

1923

KENYA

55988

also see
London

Conf 13th Dec, 1923

CONTINUATION OF

SUBJECT

*auditors of Railway
Accounts*

*Recommendations that a
number of the best
auditors staff should be
employed solely as - on
leave from 1st to the
General Manager*

From U.S.A.
To U.S.A.
Secretary of State

Previous Paper

MINUTES

*See for
3/24 11/22*

Mr. J. P. [unclear]

May we have your views on this paper?

[Signature]
13/12/23

Conf. 20 AUG 1924

Mr. Atkinson,

I have kept this until the future
constitution of the Railway became more
definitely settled. I have now had the
advantage of discussing the future
possibilities with Mr. Pelling from whom
I understand that a scheme of complete
reorganisation has been worked out and
that it is possible that it will be
brought into operation on the completion
of the necessary formalities. In view

Subsequent Paper

of this he concurs in my opinion that it would be advisable to leave the question of the revision of the audit of the Railway accounts until the other contemplated changes have become effective when doubtless it will be considered to be advisable that the Railway shall have ^{an} ~~an~~ audit staff working under the directions of the Director of Colonial Audit, ~~appointed~~ ^{recruited} from the local audit establishment in Kenya Colony. I therefore advise that this course may be followed.


31.7.20

Reply on the above
lines

File 2078/20
(P.O. 2078) above.

KENYA.

No. 534

CONFIDENTIAL.



GOVERNMENT HOUSE

NAIROBI.

KENYA.

12th October, 1923.

55394

MY LORD DUKE,

I have the honour to inform Your Grace that the General Manager, Uganda Railway, has invited attention to the principles governing the survey of the Railway Accounts as conducted by the Local Audit Department.

As Auditor,
August, 1923.
General
Mgr. Ug. Ry.
August, 1923.

2. Mr. Peeling's contentions are best quoted in his own words -

"I shall be glad if consideration could be given to the allocation of an official of the Auditor's staff for the defined post of Railway Auditor, i.e. an Auditor, with the necessary staff, employed entirely on railway work, and who could be allowed to certify railway accounts over his own designation and present an independent report through the Government Auditor.

1. I am anxious to have an effective independent audit of railway accounts, but the railway cannot be expected to continue to pay for audit work unless it receives more benefit therefrom than it has in the past.

3. My conception of an auditor is that of an official responsible for the independent verification and certification of accounts, and for impartial criticism within the limits of

HIS GRACE

THE DUKE OF DEVONSHIRE, K.G., P.C., G.C.M.G., G.C.V.O.,

SECRETARY OF STATE FOR THE COLONIES,

DOWNING STREET,

LONDON, S. W.

what in any standard work on the subject would be regarded as 'auditing.' Hitherto the primary function of the Auditor's staff on railway work has apparently been that of seeing that Colonial Office regulations are adhered to, rather than that of comprehensively examining railway accounts and drawing attention to what is inaccurate or unsound.

(4) I cannot find that, in the past, the Auditor has called attention to cases in which the railway has paid for services not rendered, to the absence of provision for renewals, or to the transfer of railway assets to the Government without compensation. I cannot find either that the Auditor has drawn attention to the use by the Government of loan money in a way which could not but inflate railway capital expenditure, or to the inclusion in the railway capital account of items which should not be there. In the latter connection I need only refer to the statements of extraordinary expenditure appearing in the certified railway accounts and to the debts carried to the Running Capital Account, while in the financial relationship between the Government and the Railway the Auditor should be quite independent.

(5) I realize the Auditor may not have been in a position to question policy laid down by the Colonial Office, but I consider that much better results would be obtained if the Auditor of railway accounts were allowed to criticize freely and independently what he considers unsound.

(6) If the changes recommended in connection with Railway control are agreed to then I think that the Railway Auditor, while remaining on the staff of the

Government Auditor, should present his report to His Excellency the Governor direct. At present the Government Auditor apparently reports to the Director of Colonial Audit, who, in turn, submits a summary of reports from all Crown Colonies to the Secretary of State. This method might be effective so far as ordinary Government departments are concerned, but it is of no particular assistance to the General Manager of Railways of the Inter-Colonial Railway Council here.

(7) I shall be glad if this letter can be transmitted to the Acting Auditor for his comments as I am sure he must realize fully the defects of past and present practice.

2. These views were communicated to the Acting Auditor, and I enclose a copy of his comments, together with the General Manager's reply thereto.

4. Sir Robert Gwynne has instructed me to forward this correspondence to Your Grace and to state that this Government supports the recommendations submitted by the General Manager. It is assumed that the principles raised will be referred to the Director of Colonial Audit and it is hoped that an early decision will be arrived at.

3. I have to add that in the early part of this year, the General Manager represented that the Railway contribution of £4,345 as budgetted for under Item 19 page 27 of the current year's Estimates exceeded the services rendered to his Administration by the local Audit Department. The actual assessment was calculated on the basis of the arrangements reported under cover of Sir Edward Gwynne's Despatch, Confidential, No. 206

of the 28th November, 1921. The late Auditor admitted the justice of the General Manager's contention, but regretted that his depleted staff did not allow him permanently to detail one Senior Assistant Auditor and one Assistant Auditor for railway work as well as the full clerical establishment on which the contribution was based. Consequently on discussions between the General Manager and the Acting Auditor it was agreed accordingly to accept £3,800 or a reduction of £1,143 as a reasonable contribution for the period in question, and, to include £3,650 as an appropriate allowance for audit services in the Draft Estimates of the Uganda Railway for 1924.

4. It is hoped that savings under Expenditure Head XI will present an excess on this year's vote for the Audit Department as a result of this arrangement, but it is impossible at the present time to give an assurance on the point.

I have the honour to be,

My Lord Duke,

Your Grace's most devoted and
most obedient servant,


GOVERNOR'S DEPUTY.

COPY.

No. 785/266/9

AUDIT OFFICE,

P.O. Box No. 20 Nairobi.

8th August, 1923.

The Hon'ble Colonial Secretary,
N a i r o b i.

Your No. 4729/3/16 dated 11th July.

The proposals put forward by the Hon'ble General Manager for the creation of an appointment of Railway Auditor, to be filled by an officer detailed from this Department but otherwise independent of it and submitting a separate report to Government on the Railway Accounts, are contrary to the principles on which the Colonial Audit Department, of which this Office is a branch, is established and consequently any final discussion of them must be referred to the Director of Colonial Audit, and cannot be settled locally. If Government wish to support the General Manager's suggestions it is presumed that due reference will be made to the Secretary of State to permit of such discussion with the Director of Colonial Audit but I do not think anything will be gained by proceeding further with the matter and I hope the Hon'ble General Manager will be satisfied with my explanations and arrangements, which I propose herein to outline, for the future conduct of the Audit of the Railway Accounts by my Department. It is, however, necessary in the first place to answer some of the criticism raised by the General Manager.

2. My Audit of a Government Railway's Accounts is covered by paragraphs 64, 65, 67 and 68 of the Colonial Audit regulations and covers what in a commercial Railway would be regarded as the Shareholders audit,

as distinct from the Company's audit. Most Railway Companies have their own Audit staff under the control of the Chief Accountant or Auditor to carry on an internal audit and the Shareholders' Auditor takes no responsibility for this beyond ascertaining that there is such an internal check or audit and that the system on which it works is satisfactory.

I consider therefore, that the work that is normally done by my Department, covers all that is done by the Shareholders' Auditor for a particular Railway, and my further duties do not fall within my province, but rather in that of the Chief Accountant's or General Manager's own Departmental Audit Staff.

3. The General Manager is very broad in his conception in paragraph 3 of the duties of an Auditor when he says an Auditor is responsible 'for impartial criticism within the limits of what in any standard work of the subject would be regarded as auditing.' In any such standard works he will find that an Auditor's duties coincide with checking the accuracy of the entries in the books of original entry, he is not required to go behind these and question individual transactions other than to ascertain that the books of the company are being used in accordance with the provisions of the Statutory authority on which the Company is formed or its Memorandum and Articles of Association and the Minute Book of Directors' or Shareholders' meetings. It is no part of an Auditor's defined duties to act as Financial Adviser, or to question the technical administration in relation to its effect on finance or vice versa. I ask the

General

General Manager to consider the foregoing in connection with the duties undertaken by this Department in the audit of the Uganda Railway accounts and he will, I think, agree that our audit is well within the clearly defined limits of an Auditor's duties as laid down by any standard works on the subject.

4. In paragraphs 3 and 4 the General Manager criticises the functions hitherto performed by this Department in the Audit of the Uganda Railway Accounts. In correspondence with the former General Manager in 1921, also regarding the Railway Accounts for audit services, the then Acting Auditor said:

"It is necessary to dissociate oneself entirely from the Audit as carried out during the War. It is acknowledged and has frequently been remarked both to the local and home authorities that consequent on the use made by the War Office of the local Audit Department the audit of the Railway Accounts since the outbreak of war has not been carried out or even supervised to the degree originally intended."

and these circumstances must not be lost sight of when framing criticism of our past work.

I am personally satisfied however, that until the developments during the war necessitated a curtailment of the Audit of the Railway Accounts, that audit was both sufficient and efficient and I think that if I turned up old records and correspondence, I would find that due notice was taken by this Department, so far as is compatible with its prescribed duties, of most of the points on which the General Manager comments about our lack of attention. It is, however, somewhat unnecessary to pursue this for the purpose of the present discussion.

5. The functions that the General Manager requires his Railway Auditor to perform are not entirely provided for by the present system, but so

for as is consistent with the instructions and regulations under which this Department works, I am anxious to give the General Manager all the assistance possible. I am therefore advising the officer-in-charge of my Branch Office at the Railway that he is at liberty to criticize freely and without restriction, in direct correspondence with the ^{General} Manager or heads of divisions any matters that come to his notice, and his reports to the Auditor or the Head of Accounts will never contain such matters as are worthy of special mention. I am also approving for the officer to consider a still further relaxation of the programme of work done in his office, so as to avoid any delay of examination work by the office and the Chief Accountant's, so far as my regulations permit of such relaxation.

The question of submitting to the General Manager, a copy of the Assistant Auditor's report to the Auditor of the Railway Accounts may be considered if it is likely to be of interest or assistance to the General Manager. As, however, it will be solely a Departmental report it will be regarded as confidential as a document to retain the freedom of criticism or explanation that is essential in the report of a subordinate to the Head of his Department, and it cannot be made public in the way the General Manager considers the report of the Railway Auditor should be published.

5. I hope these arrangements will be satisfactory to the General Manager, at the same time he should remember in comparing the services rendered here with those in England or South Africa that in those countries for £14 a month, the pay out here of an inexperienced 4th Grade Clerk, one can obtain the services of capable educated

educated and experienced Europeans. This makes a vast difference in the efficiency and organization of my office.

If these arrangements do not meet the wishes of the Hon'ble General Manager I can only suggest he seeks the appointment of his own Auditor as "Company's Auditor" as distinct and independent of mine, but I am afraid that the work of such an official will be additional to, and not to the extinction of my audit and as a double charge will arise.

Yours faithfully,
H. H. LEE

ACTING AUDITOR.

THE HONORABLE THE ACTING CHIEF COMMISSIONER,
RAILWAY AND PASSENGER SERVICE OF INDIA,
CALCUTTA.

Public Criticism for Audit Services

I am in receipt of your communication No. A. 4720/1/23, dated the 15th August, 1923, and have read the contents of the Acting Auditor with much interest.

2. The audit of the Government Auditor of a Government Railway's accounts should be, I agree, on the general lines of a 'shareholder's' audit, as distinct from a Company's internal audit. If I can get from the Government Audit Department an audit with which the shareholders of a Company would be satisfied, I would also be satisfied. Would the Acting Auditor, as a shareholder, have been satisfied with the position as I found it here? I think not.

3. I agree that it is no part of the functions of an Auditor to be a financial adviser. I agree entirely with the opinion expressed on that point in Dicksee's Auditing, with which Mr. Lee's remarks are in accord. From a Government Auditor I would like to see financial criticism, not financial advice, and I want to see that criticism published in the interests of the Railway.

4. Public criticism based on an audit report, may not always be in the interests of the Government, but it is always for the public conditions and all I can do is that

that it be entirely independent and impartial, and it is in order to make that position independent and impartial that I would like to see the Railway Auditor submit an independent report to the Controller and Quarter General.

3. A report from the Government Auditor to the Director of Colonial Audit, who in turn submits a summary of all Colonial Government audit reports to the Colonial Office, may be moderately effective in that it gives the Colonial Office a check as to what is happening on Crown Colony Railways, but is of no particular use to the management of this railway or to the customers of the Railway.

4. I have given the Acting Auditor - who I know has considerable accounting knowledge and audit experience - a copy of the audit report on the South African Railways published yearly. No comprehensive publication is quite unnecessary, for this small railway, but I suggest that it be only a question of time before the users of this railway will make themselves heard on the principle involved.

5. I submit that as the Imperial Government makes no Grant-in-aid to this Colony, and, as, so far as this Railway Administration is concerned, all expenditure must be defrayed from earnings derived from the public who pay fares for their own transport or rates for the transport of their goods, the said public is entitled to have an independent audit and has every right to see the report of the Railway Auditor.

6. Having raised the matter I must leave it in the hands of the Government.

SG/- G.N. Pelling

GENERAL MANAGER,
UGANDA RAILWAY.



Gen. 5889/23, Kansas.

DRAFT.

9/24

25 August 1924.

Kansas.

Confidential

9a.

Gen. Comptroller

ROUTE.

I have all to do with the

receipt of your Confidential

dep. No 536, of the 12th of

October, 1923, on the subject

of arrangements for the

audit of Railway Accounts.

2. This question was

discussed by the General

Manager of the Railway

- Mr. Tolson
- Mr. Clegg
- Mr. Glavin
- Mr. Ladd
- Mr. Nichols
- Mr. Rosen
- Mr. Tracy
- Mr. Carson
- Mr. Egan
- Mr. Gurnea
- Mr. Hendon
- Mr. Pennington
- Mr. Quinn
- Mr. Nease
- Miss Gandy



Qn. 5800/03, Kanara.

9/2

~~CONF.~~

25 August 1914.

Kanara

Confidential

Qn. Computer
SHUTE.

96

I have all to do with the

matter of your Confidential

dep. No 536, of the 12th of

October, 1913, on the subject

of arrangements for the

audit of Railway Accounts.

2. This question was

discussed by the General

Manager of the Railway

Mr. Paul. 11/8/14

Mr. J. P. 21/8/14

Mr. J. P.

Mr. J. P.

Mr. J. P.

Mr. J. P.

Mr. J. P.

Mr. J. P.

with the Board of Colonial
Audit Bureau, following
visit to that country. On
result of his observations I

was agreed that it would be
advantageous to leave the matter

with the ^{Colonial} ~~general~~ ^{imperial} ~~organization~~

in the administration of the
railway system ^{has become}
apparent. It will, no doubt

be found advisable that
for ~~improvement~~

I am addressing

~~you the separate reports~~
~~regarding the legal arrangements~~

~~to the Secretary of State~~
~~for the Colonies~~
organization of the Railway.

DRAFT.

MINUTE.

- Mr. ...
- Mr. ...
- Mr. ...
- Mr C. ...
- Mr E. ...
- Mr X. ...
- Mr J. ...
- Lord ...
- Mr. ...

The question of the position
should have a
of separate Audit staff,
for the Railway, working
under the Director of
Colonial Audit, will
~~should be considered~~
~~further when the change~~
~~has been effected~~ and
distinct from the
local audit establishment

of the Colony.
for the Secretary of State)
(Signed) ARNOLD

with the Board of Colonial
Audit General, Mr. Callaghan,
and to that country. On
receipt of his advice I
was agreed that it would be
advisable to leave the matter
with the general re-organization
of the administration of the
railway system ^{has some}
affairs. It will no doubt
then be found advisable that
for ~~the~~ ^{the}

I am addressing

~~you of the separate supplies~~
~~regarding the layout of the~~

~~concerning the~~
~~to the~~
separation of the Railway.

DRAFT.

MINUTE.

- Mr.
- Mr.
- Mr.
- Mr. C. D. ...
- Mr. G. ...
- Mr. H. ...
- Mr. J. ...
- Lord ...
- Mr. ...

The question of the provision
should have a
of separate Audit staff,
for the Railway, working
under the Director of
Colonial Audit, will
doubtless be considered
further ~~when the change~~
~~has been effected~~ and
district from the
local audit establishment

of the Colony.
(for the Secretary of State)
(Signed) ARNOLD