 1906,
Ev. 1082

appropriation account relates and other losses. Since the appropriation account is a cash account, no charges can be made against the item 'balances irrecoverable' which do not affect the cash account of the year; and, on the other hand, all losses affecting the cash account and not chargeable to a vote must be made against that item. The total of this item, therefore, is wholly accounted for in the cash column of the losses statement. The circumstances of each loss are explained and information given as to whether there has been fraud, whether disciplinary action has been taken against the individual to whom the loss was due, whether any portion has been recovered by the withholding of pay due or otherwise, whether, in the case of deficiencies of stores discovered at a stock-taking, surpluses of other stores were found at the same time, and, generally, any particulars which bear upon the cause and effect of the case or the actual loss to the public.

When a loss has been wholly or partly recouped by the withholding of salary due, the full amount of the loss should be charged as a loss either against 'balances irrecoverable' or the appropriate civil sub-head, or, in the case of stores, shown in the losses statement or noted under the appropriate vote, and an explanatory note added as to the set off, thus clearly showing the net loss to the public. This method satisfies the rule that public accounts should be framed so as to show substantially the true facts of the case. To adjust the loss by charging the salary withheld against the vote under which provision was made for it and the balance only, if any, as a loss would be incorrect. In the first place it would tend to hide—if not the fact that a defalcation had occurred, at any rate, the full extent of it; in the second place, it would have the effect of charging a sum against the vote which had never actually been issued and for which no receipt could therefore be forthcoming. 'To charge a vote with a sum not actually paid, and not legally payable, is clearly contrary to the terms of the Appropriation Act.' To this rule there are two important exceptions. The first one mainly affects the army and navy. When an accounting department has the power, under statute or other specific authority, to withhold pay or emoluments to meet a public claim, including losses ordered to be made good, any sum so

2 R.
1902, 2,
T.M.

R. 1882,
App. to
T.M.

withheld is deemed to be paid out and refunded. The appropriate vote is therefore chargeable with the gross amount of pay, although not actually paid over to the individual who has earned it, and credited *per contra* to the account deficient, or to the heading balances irrecoverable if the loss has been charged thereto in the current or a preceding year. The second exception concerns the revenue departments. All losses of revenue due to the defalcations of collectors, whether appointed by the government or by local commissioners, are charged to the vote and credited *per contra* as revenue. Although this course is open to the objection that it results in money being voted for the purpose of being paid into the exchequer, and thus swelling unnecessarily both sides of the account, the counterbalancing advantages are that uniformity of treatment is secured, and, of still greater importance, publicity. If this is not done and the loss is merely written off revenue, there might be a possibility of its never being brought to the notice of Parliament, for the appropriation account deals with the vote only.

All other losses that come to light during the year, but do not affect the cash account, are shown separately for the information of Parliament. These include, firstly, claims abandoned on account of loss of stores, etc., in the current or prior years, which, though not affecting the cash account, involve loss to the public; secondly, cases of loss through non-receipt of rent or other dues; and thirdly, all cash losses of prior years which have come to light since the closing of the year's accounts to which they referred and in which they were charged against the vote, and which, consequently, cannot be now charged against 'balances irrecoverable' for the purpose of relieving the vote of that year, or the corresponding vote of the current year, in adjustment, even when subsequently found to have been irregular or illegal. To carry out a book-keeping entry in order to do this for purposes of adjustment would be both irregular and unnecessary. If, for instance, it were found that an overpayment had been charged against a prior year's vote it would be useless, as an attempt at adjustment, to charge the loss to 'balances irrecoverable' in order to credit the corresponding vote in the current year; for the same votes in succeeding years are entirely distinct from one another as regards provision, and the closed account would

2 R.

1897, 8-
10, T.M.

Cp. 2 R.

1879, 63

in no way be affected by giving credit to the corresponding vote in another year which had not been charged with the over-payment. More apparent justification might be found for charging the loss in such a case to 'balances irrecoverable' in the current year, and crediting the amount *per contra* to appropriations in aid of that vote which would normally receive the credit if the over-payment were refunded in cash. Such an entry is, however, obviously unnecessary, in that the loss can be equally brought to notice in the losses statement without any book-keeping entry, and irregular because an entry would be made in the appropriation account, although no cash transaction had taken place during the year. On this point the Treasury expressed the opinion in 1882 that it was always 'undesirable to fictitiously increase the actual receipts and expenditure of a department by charging sums as expenditure merely for the purpose of paying them into the exchequer as receipts.' The objection equally holds good under the system of appropriating receipts in aid instead of paying them into the exchequer—that is to say, no item should be charged as expenditure solely for the purpose of treating it as a credit to appropriations in aid. Cases of this description must not, however, be confused with those of over-payments which are found to have been made against the vote before the account is closed. In such cases it is not only proper but essential that the vote should be relieved of the improper charge, and the loss or over-payment transferred to 'balances irrecoverable,' if authority to write it off as a loss is obtained; or, failing that, to a suspense account pending recovery.

R. 1882,
App. to
T.M.

Statistical tables are mainly employed as appendices to appropriation accounts for the purpose of supplying information as to the total cost of particular services which cannot be seen directly from the accounts—that is to say, they are statements of portions of the expenditure extracted directly or indirectly from one or more accounts and re-classified according to the particular service in place of to the parliamentary vote. Such statements may be either composed of actual audited expenditure—in which case they are themselves susceptible of audit; or they may be merely approximations which supply in a general sense the information required; or, again, they may be composed partly of actual and partly

Cp. 3 R.
1888, 9

of estimated expenditure. Statements of this nature are usually prepared at the expressed wish of Parliament or the Public Accounts Committee. Reference has previously been made to the preparation of such statements to show the cost of military expeditions abroad, which mainly affect only one department, but they might also be demanded for special services or events affecting several departments. For example, it might have been interesting to know the total outlay which had been incurred in guarding public buildings against the operations of the suffragettes. The expenditure for this service was spread over many votes accounted for by various departments; the figures were nowhere put together in a collated form. Such information could therefore only have been supplied by the preparation of a statistical table comprised of extracts from the various votes affected.

Cp.
R. 1915,
Ev. 155-
6

An important and comprehensive table of this description is the statement of total and net cost of each department which is appended to the Comptroller and Auditor General's report on the appropriation account on information supplied to him by the departments concerned. It is therefore strictly not an appendix to the appropriation account, but may, for convenience, be treated under this head. Even though such statements may be, and often can only be, approximate, yet it is important to exhibit as nearly as possible the actual cost to the taxpayer of the several departments of state, which is not otherwise brought out under the existing system of departmental appropriation and account whereby, generally speaking, each accounting officer accounts only for those votes which his department administers. The whole of the expenditure comes under review of Parliament separately and in detail in the appropriation accounts of the votes of the several departments in which provision is made for it; but the cumulative effect of the expenditure incurred in respect of any one department by the other public departments can only be seen in a statistical table. The presentation of this table does not, however, relieve the departments of the necessity of giving information to Parliament in the estimates as to such services. 'Whenever the cost of a department includes a portion on account of a service intimately connected with another department (or paid on behalf of another department), a reference to it ought to appear on the face of the estimates of

3 R.
1894, 21
Cp. 1 R.
1871, 4

each department.' Such references would only be necessary when the service is not only administered, but also accounted for by the administering department. If the latter is merely acting as the agent department the expenditure is estimated for and accounted for by the department to which the service properly belongs and a reference to the service rendered by the agent department would be unnecessary.

The desirability of such total cost statements was first put forward by the Public Accounts Committee in 1879; and though some years later the Comptroller and Auditor General questioned their utility on the ground that they were 'necessarily in the nature of estimates formed by various departments of the expenditure for other departments, and thus differed wholly in character from the verified figures,' yet both the Public Accounts Committee and Treasury, while admitting that they were practically only estimates in certain points, considered that their value justified their retention. The object of these tables of allied services is to show approximately the true cost of each separate administration, and for this purpose the total of expenditure incurred by all other departments concerned, or charged direct to the consolidated fund, is added to the total expenditure of the department, as shown by the appropriation account. The statement thus supplies information as to the extent to which expenditure has been incurred on behalf of the department, which is not included in its appropriation account, on account of services and materials provided by other departments and paid for by them. Though the Comptroller and Auditor General, who prepares the statements and submits them with his report, is the only officer who could say that they are fairly representative, he makes no attempt to audit them, but merely reviews them generally and puts them forward on the responsibility of the departments concerned, which have themselves previously submitted an earlier statement with the annual estimates. The Comptroller and Auditor General is, moreover, able to protect himself from being charged with more than his share of responsibility in respect of them by the addition of such notes or preamble as he thinks necessary, and the statement is usually headed by the words: 'The following charges are stated to have been incurred. . . .' The department, on the other hand, to which the statement of

2 R.
1879, 35

3 R.
1889, 31

R. 1910,
Ev. 392
-414

allied services relates, has no control over the figures which are not chargeable to its votes, and expresses no opinion on them, as it has no means of verifying the figures or making any investigation. The importance and utility of the statement is further increased by the exhibition of the net cost of the service, when this can be ascertained, by setting off the approximate receipts against the gross cost; while, again, it offers the opportunity of correcting for statistical purposes errors of classification as between services, which have become indelible in the cash account.

5 R.
1890, 34.
T.M.

It is not always possible to show the complete cost of any particular service carried out entirely by one department in its appropriation account, which provides for the whole of the services of the department. If attempts are made to do so by means of notes it may be difficult to know where to draw the line, and for what services such notes should be added; though, if the Public Accounts Committee attaches importance to certain information being given by a note, the department would naturally comply with the wish. In more important cases the necessity for notes is obviated by the presentation of statistical tables, prepared when it is necessary to exhibit the total cost of a particular service of which the whole expenditure is incurred by one department, but met from different votes—as in the case of the army statement of military expenditure in respect of the colonies and Egypt, including the value of stores supplied. This statement is furnished at the request of the Public Accounts Committee expressed in 1882. The navy appropriation account similarly appends a statement of the contributions from India and the colonies towards naval expenditure tabulated under the appropriate votes which have received the benefits of such contributions from each country. This statement is in effect a re-arrangement of a portion of the detailed appropriation in aid statement. The extent to which the system of supplying statistical information of this nature, in order to obviate the disadvantage from an informative point of view of arranging the estimates according to 'nature' instead of to 'purpose,' must clearly be limited by the expense and labour involved. It has been stated, for instance, that the preparation of the army colonial statement, mentioned above, costs £200 a year.

R. 1910,
Ev. 172
& 576

R. 1882,
77; &
2 R.
1883, 55

A. & N.
Est.
Com.,
Ev.
971-9,
1131-41,
1157-70

Idem,
Ev. 3152

Again, statistical tables are useful for the purpose of showing

the total cost of special non-recurring services which may arise during the year and which may or may not have been contemplated when the estimates were framed. If they were not foreseen, the expenditure can only be met by savings on other items or by obtaining further provision by means of a supplementary vote. In the former case the expenditure, when incurred, is technically irregular, unless it is covered in a general sense by the terms of the resolution on which the grant was made, and the extent of the irregularity should be brought to the notice of Parliament. If the expenditure is not great, this may conveniently be effected by means of notes in the appropriation account against the headings concerned. If, however, several sub-heads or votes are affected to a material degree by the expenditure on the unforeseen service, it is advisable to append to the account a collated statement of the total cost of the service, which will show clearly the total excess over provision which such service has occasioned. 'Whenever a special service not distinctly contemplated in the estimate has occasioned expenditure considerably exceeding the normal grants under a variety of sub-heads, a statement of the expenditure for such special service within the year ought invariably to be appended to the appropriation account ; this would bring the irregularity distinctly under notice.' Such a statement, by supplying the total cost in one table, achieves the desired object more clearly and conveniently than by the opening of special sub-heads under each of the votes concerned, while at the same time the appropriation account is prepared in accordance with the estimate sub-heads. Statements of this nature are usually appended to the appropriation accounts of the army and navy when extra expenditure is incurred on the numerous expeditions which are undertaken in all parts of the world, which, though not necessarily requiring a supplementary estimate, yet involve expenditure not contemplated when the estimates were framed. Such a statement of total cost provides, moreover, a basis of adjustment when it is necessary or desirable to claim a contribution in the event of the expedition being undertaken for the sake of a colony. A statement of this kind can, as a rule, only be approximate, both because extraordinary expenditure will inevitably be much mixed up with ordinary expenditure, and also because there may be much indirect expenditure involved which is not

R. 1877.
42, T.M.

Cp. 3 R.
1895. 25

Idem,
26

Cp. A. &
N. Est.
Com. Ev.
3152-5

included in the cash account of the year, such as the gradual increase of stores, men and material in past years in preparation for the operations. Such statements, though useful statistically, can only come indirectly, through the increase or decrease of stores as shown by the expense accounts, within the purview of the Public Accounts Committee, which deals with the cash account primarily.

If a supplementary estimate for a special service is put forward and it is found advisable to open special sub-heads under each vote to account for the service, Parliament is thus informed in advance of the proposed expenditure by sub-heads and is able to follow it up under those sub-heads in the account, without the addition of a statistical table. If, however, when such a supplementary estimate is put forward, it is not intended to open special sub-heads for the service but to account for them under the normal sub-heads, there should be some means in the appropriation account by which it could be ascertained whether the total expenditure for that service exceeded, or not, the amount estimated. Distinction must be made between an ordinary supplementary estimate intended to make additional provision for normal current expenditure, and a supplementary estimate demanded for a special service. If the latter, though asked for for a special purpose, were to be applied to defraying ordinary charges not connected with the special emergency, the means of effective control and audit would be diminished. On the other hand, with respect to much of the expenditure, it may be impossible to classify individual vouchers against the supplementary estimate, or, with any pretence of absolute accuracy, to separate it and bring together in the appropriation account the expenditure for the additional service. This being so, the requirements of Parliament can only be met by means of a statistical table of approximations appended to the account, or by a separate return to be presented to Parliament at the earliest possible opportunity. The Treasury recommends that the former course should be adopted. Such a statement, without being too minute in detail, would afford an authentic record for Parliament, sufficiently accurate for practical purposes, of the cost which had been incurred by any extraordinary service, and at the same time enable Parliament to test the accuracy of

R.Sess.2,
1880, 51
& 52

Idem,
T.M.

Idem,
T.M.

the estimates which had been made, thus tending to secure care in the preparation of similar estimates on future occasions.

But again, there are always certain special services which it will be known will occur and for which general provision can be made in advance. That is to say, sums are provided for general services, to be applicable to a variety of purposes as occasion may arise. If the service is not exceptional, it may be said to be normally provided for in the estimates, though not specifically anticipated. To select from various sub-heads and votes portions of the expenditure upon such services and charge them *en bloc* to a new sub-head introduced to cover the special service would be an attempt to combine two irreconcilable principles of classification—namely that according to ‘nature,’ and that according to ‘purpose.’ In such cases, no special statement is required, unless the circumstances are exceptional, or the amount involved is considerable, in which case a consolidated table may be prepared.

R. 1877,
42, T.M.

A further class of statistical table appears in the army and navy accounts, namely a statement which compares the actual strength of these services with the numbers voted by Parliament. In the case of the army, a separate paper is appended showing the excess or shortage month by month; while in the case of the navy a table showing the quarterly averages compared with the numbers voted, is added to the votes by which the pay is borne. Upon the number of men voted hinges directly and indirectly the whole scheme of expenditure, though it must be remembered in this connection that an estimate of cost is framed on the numbers it is expected will exist, as an estimate must always be, and not on the numbers voted, that is to say, the establishment, which is the limit to which the force may be raised. If the numbers authorised are materially exceeded, the resulting excess of expenditure will appear in the accounts. But it may happen that though the numbers are in excess for a period they may not be in excess if an average for the year be taken, and consequently there may be no resulting excess expenditure on the year. In such a case, however, an important constitutional point is involved. Parliament fixes for the army the limit of the forces which may be kept up by the Crown; and though, in these days, the point is probably of little practical importance, the power to average

R. 1911,
Ev. 2694

the numbers throughout the year would enable the Crown, by deliberately reducing below the admissible limit for a period, to secure at another period a force in excess of that authorised by Parliament. This statement shows Parliament how the numbers voted compare with the actual numbers throughout the year, month by month. The Public Accounts Committee attaches great importance to the necessity of keeping, as nearly as possible, to the numbers voted, and condemns the idea that the number voted by Parliament represents an average not a maximum number. Though this is not expressly stated in the vote, the Treasury agrees that it is the more strictly constitutional view and must be taken as expressing the intention of Parliament, so long as Parliament does not disavow it. While small variations are inevitable, whenever a material excess over the numbers voted is foreseen as about to occur or is known to exist, and a reduction cannot be immediately effected, parliamentary sanction for such excess should be obtained as soon as possible. In the case of the navy the same principle now holds good, as, since 1913, the numbers have been voted on a maximum basis instead of as formerly on an average. This, however, does not affect the cash estimates, which continue to be based on an average; that is to say, on the numbers which it is expected will exist throughout the year. These statements are checked and reported on by the Comptroller and Auditor General.

R. Sess.
2, 1880,
38

Idem,
T.M.

Idem,
63, T.M.

R.E.C.
1913, 7

Cp. 2 R.
1890, 3

In addition to the information which is required to be supplied as bearing directly on the appropriation accounts, there are many other cases in which Parliament requires to know particulars as to the indirect results and operations of its grants; that is to say, to follow up its grants beyond the point at which they are finally and properly charged in the appropriation account. Such cases fall into two classes—the operations of bodies financed wholly or partly by grants in aid, and the operations of concerns the cost of which is chargeable to ordinary sub-heads.

Apart from the ordnance factories and such manufacturing establishments as the army clothing factory and aircraft factory, for which accounts are rendered in accordance with the Army and Navy Audit Act, there are various other productive concerns, undertaken by different departments, of

the effect and output of which Parliament obtains no information from the statement of expenditure incurred on them from parliamentary grants as shown in the appropriation accounts. Such are the army remount farms, and the manufacturing, farm, and garden accounts of prisons. The working of such concerns may be set out in greater or less detail according to the extent to which it is desired to examine it. Thus, in the case of the army remount farms, a statistical table is appended, in the form desired by the Public Accounts Committee, of the cost of the different farms and the net daily cost per horse at each. The number and nature of such undertakings vary from time to time, and the extent to which accounts are published or statements appended will depend on the circumstances in each case and on the wishes of the Public Accounts Committee.

Cp. 2 R.
1885, 38,
T.M.
4 R.
1899, 18
5 R.
1902, 3-4
3 R.
1906, 14
R. 1910,
Ev. 685

A more important class of information is that supplied in connection with various grants in aid made from civil votes to support public bodies and to finance development and similar schemes. Such are the agriculture fund (Scotland), agriculture and technical instruction (Ireland), the congested districts board for Ireland, the development fund under the Small Holdings Act, the cattle pleuro-pneumonia account for Great Britain, the meteorological committee account, the friendly societies account, and the metropolitan police fund. In such cases the detailed accounts appended are those of the body to which the grant in aid is made, but are not accounts of the grants as such, which merely constitute an item of the income of those bodies. In other cases, actual accounts of the grant in aid are appended when required by Parliament. Such accounts may be either the account of a single grant or the year's outcome of a running account of a series of grants, which are not liable to surrender if not expended within the year, such as the grant in aid of upkeep of royal palaces and the government hospitality grant. All statements of this nature furnish supplementary information which enables Parliament to judge of the use to which its grants in aid have been applied, and enables it to form an opinion as to their adequacy.

There remains to be mentioned a class of statement which only has an indirect bearing on the cash account of the year, namely that which supplies information as to the amount and

value of stores expended by and held by a department. The importance of store accounts and their bearing upon the public purse has already been referred to. They are examined and reported on by the Comptroller and Auditor General, and the extent to which statements should be appended to the appropriation accounts is a question of practicability, utility, and policy. In the case of the Stationery Office a brief statement is appended of the value of stock in possession and of the balances of stock in hands of sale agents. In the case of the army, the practice of appending a valuation statement of stores in reserve depots was abandoned in 1908 and replaced by a certificate of the Quarter-Master-General and the Master-General of the Ordnance, to the effect that 'on the 31st day of March 19 . . . the authorised war reserves of stores, for the provision and maintenance of which we are respectively responsible, were in all respects complete (with the exception of temporary deficiencies of the aggregate value of £).'

5 R.
1909, 11

R. 1910,
Ev. 1023

The broad purpose of this certificate is to show that the government has not unfairly reduced the estimate of a particular vote by consuming its stock. That is to say, it is given solely as bearing on the cash account and not as evidence of military efficiency, which is a matter of policy and administration.

2 R.
1910, 9

No such certificate is appended by the Admiralty as the same conditions do not apply to the navy, for which, except in a few special cases, there is no separate war reserve such as can be earmarked and separately stored, and, if any certificate were given, it would not be possible for the Comptroller and Auditor General to audit it; but the Admiralty has offered to give a certificate with its appropriation account to the effect that 'the approved reserve of stocks has been duly maintained, and no depletion has occurred.'

R. 1910,
Ev. 553

4 R.
1909, 16

2 R.
1881,
77, T.M.

The Admiralty, however, appends statements of the value of stocks at the beginning and end of the financial year under the victualling and clothing vote, for naval stores in dockyards, machinery, and steamboats, for naval warlike stores, and for works and building stores. The system of appending these statements was instituted originally for the same purpose as that for which the army certificate mentioned above is given, viz., to show that a cash surplus had not been obtained by an undue depletion of stock, and in this form they provide the

1910,
5.

readiest, and in the long run the most reliable, means of arriving at the object required. Such a statement, in the case of stores available for shipbuilding purposes, is necessary for the purposes of the expense accounts which are required to be kept for the information of Parliament, under the Army and Navy Audit Act, 1889. 3 R.
1908, 17

Similarly, the Post Office appends abstracts of expense accounts, and a reconciliation statement of expenditure under engineering sub-heads with the engineering programme.

In the case of the three services carried on by the Post Office (namely post, telegraphs, and telephones) there is to a great extent a common staff, using common premises and drawing on common stores, and any attempt to exhibit the respective costs of the three services must be based largely on estimates, averages, and approximations. Calculations of this nature are matters not of account but of statistics, and cannot be properly inserted in the estimates or the appropriation account. 'The endeavour to keep accurately divided accounts of services such as these, which economical pressure and administrative convenience tend to fuse almost inextricably, cannot but render the classification of the accounts untrustworthy, while the separation hampers administration and causes unnecessary expenditure without securing the treasury and parliamentary control which separate votes undoubtedly enforce over services marked out by clear lines of demarcation.' R. 1911,
APP. 3*

The estimates for these services follow, therefore, the lines of those for the naval shipbuilding vote and the ordnance factories vote, the statistical distribution of expenditure between the three services being relegated to a supplementary statement appended to the estimate of the vote itself. *Idem,*
p. 210

The operations of the engineering department of the Post Office are accounted for under a programme of works also appended to the estimate, while an abstract of the expense accounts under the heads of this programme is appended to the appropriation account of the vote, and the distribution as between telegraphs and telephones of the actual expenditure on common services appears in the commercial accounts.

A further important paper which is appended to the army and navy accounts is the statement of ledger balances, which proves the cash balance of each department at the date on

which it is made up. No such statement is presented by the civil departments, but a statement of liabilities and assets is forwarded to the Comptroller and Auditor General with each cash account. A balance-sheet in the technical sense, exhibiting all the assets and liabilities of a department, is not practicable; nor, for the purpose of accounting for parliamentary grants, is it necessary. A cash balance-sheet, however, is a necessary complement to the statement of the expenditure and receipts set forth in the appropriation account. The importance of this statement, as supplying information to Parliament, lies in the fact that it discloses how the available army and navy cash is distributed, and the extent, if any, to which improper advances have been made out of it and are held in suspense, or, the amount and nature of outstanding claims due to or by the department. Such points are brought to the notice of Parliament by the Comptroller and Auditor General's examination.

R. 1864,
5, T.M.

2 R.
1870, 7

R. 1877,
129

2 R.
1879, 61

The statement was originally appended to the statement of savings and deficiencies on the grants and subsequently to the appropriation account when the former was amalgamated with the latter in 1871, but it was not until 1877 that any external examination was applied, on the representation of the Public Accounts Committee that 'the system of audit of public accounts cannot be considered complete until provision is made for that final and important step,' the testing by external authority of the balances shown in the balance-sheet. The efficacy of the adoption of this check was immediately evident, and the Public Accounts Committee reported two years later that 'the reduction of outstanding claims is a satisfactory result of the action of the Comptroller and Auditor General in calling attention to them, and has shown the importance of an independent examination of the balance-sheet.'

The proof of the correctness of the expenditure as compared with the grants for the year might be shown by the balances remaining in the books at the date to which the account of receipt and expenditure extends, namely 31st March. At that date, however, a large proportion of the expenditure already incurred has not been brought to account. For the purpose of bringing to account the year's expenditure, the account is kept open, under the authority of Parliament, for six months after the expiration of the year, and therefore a balance-sheet,

prepared as for 30th September, exhibits a more complete statement of the accounts. As cash transactions have occurred during those six months in respect of the then current financial year, the cash balance of a department on 30th September necessarily is a composite balance and includes figures relating to part of the current as well as the past financial year. It is consequently necessary to specify the current year's transactions as such and to show that, excluding them, the cash balance proves the balance on the year for which the appropriation account is rendered. It is also the practice to include in the statement the balance of grants due from, but unissued by, the exchequer on 30th September, and thus show the total available balance at the disposal of the department on that date.

Although such balance-sheets are not appended to the appropriation accounts of civil votes, the cash accounts of all departments are open to the inspection and audit of the Comptroller and Auditor General, who can verify their correctness as records of the transactions, though it is not his function to verify the cash balance; while, as previously stated, he receives a statement of assets and liabilities in each case. Such accounts should record all transactions carried out by officers of the department in their official capacity, even though they may not be on account of direct charges against, or credits to, Imperial funds. This principle was clearly defined by the Treasury in 1885, when it was stated that 'the accounts rendered for audit by public officers should include all moneys received and paid by them in their official capacity, and thus exhibit the total balance for which such officers remain liable; and their Lordships are not aware of any case which justifies departure from that principle.'

T.L.
7/11/85,
quoted
in 2 R.,
1905, 8,
T.M.

Correspondence

Copies of correspondence are appended to the army and navy appropriation accounts, when necessary, to inform Parliament more fully on any particular subject. The most usual purpose for which this is done is to show that treasury sanction has been given in cases in which it is required, such as for items under the works votes, compensation to contractors,

2 R.
1862

2 R.
1879, 81

grants in aid, and the opening of special sub-heads. The correspondence between these departments and the Treasury, embodying the applications to the latter for the exercise of the powers of virement and the replies, is appended to the accounts in accordance with the wish of the Public Accounts Committee. Originally it was printed at the close of the votes concerned, but since 1879 it has been printed at the end in a collected form, reference to it being given under the respective votes. This is the only class of correspondence which departments are definitely required to print. Other correspondence with the Treasury is occasionally printed in explanation of abnormal transactions or on questions of method or principle. In the case of the civil service and revenue departments appropriation accounts, it is not customary to print correspondence. The Comptroller and Auditor General also appends to his report copies of correspondence, not only between himself and the Treasury, but also between the departments and the Treasury, if of opinion that it will assist and enlighten Parliament, and if it has not been appended by the department to the appropriation account.

With the one exception mentioned above, the question of whether correspondence should or should not be printed is left to the discretion of the department and the Comptroller and Auditor General, unless in any specific case the Treasury desires that the correspondence should be printed.

V. LOAN ACCOUNTS

Though the normal method of parliamentary provision for supply services is by annual estimate, it has from time to time in the past been the practice to carry out special works of permanent character and large cost by means of loans repayable within a limited number of years, thus relieving the votes of the particular year or years in which the expenditure is actually incurred, by distributing the cost over a series of years. When this procedure is adopted an act is passed authorising the loan, and specifying the method of raising the money. The annual vote of Parliament is thereafter limited to the provision for interest and repayment of the loan. The money required for expenditure on capital account is borrowed as required from the National Debt Commissioners, and repaid by

C.N.E.
Rep.,
p. vii

annuities extending over a term of years, which are provided on the votes.

Whether provision for such services should be made entirely from the vote in the years in which expenditure takes place, or whether the procedure by loan is justifiable, is a question mainly of policy and finance. It has, however, been pointed out that if the bulk of the works services, for which loans are generally taken, were placed on the annual estimates, it would be more in accordance with the sound rules of finance, the national accounts would be simplified, and a more efficient control over expenditure would be secured. The Public Accounts Committee considers that though, in exceptional cases, it may be desirable to proceed by loan, yet resort to such procedure should be the exception, not the rule, and that works acts should not be regarded as a regular part of military or naval finance. In view of this expression of opinion, the practice of proceeding by loan has been greatly modified in recent years. No new military or naval works loan act has been passed since 1903, and on 19th July, 1905, the government declared its desire and intention of bringing the system of loan bills to an end at the earliest opportunity. Such loans obtain their legal sanction and appropriation from a military or naval works act which, while allotting the money under heads, states in very general terms the purpose of each, and does not profess to include a detailed estimate of the works it is proposed to execute from the loan, though it provides the machinery for such estimates. Thus the Naval Works Act (1896) laid down that the Admiralty should submit to the Treasury an estimate, with such details as might be required by the Treasury, of the expenditure under each head of the loan. The purposes to which a loan may be applied should, however, be defined as specifically as possible. Estimates must be supplied to the Treasury of proposed expenditure for a given period, and it is the duty of the Treasury to see that these details are sufficient to justify the issue of loan funds. This provision cannot be too strictly adhered to; for it furnishes the only security that Parliament has that expenditure is limited to the specified works for which the loan is authorised.

It must further be borne in mind that many military and naval works for which loans are taken are analogous to works which are being simultaneously carried out under the annual

1 R.
1904, 10

1 R.
1905, 29

Cp. 2 R.
1915, 28

Parl.
Deb. 4^s
cxlix.
1198

R. 1910,
Ev. 522
59 & 60
Vic. c. 6

2 R.
1878,
41-2,
T.M.

1 R.
1905, 29

votes, and frequent difficulties may arise in distinguishing the expenditure which is chargeable to the loan from that which is chargeable to the vote. If the department is given a free hand in assigning charges to one or the other, there must be an inevitable loss of parliamentary control over the annual vote. The allocation of charges between votes and loan ought not to be left to the discretion of the accounting department, but be determined by rule or by programme, adherence to which can be checked by the Comptroller and Auditor General. It is therefore necessary that the department should submit to the Treasury a precise and detailed programme of the works contemplated at the charge of each loan, and that the loan charges should be restricted to that programme, unless special authority has been obtained from the Treasury for deviating from it. The Treasury has a similar power of virement between loan heads as it has in the case of vote sub-heads. It is usual to include in a works loan act provision for rendering an annual account, and such account, rendered by the department, follows in form the estimates so rendered to the Treasury, which are themselves amplifications of the general heads under which the loan is made. This account shows, therefore, the purposes on which the money has been expended, distinguishing the expenditure under each head of the schedule. Though, in many respects, the principles of accounting, classification, and audit which govern appropriation accounts are equally applicable to loan accounts, there is this important difference, that the unexpended balance is carried forward until the final account is rendered. When the works under the loan are completed, or so many of them as it has been decided to carry through, then any balance must be surrendered. If there is a balance authorised but unissued, owing to modification of programme, no cash surrender is necessary. Such balance is not an unappropriated balance in the sense of any balance that might have been dealt with, but only an unappropriated balance of the statutory provision.

The surrender of an issued balance may be made by repayment to the consolidated fund or, as in the case of balances of parliamentary grants, by transfer to the National Debt Commissioners for the cancellation of debt. The Naval Defence Act of 1889, directed that any unexpended balance should be transferred to the new sinking fund; but other similar acts have

2 R.
1893, 39,
& T.M.

3 R.
1895, 29

C.N.E.
Rep.,
p. vii

made no specific provision of this nature, and the mode of surrender rests with the Treasury. Since the fact of there being an unexpended balance on a loan account proves that more debt has been created under the act than was really requisite, the most economical use of such balance is to pay it towards the cancellation of debt rather than into the exchequer as miscellaneous revenue, and in theory it should be applied towards cancelling the debt created under the loan act ; but if that is inconvenient or impossible, the next best thing is to cancel some other kind of debt.

2 R.
1897.
T.M.,
App.
p. 97

The accounts are audited by the Comptroller and Auditor General as strictly as vote accounts and on the same general lines, and an annual report thereon is presented to Parliament and comes up for the consideration of the Public Accounts Committee in the same way as those on appropriation accounts. Such is obviously necessary ; for the money expended, though not immediately the proceeds of a parliamentary grant, will in the course of the period of repayment of the loan be gradually transformed into a grant. Though Parliament has no definite prior knowledge of the details of the works, and leaves the management of the loan largely to the discretion of the Treasury, it is yet justified in as close a control over the annual expenditure as in the case of works which are provided for in the annual estimates. Such control is, however, more difficult to secure. Treasury control over the actual expenditure is probably as close in the case of works carried out under loan as over works on the annual estimates ; but parliamentary control is reduced from the nature of the case. The main objection to loans of this nature is, however, one of financial principle and constitutional usage, the consideration of which is independent of the question of accounting for moneys if so provided by Parliament.

Cp.
Bowles,
Nat. Fin.
in 1908,
p. 21

VI. ORDNANCE FACTORIES ACCOUNTS

A brief consideration is now necessary of the accounts of the ordnance factories, which do not directly constitute more than a nominal charge upon the exchequer.

The financial position of these factories, as compared with other government departments, is peculiar, in that they are normally self-supporting and are worked on a commercial

2 R.
1896,
App. 7
Cp. A.
Est.
Com.,
1 R.

basis. Prior to the year 1888-9 the various government establishments for the manufacture of munitions of war were provided for in the ordinary army estimates. The war stores vote provided not merely for the pay of the factories, but for the full cost of the land and sea armaments of the country. The Admiralty, however, not unnaturally desired to control the expenditure on sea armaments, while equally the War Office was anxious to be relieved of responsibility in respect of them. Complaints also arose as to want of unison amongst the various factories, and there was a doubt as to the real cost of productions. These drawbacks of this system led to the factories being placed under a single head, who, though appointed by and under the disciplinary and financial control of the Secretary of State for War,¹ would otherwise be in an independent position, and would deal impartially with all customers, each of whom would provide the working expenses by making advances of money against orders.

Provision for land armaments is made in the army votes and for sea armaments in the navy votes, and from such provision the departments make advances; but such advances are made for purchases similarly to those made for purchases from the trade, and are so received by the factories and so accounted for in the appropriation accounts of the army and navy. Since under this system no record of the operations of the factories appears in the army or navy appropriation accounts a separate account is required to be rendered. But, again, since the factories are self-supporting and therefore normally require no substantive parliamentary grant for their upkeep, it is necessary, in order to preserve parliamentary control over their proceedings and over the disposal of their profits, that an annual estimate should be presented showing the expected gross expenditure on productions and the expected receipts. Although in selling productions to customers the object is not to make a profit as a source of revenue to the state, the aim should be to secure a small profit in order to guard against a loss, and therefore the estimated receipts should normally exceed the estimated expenditure; but in practice an arbitrary deficit of £100 is shown on the annual estimate

¹ For the period of the war the factories are under the Ministry of Munitions created by 5 & 6 G. V. c. 51, the vote for which, during its continuance, provides for armaments.

in order to provide for the grant of a token sum by Parliament, and thus secure parliamentary control, as in the case of a departmental supplementary estimate when no substantive grant is required, but on which a token vote is taken to convey parliamentary sanction to the whole estimate.

The fact that parliamentary control is essential, even though no substantive vote be taken, implies as a corollary the necessity for obtaining parliamentary sanction before expenditure is incurred. Such sanction is only obtained when the vote for the ordnance factories is taken. It is desirable, therefore, that whenever it is practicable this vote should be taken at the same time as army vote 1. If the provision authorised by Parliament on the token vote for the gross expenditure is exceeded it is necessary, as in the case of ordinary votes, for parliamentary sanction to be obtained even though there may be excess receipts available to cover the excess expenditure. This is secured by presenting either a supplementary estimate or taking an excess vote according as to whether the excess is known before or after the end of the financial year, a token vote being taken in each case. If, however, a net deficit is shown on the account other considerations are involved than those in the case of an ordinary vote for which the deficiency would have to be voted by Parliament. In the case of the ordnance factories a net deficit does not necessarily imply that expenditure has exceeded the estimate, but may be due, either to the fact that the claims due have not all been paid, or that capital expenditure has been incurred which has not been wholly covered by the prices charged, or that the capital charges in respect of permanent additions have exceeded the amount voted for them. Deficits due to these causes are for the most part more or less of a temporary character, and would be automatically adjusted in the ordinary course of business later. If, therefore, Parliament were to be asked to vote such deficits, the effect would be to supply the factories with money which they did not require and which would be paid back to the exchequer at a later date.

The same principle, in the converse direction, applies to a surplus on the accounts, which is ordinarily due to receipts for stores manufactured in the year being in excess of the actual outlay in the year, or to the sale of stores during the year the cost of the manufacture of which fell upon a prior

5 R.
1890, 2
2 R.
1907, 36
2 R.
1892, 41,
& T.M.

5 R.
1890, 6,
& T.M.
3 R.
1891, 22

2 R.
1896,
App. 7

year, or, again, it may include receipts in respect of depreciation covering more than the year to which the account relates or other deficiencies or liabilities. Such a surplus is unreal and transitory. To demand that it should be surrendered to the exchequer might result in Parliament being required to at once, or later, vote a similar amount to make good the deficiency. Moreover, as only a token vote is taken the surrender could not be made by a write-off from the grant, but would have to be made in cash, thereby showing an artificial increase to the revenue. In order to avoid the inconvenience and anomaly which would ensue from voting deficits and surrendering surpluses on the appropriation accounts of the ordnance factories an 'ordnance factories supplies suspense account' was instituted.¹ This is a running account to which all surpluses are credited and all deficiencies debited, so that the one may absorb the other in the normal progress of business. The balance on this account is not allowed to exceed such sum as may be likely to be required for capital expenditure, exclusive of credits which are of a purely temporary character and which can be shown to be in respect of immediate liabilities, or to be in respect of receipts for depreciation or a permanent reduction of stock. The maximum, originally fixed at £65,000, was raised to £100,000 in 1910, and a separate account of it is kept in the books of the Paymaster General.

2 R.
1910, 35

2 R.
1896, 12,
& T.M.

3 R.
1897, 9,
T.M.

The question as to the extent to which the accumulated balance is allowed to rise is one of administration for the decision of the executive, subject to the concurrence of Parliament. A statement of the accumulated balance of surpluses on the account is inserted in the appropriation account of the factories, and any surplus, beyond the fixed amount at the end of the year, is payable to the exchequer. No part of this balance can be spent without parliamentary authority, and then only on capital expenditure on lands, buildings, or machinery.

It will therefore be seen that, though for the sake of convenience the ordinary procedure as to dealing with deficits and surpluses is departed from, and a considerable sum may remain from year to year in the hands of the war department, yet parliamentary control is fully maintained over the expenditure of the balance.

¹ See footnote, p. 79.

VII. ACTIVE SERVICE

Though some of the aspects of the system of control over expenditure during active service have been dealt with under the headings to which they more particularly relate, it will not be out of place to include some general observations on the principles of and considerations involved in this most important subject—important because of the exceptionally large sums of public money affected, and because of the comparatively slight control which Parliament or the Treasury are able to exercise over the expenditure, not only in advance but also concurrently. The conditions of active service are peculiarly, and to a certain extent inevitably, favourable to the production of waste and to the perpetration of frauds and abuses. Every war in the past has had its quota, and it is too much to expect that the present or any future war will be exempt. The scathing remarks of Hatsell on the American war are of interest in this connection. 'There was,' he said, 'a degree of negligence and extravagance, or both, in those who had the conduct of this department, which rendered all the votes of the House of Commons, or bills for appropriating the supplies, ridiculous and nugatory. The sums demanded, upon the head of extraordinaries of the army incurred and not provided for, during this period fell not very much short of the whole sums voted by Parliament upon estimate for that service; nay, in the year 1782, they appear to have actually exceeded them. This was such a shameful prostitution of the money of the public, that—though, perhaps, the distance and magnitude and nature of the American war might be pleaded as some alleviation and excuse for the generals abroad who commanded, or for the ministers at home who ought to have controlled these commanders—nothing can justify the House of Commons, who permitted this practice to continue uninterrupted through several sessions; and whose more immediate duty it was to have examined into the contracts, and other services, stated to have been performed, and to have pointed out and punished those frauds and abuses, which were afterwards with no great difficulty detected and exposed by the Commissioners of Public Accounts.'

Hatsell,
P. 211

Limitation of Power of Control

In war time the principles governing financial questions are necessarily modified. In one sense finance is a paramount question; for the possibility of waging war, its duration, its scope, and its methods, depend upon the available supplies. This point of view belongs rather to the region of high finance, and the consideration of it would be outside the scope of this work. The supply is an economic and political question. Apart from the possibility of the resources of the state becoming exhausted, or the nation intervening to stop the war owing to the burden it imposes, financial considerations must yield to military necessities.

Although the dictum attributed to Lord Kitchener when Secretary of State for War, that in war there is no finance—an adaptation of the more general *inter arma silent leges*—may appear to be an extreme one, yet there is a modicum of truth in it in the sense that finance exists then as an active force only so far as it is compatible with the military exigencies of the campaign. The latter are, and must be, paramount. The expenditure they involve may not be justified in the event; they may be miscalculated, misunderstood; they may produce waste and reckless spending; they may, in the light of later knowledge, have involved unnecessary demands. But, provided the man on the spot considered the expense necessary at the moment, and with the knowledge he then possessed, no objection can be raised on financial grounds. 'It is the government that lays down the policy, and is responsible for it to Parliament and the country; but the strategy to be adopted in pursuance of this policy is the affair of the chiefs of the war and general staffs, who must have full authority for the conduct of operations and must exercise this authority without the harassing and hampering interference of politicians.' In this sense, then, it is true that in war there is no finance.

So far as expenditure in the area of operations is concerned, direct treasury control over a large proportion of the expenditure is practically non-existent. Departmental control can only be exercised in a very modified degree. The basis of expenditure is, and always must be, what the executive authorities

Cp. Hist.
S.A. War
vi. 621

The Times,
8/2/16,
p. 7
(Military
Corres-
pondent)

C.N.E.,
Ev. 590-
1

acting on behalf of the commander-in-chief who represents the nation on the spot, consider to be necessary to the military requirements. The officer commanding in the field in time of war corresponds to the Secretary of State—i.e., his position, duties, and power correspond, so far as the troops under him go, with those possessed generally by the Secretary of State. 'In war time it is fully recognised that both the Secretary of State, and, even to a greater extent, the officer in command of the army, must possess almost unlimited power to order necessary expenditure.' Expenditure must frequently be incurred, and referred later to the Treasury for covering sanction, which can therefore be often little more than a formality except in regard to controlling similar cases if the occasion should arise again. Under war conditions it may be impossible to wait for authority.

S.A. War
Stores,
Ev. 5,
3194

R.W.O.
Org.,
App. IV.
(A) 13

The expenditure incurred at home can be controlled somewhat more closely, though in this case too the demands of the military authorities in matters which affect the current course of the campaign directly, or its future course indirectly, must overrule financial considerations. On this point the Public Accounts Committee has expressed its opinion that expenditure incurred at home should receive the previous sanction of the Treasury, unless of such a character as in the ordinary administration of the department does not require that sanction.

2 R.
1886, 60

The exceptional conditions of the present war have necessitated special measures of delegation of the treasury powers of control. The War Office has authority to incur without prior sanction certain expenditure which can be certified to be vitally necessary to the public interest, provided it is incurred under such conditions of urgency that it could not be submitted to the Treasury beforehand. An essential condition of this relaxation of control is that the certificate of urgency should be given before and not after the expenditure is incurred. All such cases must be reported to the Treasury and the certificate sent to the Comptroller and Auditor General.

Army
Appr.
Acct.,
1914-15
C.&A.G.,
Report 6

2 R.
1916, 23

Navy
Appr.
Acct.,
1914-15
C.&A.G.,
Report 4

A different method of procedure has been adopted for the Admiralty, in order to 'maintain treasury control without the delay that necessarily occurs by the ordinary machinery of official correspondence.' A special treasury committee was

2 R.
1916, 3

appointed, with an admiralty representative to give all necessary information, and was empowered to sanction all urgent proposals which appeared to be proper for adoption and which did not raise questions of such importance as to require formal treasury sanction.

Direct financial control abroad is reduced to a minimum, and, indeed, so far as 'merit' of expenditure is concerned, it practically disappears. A certificate of military necessity in the field, and in a lesser degree at home, reduces financial regulations almost to impotence. Nor is this position of affairs the evil financially which at first sight it may appear to be; for to allow financial considerations to override military requirements might, and almost inevitably would, tend to increased expenditure in the end by jeopardising the success of the campaign, and throwing upon the nation the cost of at least a more prolonged war, if not the still greater cost of an unsuccessful war with its possibilities of a final indemnity. To the uninformed, the free and practically unfettered expenditure which is inseparable from active service may appear a source of waste and extravagance, and no doubt from the point of view of economics there is, and always will be, much unremunerative expenditure. To draw the line between necessary and unnecessary expenditure would be impossible. Attempts to define and to stop the latter would have the inevitable effect of hindering the former. The result would be loss of efficiency, leading possibly to disaster and defeat, thus involving far greater eventual loss at the expense of a perhaps comparatively trifling immediate saving. Apart, then, from the military considerations it is, generally speaking, on financial grounds alone more economical in the long run to subordinate everything to the exigencies of the campaign until victory is assured. The man on the spot, as representing the nation, must be trusted to carry out the nation's work in what he considers to be the most economical manner, and so, too, with his subordinates to the extent to which they have responsibility thrown upon them.

The extent to which peace organisation in finance can be applied to war has been clearly explained by Sir Charles Harris. 'In peace you have to ask two questions about a proposed expenditure: Is the object worth the cost, bearing in mind the limited total of army expenditure? And, second, is the

proposed method the most economical way of securing the object? In war the first question practically disappears. The commander in the field wants this or that, and the question is not whether he is to have it, but how best to provide it. . . . But the other part—that concerned with how best and most economically to provide what is wanted—runs on from peace to war, though the problem is not quite the same; for in peace economy is generally more important than time, while in war the first thing is to get there, and to get there punctually, and the price you pay is less important.'

But when this paramount principle of military necessity is admitted, there still remains a wide field for the exercise of control: not, perhaps, so much in controlling the actual expenditure, but rather in securing accuracy and promptness in accounting, for delay and inaccuracy are the certain concomitants of waste and extravagance. The actual expenditure, too, can be controlled, with certain limitations, both by advice where military considerations are not involved, but more particularly through the qualifications of the officers concerned with the administration and the system under which they work.

Although the particular conditions and requirements of a campaign can only be generally foreseen, the inevitable lack of direct control and the tendency to extravagance are conditions which it is known will exist and must be guarded against as far as possible.

Safeguards against Waste

'One of the constituent elements of the merit of a government is,' says Mill, 'the quality of the machinery itself—that is, the degree in which it is adapted to take advantage of the amount of good qualities which may exist, and make them instruments to the right purposes, since these good qualities supply the moving force which works the machinery.' This truth is equally applicable in every grade and department of government, and is of peculiar force in a department which has to prepare for the unknown contingencies of war. The chief safeguards of the public purse in war time are, in the first place, the provision of a suitable accounting system for both stores and

Rep.
Govt.,
P. 30

cash to meet the exceptional circumstances ; secondly, the training of the personnel who will be responsible for the expenditure and accounts ; and thirdly, the moral check imposed by the knowledge that expenditure may have to be justified subsequently.

Army
Fin.,
P. 74

The essence of a good peace system is its applicability to war conditions ; but ' it is no more necessarily true that the financial system should be the same in peace as in war than it is that the soldier should have no barracks in peace because in war he has either a tent or nothing at all.' The more closely, however, the peace system can be continued and adapted by expansion to the conditions of active service, the greater will be the value of the peace training in dealing with necessarily abnormal conditions. The fewer the changes in the system required to meet the emergency, the fewer openings there will be for unforeseen contingencies arising with the risk of loss through ignorance or incompetence in dealing with them. The lack of a suitable system during the South African war led to much unnecessary waste, loss, and unsatisfactory accounts, and was the direct cause of a complete reorganisation of the system of army accounting. At the outbreak of the South African war the system provided for the audit of all accounts at the War Office as in peace time. There was no local audit on the spot of either cash or stores, nor was any provision made for supplying the military authorities with financial advice in dealing with the many important questions which came up for consideration. These deficiencies were remedied by temporary expedients during the course of the war with more or less success ; but the work of evolving a definite system which would obviate such losses in future remained to be taken in hand after the conclusion of the war. The method of accounting by the Indian government during the China expedition formed a striking contrast to that in South Africa, and inevitably led the Public Accounts Committee to suggest the adoption of some such system for Imperial expeditions. In 1902 it expressed the opinion ' that in future expeditions from this country some similar system of audit to that in practice in Indian expeditions should be adopted. At present there is nothing comparable to the Indian field audit as regards cash accounts. With regard to the accounts of supplies of food,

3 R.
1902, 4

an independent branch of the commissariat and transport corps audits these ; but a local audit of cash accounts is much to be desired. . . . A system of local accountants would secure an independent audit in the place where such audit can be made, instead of postponing it to such time and place as renders effective audit impossible.' And, again, ' the difficulty of obtaining evidence as to taking the supplies on charge cannot be removed until officers experienced in local audit and taking of supplies on charge are sent out to accompany troops on the march, . . . the absence of such officers has been the main cause of the imperfect control of the expenditure in South Africa.' The Public Accounts Committee again reverted to the question in 1905, and emphasised its opinion that a corps of trained accountants should always accompany any military expedition in order that rapid and accurate accounting for every financial operation may be secured, and the losses which any campaign may entail upon the public may be minimised. ' War will always be wasteful ; but a trained military administrator, possessing the full confidence of the supreme commander, and not afraid of the responsibility of saying " Enough," can do much to minimise the waste. Not to control him, but to assist him in controlling others, he should have with him officials well versed in all financial contract methods. Only if a race of military administrators is trained in peace to exercise economy instinctively, can we expect to find the right man for the task, ready to hand, in the next great war.' A trained financial adviser may be able to prevent excessive charges from arising, instead of merely curtailing them, when large and unnecessary expense has already been incurred. In war more than in peace it is the beginning of expenditure which requires to be specially watched if economies are to be effected. ' Economy can only be maintained by constant watchfulness over the springs and sources of expenditure.' At this moment financial experts from the War Office are acting as financial advisers in France, Egypt, and Salonika. The system which has been evolved for the army since the South African war is now being put to the test in an unprecedented and not entirely foreseen manner. It is too soon to judge it as a whole, but it will probably be found that where failure results, such failure will have been due not so much to the system itself as

3 R.
1905, 19

Hist.
S.A. War
vi. 621

Anson,
Con.,
ii. I. 184

to the economy, under political or economic pressure, of retrenchments in peace time, resulting in a numerical inferiority of skilled personnel available to work the system on such an enormous scale, and further to the inexperience of many of those officers who have necessarily been entrusted with public funds—in the majority of cases for the first time.

Cp. Hist.
S.A. War
vi. 619

The next safeguard mentioned above against waste and extravagance in war time—the training of the personnel—is second only in importance to the necessity of a sound system. In many respects, indeed, it is of greater importance; for an efficient personnel will be able often to produce better results from a bad or incomplete system than an inferior staff from a good system which they may not possess the necessary capacity to carry out intelligently. In a war of magnitude, it is inevitable that, under the present system, the nation must rely to some extent on a personnel that at the outset is untrained in the expenditure of and accounting for public moneys, both on the executive and administrative sides. The aim in peace time can only be directed in the first place to laying down guiding principles, preparing regulations, and creating possible safeguards, and secondly to so training the existing personnel that its influence may be able to be exercised over as large a field as possible when war occurs. The opinion expressed by Lord Roberts, primarily as regards combatant work, but equally applicable to financial and accounting matters, is peculiarly pertinent to the present war. 'Brains,' he said, 'are even more important in war than numbers; and in an army—which may contain a large proportion of men who are not soldiers by profession—trained leaders are especially important.'

R.C.,
S.A. War
Ev.
10447

The third safeguard, the moral check, is bound up with and constitutes an essential part of the second, and it is one which can only influence in a very limited degree those who have not been brought within its sway in peace time. By many individuals the possession of public money is regarded merely as a trust which they will have fully discharged when they have spent their funds on utilitarian objects, and laid them out in the manner which they consider best in the interest of the public service. This idea is prevalent even in peace time. In war the danger is enormously increased not only

among those who are for the first time placed in charge of public moneys, but even among those who have had a peace training, but are inclined to think that a state of war automatically removes all financial restrictions. To eradicate this opinion entirely is difficult, if not impossible. To attempt to curb it during the progress of the war will have comparatively little effect; for such attempts will be met by the objections that the military exigencies must be supreme under all circumstances. The utmost should be done, therefore, to endeavour in peace time to imbue all those charged, or likely to be charged, with the expenditure, direct or indirect, of public money with the sense of strict accountability which such charge entails; to teach them the fundamental principles on which parliamentary grants are made, to impress upon them that, although every possible allowance will be made by Parliament for active service conditions, yet expenditure must be not only justifiable, but capable of justification, and properly accounted for so far as the exigencies of active service permit: in a word, to eradicate what has been referred to as 'the traditional military view, inherited from pre-Crimean days, that control of expenditure is an obstacle to be vainly kicked against in peace, and happily removed in war.' A reckoning will be demanded, though the recollection that this is so is likely to be swamped by the flood of money which is being poured out.

Hist.
S.A. War
vi. 620

The mere availability of vast sums of money, which is a necessary accompaniment of war, is no excuse for greater expenditure than is necessary for the fulfilment of military requirements. But war inculcates what Gladstone calls 'the spirit of expenditure,' and the availability increases the temptation to spend, and such temptation increases in proportion as the possibility of a reckoning appears to be distant or unlikely to be strict. Active service conditions may and do increase the prices of labour and commodities, and those higher prices have to be paid to obtain what is required; but such a state of affairs is no justification for excess prices, if by reasonable management or different methods, lower ones could have been obtained. The requirements of the military authorities have to be supplied, but they must be supplied in the cheapest manner compatible with efficiency. The very fact that a state of what may almost be described

Life of
Glad-
stone,
ii. 50

as financial anarchy exists, should cause those responsible to be the more particularly on their guard to protect the public purse whenever possible, to be on the watch for extravagance, to resist unscrupulous or even well-meaning but wasteful demands, to guard against abuses arising under cover of the situation. Though the training of those who will be placed in the higher positions is all important, in that all large schemes will usually come before them, yet the capabilities of junior officials will exercise much influence on the course of expenditure in large operations where immediate local action and initiative are imperative. The personal factor necessarily enters into many transactions on active service where there is less immediate supervision and more opening for initiative. An instance of this was found in the South African war in 1900-1902, in the variations in cost of the different concentration camps 'which were administered by military officers some of whom had a natural ability for the conduct of a business outside the scope of their usual duties, while others were less versatile.' The aim of the state should be so to train its servants in peace, so to ground them in, and imbue them with, financial principles, that when the controlling hand is inevitably relaxed if not withdrawn altogether, the peace training will influence the war practice. But however valuable a guide training, principles, regulations and precedents may be, they cannot provide for the ever-changing conditions and unexpected developments of service in the field. The personal must frequently then be the determining factor in safeguarding the public purse. The conditions of active service offer the best practical test of business ability. The exercise of control, and the power of enforcing regulations in peace time, may then keep the less businesslike minds on correct lines; but the very completeness of a peace system may in some ways defeat one of the objects of preparation for war, by failing to bring to light the difference between the official who can successfully follow out a well-ordered routine, and the one who possesses initiative, power of organisation, and generally a good business head. 'Officers should be trained to take responsibility. They should be induced to exercise their brains and to strike out ideas for themselves, even at the risk of making mistakes, rather than to stagnate, or to follow the dull routine which at

3 R.
1906, 8

R.C.
S.A. War
Ev. 174
(Lord
Kit-
chener)

present affects the officers in our service and moulds them into machines of very limited capacity. The habit of acting on their own initiative should be fostered among officers in every way.'

There is always a tendency in government departments to formulate and formularise and centralise everything. However advantageous this may be under certain circumstances, and under normal conditions, it must inevitably reduce the opportunity for the exercise of initiative, and consequently fail to make proper provision for the time when independence will not only be unavoidable but often advisable. The system of centralised financial control existing before and at the time of the South African war has been described as 'futile in peace and ruinous in war,' for officers unaccustomed to bear any financial responsibility, and ruled by excessively complex regulations, could not be expected to at once improvise a system for the control of expenditure in the field, when the restraints were suddenly removed. Training in independence is necessary to develop professional interest. The so-called chain of responsibility is too often one of irresponsibility, and 'the habit of seeking authority for every action must destroy the due sense of individual responsibility which it is so important to inculcate in a modern army.'

It has been said that the disease which afflicts bureaucratic governments, and which they usually die of, is routine; that they perish by the immutability of their maxims, and still more, by the universal law that whatever becomes a routine loses its vital principle, and having no longer a mind acting within it, goes on revolving mechanically, though the work it is intended to do remains undone. But if this is true of governments, it is equally true of their servants and possibly even the more true in proportion as those servants are the more junior. A system which encourages the belief that regulations and ordered routine, if correctly carried out, obviate the necessity for the exercise of common sense, cannot but be fatal to economy when abnormal occasions arise. The mind trained to act as a machine will fail, possibly at the very moment when the possibilities of loss are greatest. A system of minute regulations tends to destroy responsibility and to suppress individuality and initiative; for 'a person must have a very unusual taste for intellectual exercise in

R. 1913,
Ev. 2236

W.O.
Reconst.
Pt. II.
§ 3,
para. 9

R.C.
S.A. War
Ev.
19820
W.O.
Org.,
R. 98

Rep.
Gov.,
P: 115

W.O.
Org.,
R. 8
Rep.
Gov.,
p. 47

- and for itself who will put himself to the trouble of thought, when it is to have no outward effect, or qualify him for functions which he has no chance of being allowed to exercise.' In many cases of loss during the South African war it was pointed out that the plea of red tape ' had been urged either to explain away neglect, or to account for a failure to exercise in the public interest the average intelligence which every man exercises in his own.' Apart from this aspect, however, it may be that, even in peace time, economy would result from allowing a greater latitude to the local authorities who have definite knowledge of local conditions ; that is to say, of allowing the people on the spot to judge of what is the best way of getting what they want.
- W.O. Org., R. 94-5 The Committee on War Office Organisation in 1901 made many strong, and in some cases extreme, recommendations on the policy of decentralisation, all of which it would not be possible to carry out without interference with the personal responsibility of the accounting officer ; but an attempt has been made in recent years to overcome the difficulty in two directions. In the first place, by a greater decentralisation of administrative duties and the appointment of special administrative staffs. Thus, in the case of making army contracts, a larger delegation of authority has been given to local authorities, subject to a review at the War Office after acceptance only. ' The chief merit of this system is that it teaches administrative officers in the commands to take the responsibility of making contracts, which is a very valuable education in administrative work for them. . . . The subsequent war office review is really for the purpose of future guidance where an officer may have made a slip.' Prior to the South African war the system for the management of contracts, and for financial control generally in time of peace, had been a highly centralised one. Experience proved that it was difficult to apply such a system to a state of war, and the attempt to do so inevitably led to waste ; for purchases, often to a very large amount, had to be made by officers who had had little or no previous training for such work. On the other hand, it has been urged that ' the system in Parliament of asking questions on small points appears to make decentralisation almost impossible in some cases.' There can be no interference with the privilege of
- S.A. War Stores, R. 105
- R. 1913, Ev. 2238
- R. 1911, Ev. 2556
-7
- Idem*, 2561
- R.C. S.A. War R. 238
- R.C. S.A. War R. 283
Cp. Ev. 21750

Parliament ; but it is unreasonable to call for a devolution of authority, and at the same time to insist on the personal responsibility of the Secretary of State in a manner entirely subversive of the definition of duties by which alone authority can be devolved. The responsibility for keeping a right so valuable as interrogations from abuse must rest with Parliament itself.

The second step taken to inculcate initiative and to afford scope for organising ability is the practice of making allotments of money in peace time for training purposes, to be spent more at the discretion of the allottees than the usual grants which are strictly appropriated. The extension of this principle is necessarily limited, under the present system, by the degree of freedom from appropriation which Parliament is willing to allow. It is inconceivable that a return would ever be made to the loose appropriation of a century ago, and still less to the system in force in the eighteenth century and earlier. The modern tendency, the aim of which has been to secure parliamentary control, has been towards more and more detailed appropriation. So far as peace expenditure is concerned, this close appropriation undoubtedly secures the object in view ; but, on the other hand, it equally undoubtedly diminishes the training possibilities of officers for war expenditure. It must be a matter of opinion whether the advantages of the system, as exemplified by the close control in peace, are sufficient to justify the disadvantages in war resulting from the free expenditure of public money by officers who have hitherto been closely controlled and may fail when left to themselves. Whatever the peace training, much waste and extravagance in a war of magnitude will be inevitable, and probably therefore Parliament will always prefer to retain the peace control at the risk of excess waste in war, certain in incidence but problematical in extent. But, even if this is so, it may be possible to secure a degree of amelioration by an extension of the allotment system in some directions, without any serious detraction from the control which Parliament may wish to, and has the right to, demand. The extent to which financial decentralisation can be carried is, indeed, largely determined by constitutional considerations. On grounds of economy and administration its advantages are undoubted, and the commissions and committees which have dealt with the subject have all recommended further extensions.

Immediately the normal financial regulations clash with the military exigencies in war, there can be no question as to which must give way ; but apart from this, the fundamental principles on which war expenditure is incurred are and must remain the same as in peace time. The training in peace has therefore a vital bearing on the result in war.

The state having taken all possible steps in peace time to train its servants and to ensure the selection of the right men to fill the right positions when the emergency arises, must then trust its purse to the skill and discretion of those it has selected. So far as waste and extravagance are then preventable, such prevention will be in proportion to the sound judgment and ability of those on whom the state has elected to rely. If the system in peace has not eliminated the weak spots, the process of discovering them in war is inevitably expensive. Intellect can be bought ; character cannot.

Other Sources of Danger

The recognised paramount importance of the claims of military necessity demands, however, the exercise of caution in guarding against a not unlikely source of danger. The transition from ordered financial control to a practically unfettered spending power may induce a reaction, which will sweep away sound judgment and the sense of financial duty which is owed to the state. In other words, the less stable and level-headed may be driven by panic to commit financial excesses under the guise of measures of safety or necessity. Against such excesses there is no remedy. The fault lies, as previously suggested, in the selection of an officer who has not the necessary strength of character to cope with the emergency. If his unfitness has not been discovered by the training and experience of peace time, the state must pay for his cost when the crisis arrives.

Cp.
S.A. War
Stores,
R. 13
& 18,
& 4 R.
1906

A second danger, likely to arise at a later stage, is lest the freedom from financial control for any length of time may develop a habit which will continue after the military need for it has passed. To guard against this, vigorous measures must be taken at the earliest possible moment. When victory is once assured, and active operations against the enemy have

ceased, a wide field is at once offered for the exercise of financial control, measures of economy, prevention of waste and extravagance. It may be long before peace conditions, with their normal financial routine, can be re-established. Unusual and irregular expenditure will continue. The economic condition of the country brought about by the war will render financial regularity difficult. The personnel which has borne the brunt of a campaign may be exhausted; though, more especially in financial matters, the brunt may fall more upon the personnel at home than upon that at the seat of war. The achievement of success may induce the feeling that the succeeding steps of winding up affairs are immaterial, trifling. It may be thought that the country which has not hesitated to meet the military demands during the war, lavishly and unquestioningly, will not hesitate to allow the same freedom in the closing-down stages. This is the danger to be met, and a serious one, though it may involve sums of comparative insignificance after the millions poured out during the continuance of hostilities. The financial steps taken during this period will not, however, be judged by the amounts involved, but as far as possible on economic lines. War conditions may be still in existence, but the exigencies of military requirements will have ceased. The certificate of military necessity no longer carries the unquestioned weight which it bore while the enemy still remained undefeated. The principal steps to be taken will be those of the disposal of surplus stores, demobilisation, and the resumption of normal peace conditions. Every effort will be made to carry out these steps with the utmost dispatch. But whereas, during the continuance of the war, no expense is spared to carry out necessary measures as rapidly as possible for military reasons, now the reason for dispatch will be almost entirely one of economy. The more rapidly the forces can be demobilised, the more quickly will the abnormal expenditure be reduced. Expenditure, however, will no longer be justified solely on the ground that it produces rapidity of action, unless such action simultaneously tends to economy. Apart from the rapidity of demobilisation as tending to reduce expenditure, time is no longer a prime consideration. The financial freedom hitherto exercised by the military authorities should now be at once limited, made subservient to the interests of economy, and

in unusual or important matters yielded altogether to the higher authority who would normally deal with them in peace time. The officer who at this stage incurs or authorises exceptional expenditure, on his own responsibility, must be prepared to justify his action on grounds other than military necessity. The question of 'merit' of all expenditure during this transition period will be examined more particularly for this very reason, namely, because it will be realised that the tendency to extravagance inculcated during active operations is likely to continue, if not firmly checked. Undoubtedly the surest safeguard against such a danger is the infusion, if possible, of new blood to take up the work during the closing stages. When this is impracticable, much may be done to reduce the risk of loss to a minimum by securing a closer and more immediate local control by the system of local audit and the presence of special financial advisers. By such means will it be possible to minimise the dangers of a period which is peculiarly liable to be fruitful in unnecessary expenditure, extravagance, and waste, and which consequently offers a wide field for criticism.

*Political Considerations as affecting War Preparations
in Peace Time*

Before concluding the observations on this subject it is necessary to refer to two aspects which, though mainly dependent on political considerations, are serious factors in war expenditure. The more complete the preparations made in peace time, when conditions and prices are normal and time is a minor factor, the less necessity will there be on the outbreak of war to secure what then is of paramount necessity, irrespective of cost.

Improvisation under pressure is inevitably more expensive than gradual development at leisure. The market, both of commodities and labour, rises under the sudden demands created by the emergency. The expenditure under such conditions is far greater during the war, than if the force were complete for the purpose required in every respect at the outbreak of hostilities, though against this additional expenditure must be weighed the savings to the nation during the years of peace. Under the voluntary system this cannot be avoided,

though it can be mitigated in many directions. The government is solely responsible for deciding upon the preparations which are to be made in peace, and in theory such decision must be based on what the naval and military advisers of the government consider to be necessary to meet any possible contingency. When, however, the possibilities or the probabilities of war are remote, other considerations are apt to outweigh military opinion. It is easily comprehensible that the government of the day should prefer to spend the income of the nation on schemes of social amelioration which show an immediate return, and produce results which are visible to the people, rather than on military purposes the importance of which may not be understood or appreciated by the public, and for the necessity for which the opinions of experts must be relied on. Provision in peace time for the fighting services constitutes a form of insurance premium to cover two classes of risks. Of these, one is vital—the national safety. The other is, in a degree, optional, and at the best can only be partially covered—the national expenditure in war. Both are questions of policy. While, however, the former is one which cannot be neglected, the degree of the latter may reasonably be considered to be open to argument from many points of view. Provided that the national safety and the current needs of the services are guaranteed, it becomes a debatable point as to what further expenditure shall be incurred in peace time with a view to reducing the extra expenditure in war—in other words, as to what services shall be initiated or increased in peace time in preparation for war which, so far as military exigencies are concerned, may safely be postponed until the outbreak of hostilities, to be then secured at an inflated cost. Ill-considered savings in peace inevitably lead to waste and extravagance in war when improvisation becomes necessary. For such savings the nation will have to pay heavily in the long run. In other words, the nation which adopts this policy effects its own insurance and speculates against the advent of war until such time as the years of peace savings shall have covered the eventual loss. Under the present system of parliamentary government the temptation to savings in peace time is very great, even under the former of the above heads. Under the latter it is almost irresistible. The expenditure of millions in

war time is less questioned than that of thousands, or even hundreds, in peace. The knowledge that this is so necessarily produces a political state of mind which is prepared to make comparatively scanty savings in peace, on every possible object, at the expense of throwing vastly increased burdens on the nation if and when war comes. The date at which that burden will be imposed is uncertain. The effect of the saving is immediate. When, therefore, the question arises in peace as to whether any particular saving is justifiable or not, there is an overwhelming tendency to take the risk, and the government, Parliament, and the Treasury bring pressure to bear on the accounting department to reduce current expenditure.

The foregoing remarks deal with the normal preparations for war during peace time. Occasions arise, however, when the prospects and possibilities of war become imminent and the immediate increase of war stores on a considerable scale is desirable on military grounds. It has been a widely accepted view that such increase could legally only be carried out by the exercise of the powers of virement, if sufficient savings on current services can be effected, or by obtaining the necessary grant from Parliament on a supplementary estimate, the effect of which may be to precipitate the crisis or hamper diplomatic conversations. The Public Accounts Committee of 1862 referred to such a position as a justification for the existence of the powers of virement; but, except on a minor scale, they would not always be effective, as, if war were imminent or possible, a department might not be able to curtail current services sufficiently to make any appreciable sum available for special war preparations. The extent to which the use of virement for this purpose is of practical utility is dependent upon the period of the year in which the emergency arises. 'By the beginning of August, when all the estimates have been voted, the government has in hand the total provision for the army up to the end of March to spend as it likes, subject to condonation a year later.' For an emergency arising in the autumn, it has consequently ample funds available, if prepared so to use them, and many months to elapse before it becomes obligatory to present a supplementary estimate. In the early months of the financial year, on the other hand, the extent of available money will depend upon

2 R.
1862

Hist.
S.A. War,
vi. 604

the rate at which the votes are passed, while towards the end of the financial year the bulk of the grants will have been spent on current services. Under certain conditions, therefore, it is within the power of the government to make emergency preparations, without the necessity of notifying Parliament until possibly months later, by the diversion temporarily of funds from one army or navy vote to another vote of the same department, though such a use of funds for purposes not provided for by Parliament and without its knowledge would of course be irregular. The committee of the above-mentioned year agreed that 'there must occur occasions when the position of foreign affairs might render the immediate application for a supplementary estimate injurious to the public interest'; and, though it further expressed the opinion that 'provision must be made to meet such cases,' it made no suggestion other than the exercise of the powers of virement. Though, on grounds of policy, it may be decided that it is preferable to postpone preparations which cannot be effected out of savings rather than to make them with the accompanying necessity of publishing the fact to the world, the inevitable result of this is that, on the outbreak of war, the stores have to be purchased at enhanced prices and under more urgent conditions. An illustration of this disability was seen in the case of the South African war. In July, 1899, the War Office expressed an opinion that in view of the possibility of war, £640,000 was required to make up deficiencies, and desired to obtain that sum in a regular manner from Parliament. Though the principal ground for the request was rather military than financial, yet had this sum been then available, it cannot be doubted that its purchasing power during the months before war was actually declared would have been far higher than at a later period, when war prices ruled, though the extent of the saving which it was suggested would have accrued was much exaggerated. The sum was, however, refused—mainly on the ground that 'in the then existing position of the negotiations with the South African Republic, it was not expedient to ask Parliament for a large sum of money, and to make open preparations which might have precipitated a crisis.' The royal commission in dealing

R.C.
S.A. War,
R. 51

R.C.
S.A.War,
R. 66

with the point quoted the opinion that 'as regards mobilisation for service abroad, the same difficulties as were experienced in 1899 will arise as long as the preparations for it are dependent in any degree on money being forthcoming at the last moment.'

The only means of obviating this difficulty in a manner which would obviate the necessity for irregularity in procedure would be to place at the disposal of the government a large sum to be available for such emergencies without further prior reference to Parliament. At present the only available funds of this nature are those provided by the secret service vote which, however, is on the same footing as other votes as regards the surrender annually of the unspent balance, and it cannot therefore accumulate for such a purpose as this.

Idem,
Ev.
20832

In his evidence before the royal commission on the South African war, Sir Andrew Noble stated: 'I do not see how it is possible, unless our policy is changed, that we can ever be sufficiently prepared in the case of a war suddenly breaking out. I need not point out that in the great campaign to which I just now alluded,¹ Frederick had his army chest full, and at his own disposal. We know further that at this moment Germany has a very large sum of money over which the Parliament have no control, and which can be spent immediately without going to Parliament. It seems to me that the only way in which efficient preparation for war can be made, seeing the questions to which every minister is now subjected, is that the War Office and Admiralty should have at their disposal a very considerable sum of money, not to be spent, of course, except with the authority of the cabinet, but at the same time so that it would not be necessary to proclaim the fact to all the world; as things are now, all the world knows next day what preparations you are making, if the present system of questions as to raising money is allowed to go on.'

Cp.
Idem,
Ev.
20832,
20840

The witness suggested that a sum of ten millions so placed at the disposal of the War Office, and a similar sum at the disposal of the Admiralty, would be sufficient for such a purpose. Though the point which was being considered by the royal commission was the military preparedness, and not the financial saving that would be effected if money were available for pre-

Cp. Hist.
S.A.War,
vi. 603

¹ 1756. Seven Years' War.

war purchases, the latter point is as important on financial grounds as the former on military grounds. The royal commission, while recognising the difficulty of the position, agreed that, though the suggestion might largely remove that difficulty, it was 'probably unnecessary to discuss a step which is so unlikely to receive the sanction of Parliament. The American system enables the government to obtain and keep vast surpluses, such as no executive would be allowed to hold under any system of parliamentary government, and, even after the French war, when the English government was in a very strong position and treasury influence was greater than at any other period, a proposal that a moderate surplus should be kept was not endured.

The ingrained belief in the principle of the strictness of appropriation, as well as a firm faith in the rigid compliance with such appropriation on the part of those concerned, has, however, somewhat exaggerated the difficulties of the position and favoured the currency of the validity of the foregoing contention. So far as regularity is concerned, the government may be, and is, limited; but under certain circumstances and in grave emergency it may be prepared to adopt irregular methods if it considers they would be in the public interest, and if the latter cannot be served in any other manner. 'A government that is prepared to declare war will not hesitate to take this responsibility.' To a government so disposed, funds to a very large amount can be made available by temporary diversion—the amount being limited solely by the total unspent ways and means provided for the year after allowing sufficient only for current services during the interval before it will be possible and advisable to notify Parliament of further requirements. The system of control over issues, Sir Charles Harris points out, 'does not in fact prevent the government from spending ten millions, or twice that sum, in preparation for war without first obtaining the leave of Parliament. The public funds are not in reality so tightly tied up as may seem.' One source of supply is obtainable within the department, as already mentioned, by diversion of the general supply for the army (or navy, as the case may be) temporarily to the preparations required; but if that is not enough the government can draw provisionally on the funds provided by the Appropriation Act

R.C.
S.A.War,
R. 248;
Ev.
21373

Bage-
hot,
Eng.
Con.,
lxi.

Hist.
S.A.War,
vi. 604.

Cp.
C.P.M.
1856,
App. 1,
p. 518

2R. 1873,
5

for naval or civil services on condition that before the end of March it passes a supplementary estimate. For this the co-operation of the Comptroller and Auditor General—the safeguard against improper issues from the exchequer—is not required, otherwise it would not be practicable. Section 15 of the Exchequer and Audit Act orders the Comptroller and Auditor General to grant to the Treasury on requisition credits 'not exceeding in the whole the amount of the ways and means granted' by Parliament. If therefore the Treasury is prepared, in say August, to requisition the total ways and means for the year, the grant of the credit by the Comptroller and Auditor General is perfectly in order, and he has then no knowledge of the services for which the credit is required, for the form of the Treasury requisition refers only to the general title 'Supply Services.' In the treasury order to the bank to transfer the sum for which credit has been granted to the Paymaster General's supply account the services are specified, and as this order is transmitted to the Comptroller and Auditor General he will then become aware of the facts; but his functions of issue will have already been exercised and he will not be concerned further until the account is rendered, so far as his statutory functions go. It is, however, 'his bounden duty to report all cases of suspicious irregularity, which may come under his notice, to the Treasury,' but as his protest in such a case would be made to the department responsible for the irregularity it would but be a formal record of his objection.

The co-operation of the Paymaster General in the irregular proceeding is however necessary, for, under a treasury minute, the duty is laid upon him of seeing that the total sum granted by Parliament for any civil vote, or for the total army and navy votes, is not exceeded when he makes his issues, and he therefore has to keep an account under each head of the amount of the grants and of the issues. His duty in this respect, however, being imposed by the Treasury, and not being statutory, can be modified by the Treasury, as would necessarily have to be done if the Treasury were to require him to credit the army supply account in his books with supply temporarily diverted from the civil or naval votes with a view to his issuing it on army services. It will thus be seen that the Comp-

troller and Auditor General cannot prevent or guard against such a proceeding, nor can the Paymaster General if the Treasury orders it.

Though such a proceeding is irregular it will not be technically illegal, if, before the end of the year in which the expenditure is thus incurred, a supplementary estimate has been presented and the parliamentary appropriation made, for, as pointed out in a previous chapter in reference to the question of economy of cash balances, appropriation of exchequer issues need not be anticipated, though it must follow in due course. The irregularity would consist in the incurring of expenditure unauthorised by Parliament and in excess of the provision made at the time for army votes.

But, again, even if no money is available, as might be the case late in the year, there is a further important resource open to the government with which to traffic—its credit. 'Payment for guns, stores, and transports is not made in advance, so that the government's power of ordering such things is not even limited by the cash immediately at its disposal.' By this means, either alone or in conjunction with its spending power obtained by resort to irregularity in securing funds, it can, if need be, make preparations on a large scale so far as finance is concerned. But the crucial fact which prevents such preparation is in practice not financial at all, but political. 'The real difficulty in making preparations is that, under modern conditions, the placing of large orders for warlike stores, the fitting out of transports, or the buying of thousands of animals, soon becomes known all over the world and perhaps precipitates a war diplomacy might still avoid.' If there is no reason for secrecy in the preparations, there is no objection to applying to Parliament for funds, and no need for resort to irregularity. If secrecy is essential the availability of funds irregularly obtained will not avail, for their use will not be compatible with secrecy. The solution—and it can only be a partial one—lies in the gradual accumulation in peace-time of sufficient reserves in preparation for an emergency. The extent to which this method can be carried is a question of policy. Such questions are beyond the scope of this work to discuss, beyond putting forward suggestions as to the financial effect of policy in certain cases. The general

Cp.
pp. 72
& 81

Hist.
S.A. War,
vi. 604.

Idem

question is, however, so intimately (though indirectly) bound up with that of parliamentary control that this brief mention of the point may not be considered to be out of place, in bringing to notice the fact that much of the heavy war expenditure results from peace savings which are forced upon the departments concerned by political expediency.

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