

EAST AFR. PROT.

21890

REC'D
18 JUL 10

21890

Governor
Girouard 371

RAILWAY WORKING ACCOUNTS

1910

15th June

Last previous Paper.

See 8/15343

The memo by the Treasurer with observations thereon by the Railway Manager and the Local Auditor, is in entire agreement and recommends strongly the suggestion that in future the net railway earnings only shall be shown in the Protectorate Estimates and the net cash receipts in the Accounts.

J. C. A.

Have you any others to offer?

H. J. R.

19/10

Mr. Read;

I have kept back the draft despatch on 15343 until I have had an opportunity of fully considering the point raised in this paper - the questions involved in both papers being closely allied. [The proposal which is here put forward is a revolutionary one and directly raises the question of whether or not the details of the finances of the railway are to be subject to the control of the Secretary of State in the same manner as the other financial dealings of the Government, or whether, under the power reserved in Rule 307 of the Colonial Regulations, a relaxation of the general rule is to be allowed in regard to Railway Accounts specially.

In this connection it may be presumed that, if it be decided

copy to Treas. 23 Sept ✓
to Treas. 4 Nov ✓
and off 20 Dec ✓

Next subsequent Paper.

See 38823

that the railway accounts in the East Africa Protectorate are not to be considered as coming within the operation of this rule, that decision would apply equally to the accounts of the railways in all other Crown Colonies. In effect this proposal conveys the suggestion that from the financial point of view, the Protectorate is concerned with the Railway to such extent only as its operations result in a net profit or a net loss and that, though the Government will be called upon to provide the money for the salaries of the establishment and for the other expenses of maintenance, it has no concern with the manner in which the expenditure of the money is controlled and allocated. It is true that it is proposed to retain the Appendix to the Estimates showing, in the usual detail, the anticipated expenditure on the railway and it is claimed (see para. 7 of the Governor's despatch) that by this means free discussion of the details of the railway finances will be secured. It is moreover contemplated (in the draft despatch on 18343) that in future an annual detailed statement of the railway expenditure shall be rendered which will show the amounts actually expended under each subhead as compared with the estimate, and it is only by comparison with such a return that free discussion of the details of the Estimates is likely to be of value. But, in my opinion, this information, though desirable and useful, is insufficient in itself for the exercise of efficient control, which I believe can be only secured through the existence of a definite vote set out in more or less detail, such detail in the case of railway accounts being the provision for expenditure under each Abstract. The point to be specially borne in mind is that the Treasurer's accounts for any period purport to exhibit an exact record of the gross cash receipts and payments by the Treasurer and by his various sub-accountants during that period and the view that the Railway Manager is not a sub-accountant within the meaning

meaning of the Colonial Regulations cannot, I think, be upheld. I consider it to be the duty of the General Manager as a sub-accountant to submit to the Treasurer accounts of his gross receipts and gross expenditure (the accuracy of which, as a matter of arrangement, is testified to by the Local Auditor) and that it is equally the duty of the Treasurer to embody those figures ^{in the} ~~in~~ ^(headings) with the Estimate in the accounts of the Protectorate. As regards the point referred to in paragraph 9 of the Treasurer's Memorandum I consider that the Local Auditor's view is the correct one but with regard to adjustments affecting items only, as distinct from the totals of Abstracts, I do not think that they need be embodied in the monthly accounts although they must necessarily be made in the final account of the year.]

With reference to the remarks in paragraphs 17 to 22 of the Treasurer's Memorandum I agree that the uncertain nature of some portion of the Railway expenditure constitutes a difficulty but I think that this could be met by the adoption of the suggestion (contained in paragraph 5 of Mr. Barnes's minute on 18343) that the financial transactions of the Railway should be excluded from the operation of the "half and half" rule. This would presumably require Treasury sanction.

BA
WR

Mr. Fiddes,

I agree with the view taken by Mr. Stephenson, and I think the best thing would be to send the Governor the substance of that part of his minute which I have put in brackets. You will remember that this question was considered rather less than a year ago on Governor/36532/09. Please see the minutes and despatch on that paper.

It is suggested in the minute of Mr. Barnes and Mr. Stephenson on Governor 18343 below, that the kindred question

question there raised ought to be considered with the other departments. I am not sure that this is necessary. Sir E. Girouard has made a proposal to reverse the practice at present applied to the East Africa Protectorate in common with the other Crown Colonies and Protectorates which have railways, and I think we decided not to accept his suggestion, but to keep to the existing practice, "we need hardly trouble the other departments. If, however, you think it had better be threshed out in concert with them, the most convenient course would be to lay the papers before the Finance and Concessions Committee.

As to the last paragraph in Mr. Stephenson's minute, I do not feel that we can make out a case to the Treasury for excluding the railway from the half and half principle. The 'half and half' principle applies to the finances of the Protectorate as a whole, and if we begin to make exceptions to it it is difficult to see where we can stop. This principle is at present practically our only means of hastening the reduction of the grant-in-aid, and I think it is desirable to keep it unimpaired.

WAS

Sept 13

In my opinion we could not agree with the Govt without either conceding the fact, from the fact of the Public Audit C^o or getting into serious trouble with the latter.

Prepared for Mr. (W) J. H. reply on above (2) a copy to be sent to heading (a) extract from 15343 + diff reply. (3) 36522 reply, 2/190 + diff reply, and entry of copy. Concern in the proposed replies.

* I have been of the opinion that we cannot in this case be too strict.

at once W. 15/9

C. O.
21890
GOVERNMENT HOUSE,

Nairobi,

18. 11. 10
June 15th 1910.EAST AFRICA PROTECTORATE.

No. 371

(Incl. 3)

My Lord,

I have the honour to transmit herewith a copy of a Memorandum by the Treasurer on the method of dealing with the Uganda Railway Working Accounts in the general Protectorate accounts, together with the observations thereon of the Manager and the Local Auditor.

2. I am in entire agreement with the considerations urged in these papers and have accordingly the honour to recommend most strongly to Your Lordship the suggestion of the Treasurer that in future the net railway earnings only shall be shown in the Protectorate estimates and the net cash receipts in the accounts.

3. The position is that the Railway figures as they appear in the Protectorate accounts afford no accurate information as to the working of the line as a commercial concern and that the greatest simplicity compatible with accuracy is therefore to be desired therein. They are further the cause of considerable differences between the actual and estimated

THE RIGHT HONOURABLE

THE EARL OF CREWE, K.G.,

SECRETARY OF STATE FOR THE COLONIES,

DOWNING STREET, LONDON, S.W.

Mr. Bowring
May 25thMr. Currie
June 2ndMr. Barnes
June 2nd

estimated totals of Revenue and Expenditure owing to the fluctuating traffic and "variable" expenditure.

4. To carry out the adjustments referred to as having been queried by the Local Auditor would cause a considerable amount of additional work in the Railway Accounts Office besides delaying the submission of the Manager's cash account to the Treasury Department. Therefore, even if Your Lordship is unable to approve of the proposal that the net figures only shall be dealt with in the Protectorate estimates and accounts, there would not appear to be any material advantage to be gained by including in the Protectorate accounts adjustments which do not affect the net balance of earnings.

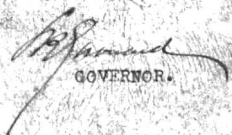
5. As Your Lordship is aware I have had considerable experience of Railway administration and the procedure recommended by the Treasurer is, in my opinion, the most practical and economical method of dealing with the question.

6. So long as the figures in the Protectorate general accounts can be reconciled annually with those appearing in the Manager's accounts of earnings and expenses, I consider that the less detail appears in the former the better. In this connection it is perhaps worthy of note that Mr. Burdett-Coutts in his evidence given before the Board of Trade Commission on Railway statistics (vide question 8530 et seq.) characterized the system under which the Uganda Railway accounts and records

records are compiled as the best with which he was acquainted.

7. I would add that the proposed change in the Protectorate Estimates will not affect the free discussion of the details of the Railway Department estimates which will continue to be shown in an Appendix.

I have the honour to be
Your Lordship's humble,
obedient servant,


GOVERNOR.

C O
21890
REC'D
FEB 18 1910

MEMORANDUM ON THE METHOD OF DEALING WITH THE UGANDA
RAILWAY WORKING ACCOUNTS IN THE GENERAL
ACCOUNTS OF THE EAST AFRICA
PROTECTORATE.

1. The accounts of the Uganda Railway are kept on commercial lines, that is to say the transactions in respect of each year are included in the accounts of the year to which they refer by means of book entries. This system, though obviously necessary in the case of accounts in which it is desired to arrive at the actual cost of work done and at other statistical facts and figures, is different from the ordinary system of Colonial accounts under which "the date of payment governs the date of the record of the charge" (C. O. Regulation 306).

2. When the manner of including the Railway Departments' accounts in the general accounts of the Protectorate was under consideration I recommended that the figures as shown in the Manager's accounts should be shown under Revenue and Expenditure in the Protectorate accounts, the necessary Suspense accounts being opened for the book-entries referred to in paragraph 1. If this method had been adopted the Protectorate general accounts would have shown earnings and cost of working, but would not have been prepared in accordance with Colonial Office Regulation 306.

3.

relations between the Treasurer and his sub-accountants, do not apply in the case of the Railway Department, nor does it appear necessary or advisable that they should. If the Railway accounts were subjected to the same detailed scrutiny by the Treasurer as are the accounts of ordinary sub-accountants, it would mean a considerable duplication of work and a large increase of Treasury staff, and expenditure. All that the Treasurer concerns himself with is the accuracy of the accounts rendered to him for inclusion in the General Protectorate accounts, and for this purpose he relies on the Local Auditors certificate to the annual reconciling statement referred to in paragraph 4.

7. Inaccuracies in the details of the Railway accounts do not therefore come to the notice of the Treasurer. These are dealt with by the Local Auditor by means of queries etc. and the necessary adjustments are made by the Chief Accountant without the Treasurer being any the wiser.

8. But questions of principle may arise from time to time which affect the form or details of the monthly account rendered by the Chief Accountant to the Treasurer. In the event of the Local Auditor and the Chief Accountant disagreeing on any such question, or in the event of any suggestions made by the Local Auditor, though accepted as correct by the Chief Accountant, necessitating any considerable increase of work in the Railway Accounts Office, the matter is referred

referred to the Treasurer.

9. Such a question is that forming the subject of the Local Auditor's query No.120 of 1908/09 in which it is observed that when charges are met locally from station earnings the net amount only is credited to Revenue in the cash account as submitted to the Treasurer.

10. Similarly, in Query 1 of 1909/10, the Local Auditor commented on the fact that adjustments between subheads of Revenue or Expenditure were omitted from the Chief Accountant's cash account as submitted to the Treasurer.

11. The effect of the system queried by the Local Auditor in the first case is that both Revenue and Expenditure are underaccounted for to the same extent and in the second case that the subheads of Revenue and Expenditure are incorrectly accounted for, though the totals are correct.

12. In his reply to Query 1 of 1909-10, (which it would appear from the reply to "Further Query to Query No.120 of 1908-09" refers also to Query No.120), the Chief Accountant states that to adopt the suggestions of the Local Auditor would be "to sacrifice economy of working to an apparent accidental accuracy, by which no end is gained." The latter part of this statement is apparently based on the assumption that "the account of the Treasurer is employed solely for the purpose of including the Railway net earnings in the Protectorate Funds," - which passage also appears in the Chief Accountant's

Reply to the query. The Chief Accountant goes on to state that "If it is considered as being imperative that these items should be included monthly it can of course be done, but it will necessitate a lot of extra work and considerable delay in the submission of the Cash accounts."

13. I am entirely in accord with the Chief Accountant that it seems a pity to complicate and delay the rendering of his monthly account for the purpose of including therein the adjustments affecting (1) either Revenue and Expenditure in equal proportions or (2) subheads of Revenue and Expenditure without affecting the totals. I also agree that the Railway figures for Receipts and Expenditure as they appear in the general Protectorate accounts are of academic interest only for the reason that the progress and cost of working the Railway cannot be gauged therefrom. To obtain real information it is necessary to refer to the Railway accounts proper as explained in paragraph 1, i.e. the account of earnings and expenses and not of receipts and expenditure.

14. But as long as the Protectorate general estimates show certain details, both under the Railway Revenue Schedule and under the Railway Expenditure Schedule, it would appear that the adjustments called for by the Local Auditor should figure in the monthly account rendered by the Chief Accountant to the Treasurer - unless some special authority to exclude them is obtained.

15. If the

13. If the present system of showing the Railway figures in the Protectorate estimates is to continue, I am strongly in favour of such authority to exclude the adjustments being asked for. In recording this opinion I am influenced by the facts (1) that the balance of earnings appearing in the Protectorate account at the end of the year by deducting the total Expenditure entries from the total Receipts entries is reconciled with the balance of net earnings appearing in the Railway accounts proper and (2) that to show the adjustments would entail a considerable amount of additional work in the Railway accounts Office and delay in the receipt of the monthly account in the Treasury.

14. But in preference to the existing system, even if modified as indicated above, I most strongly recommend a change of system in the Protectorate estimates, whereby the net earnings of the Railway only would be shown under one Revenue Head as "Railway net earnings". If this were approved there would be no necessity for the adjustments to be made as a net figure only would be required in the account rendered by the Chief Accountant to the Treasurer each month.

15. I make this recommendation for the following reasons. Although it may be argued that the Railway is not the only Government Department of the nature of a commercial undertaking, and that the Postal & Telegraph Department, for instance might, also fairly

7.

fairly be so classified, yet as a matter of financial arrangements the Railway Department must be different from other Government Departments. It would be absurd to limit the expenditure against the Railway vote to the amount provided in the estimates were an unexpected increase of Traffic to necessitate an unexpected increase in working expenses.

18. Railway Expenditure may be divided into 2 distinct Classes viz:- (1) Fixed and (2) Variable. The former class is the fixed expenditure necessary for the administration of the Department, the preparation and audit of the accounts, etc. and can be fixed to deal with a traffic ranging between considerable extremes. The latter class must fluctuate in proportion to the number of trains run.

19. Now it is possible to estimate roughly what the net profit on working will amount to, but it is quite impossible to estimate what the actual receipts and expenditure will be for the reason that the variable expenditure must be increased to meet increased traffic demands and can be decreased if the traffic falls short of the estimate.

20. The expenditure on other Departments of the Government is limited by Colonial Office Regulation No. 236 to the amount provided in the estimates. It is not the practice of the Treasury to sanction any supplementary estimate which necessitates an increase over the total sanctioned expenditure of the Protectorate, even though covered

8.

by an increase in Revenue. If this rule were to be applied to the Railway Department it would mean that profitable traffic would have to be refused. This condition was realised by the late "Uganda Railway Committee" and the following passage occurs in the Managing Member's despatch to the Railway Manager No.220 of 8th July 1903:-

"This Office will accept any increase in train mileage or expenditure that is warranted by an increase of traffic, because all such increases will tend to reduce the deficit on working. The estimate is to be regarded as elastic." Conditions have altered since this was written and an increased traffic now tends to increase the profit instead of to decrease the deficit on working, but the principle is the same.

21. Further, if Revenue and Expenditure accounts are to be treated as distinct it appears dangerous to include the Railway Expenditure in the estimates and accounts for the reason (1) that it would tend to extravagance in Railway expenditure not justified by the Railway earnings and (2) that if the Railway earnings fall short of expectations the consequent savings on the "variable" Railway expenditure could be used for covering supplementary estimates for expenditure under other Heads of Service

22. Again, even if every possible economy is effected on Railway Expenditure and the savings are not utilised for other Protectorate Expenditure, the inclusion

9. inclusion of the gross Railway Revenue and expenditure figures in the accounts throws out the general Protectorate statistics and comparisons with other years.

23. I therefore hope that my recommendation on this head will receive the support of the local authorities and will be favourably considered by the Secretary of State.

24. In conclusion I would suggest that no alteration, such as the inclusion of adjustments between sub-heads, in the form of the account rendered by the Chief Accountant to the Treasurer be introduced until a decision has been arrived at as to the future method of treating the Railway figure in the Protectorate estimates and accounts. My recommendations on this point may be summed up as follows:-

The net earnings only to be shown in the estimates and the net receipts in the accounts, falling which the omission from the account rendered by the Chief Accountant to the Treasurer of adjustment items which do not affect the balance of the net receipts.

25. Neither of these proposals would affect the reconciling statement at present prepared annually which explains the difference between the net earnings as shown in the Railway accounts proper and the net cash receipts as shown in the Protectorate general accounts.

NAIROBI,

W. C. Brown

Treasurer.

INCLOSURE No. 2

In Despatch No. 371 of 15-6-1910

21890

26

Manager's Office, 18 JUL 10

No. 2192/52.

Nairobi,

2nd June 1910.

From
The Manager, Uganda Railway.

To
The Hon'ble the Treasurer, Nairobi.

Sir,

In reply to your No. 203/4 dated the 26th May last, I have the honour to state that I have discussed your Memorandum with the Chief Accountant and we are both absolutely in accord with the views you have expressed.

The crux of the whole matter is that the Colonial Office Regulations were not framed to cover the case of a commercial undertaking like a Railway and the question has now to be faced whether the Railway accounts are to be made to conform with these Regulations or whether these Regulations are to be modified to suit Railways.

2. There is as you say no question of control or accuracy of the Railway account, these points are fully ensured.

3. I cannot conceive it possible that, when the case is put before the Colonial Office, they will consent to allow useless waste of time and money in compelling us to continue an unnecessarily intricate system of accounting when that now proposed provides ^{all} safeguards which are in any way essential.

I have &c., &c.,

Sd/- H. A. P. CURRIE
Manager,
Uganda Railway.

INCLOSURE 203

In Despatch No. 371 of 15-6-1910

27

21880

18/10

Local Audit Office,

Nairobi,

2nd June 1910.

Sir,

With reference to your memo on the Uganda Railway accounts I have the honour to inform you that I am quite in agreement with the suggestion contained in para 16 that the net earnings only of the Railway should be shown under one Revenue Head in the estimates as Railway net earnings. I note that the figure shown in the Protectorate Accounts would be a Cash net revenue prepared in conformity with Colonial Office regulations 306. I am of the opinion that this change would prove a considerable saving of labour both in the Office of the Chief Accountant and in my own Office.

With reference to your alternative suggestion that adjustments which do not affect the net revenue should be omitted from the account as compiled at present I agree that the omission can only be made with the consent of the Secretary of State and the Comptroller and Auditor General.

I have &c.,

SD/- H. BARNES

Local Auditor.

THE HON'BLE THE TREASURER,

NAIROBI.

Conf 21870 Cab

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DRAFT.

The Sec. to the Treasury

23 September

MINUTE.

- Mr. Parkin 4/9
- Mr. Stephens 20/9
- Mr. Butler 21/9
- Mr. Fiddes 21/9
- Mr. Just
- Mr. Cox
- Sir C. Lucas
- Sir F. Hopwood
- Col. Seely
- Lord Crewe. for action

I am directed by the Sec. of the Treasury to transmit to you, for the action of the L.C. of the Treasury, (1) an extract from a despatch from the Gov of the East with a draft of a despatch which it is proposed to send in reply, on the subject of the powers of the Managers of the Uganda Railway (2) a copy of a despatch from the Gov. on the subject of the reply on the subject of the certificate of support in as to the method of financing the P.T. estimate and (3) a copy of a despatch from the Gov. dated the 15th of June last with

From Gov. 23 April
 extract as marked in
 serial on despatch
 15343/10
 of Gov. Draft without
 of 15343/10
 From Gov. 7 Oct
 36522/10
 of Gov. 23 Nov
 36522/10
 From Gov. 16 June
 21890/10
 of Gov. Draft without
 21890/10

(marked)

raises the question ~~of~~
whether or not the details
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~~conclusion~~ ~~may~~ ~~remark~~
~~that~~ The question raised
is ~~not~~ of importance ^{not really} for
the East, as if it
were decided that the
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as coming within the
operation of this rule,
~~that~~ there would appear to be

no reason why the ~~the~~ decision should apply
equally to the accounts of
the Railways in ~~the~~ other
Crown Colonies. 30

3. The proposal ~~is~~
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which it provides ^{is} controlled
and allocated.
The P. Committee ^{is} ~~is~~ ~~convinced~~ ~~that~~ ~~it~~
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to the Estimates showing, in
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 of the Railway finances will
 be secured. ~~It is~~ ^{It is} ~~and~~,
 moreover, ^{requested} ~~suggested~~ in
 my ^{separate} reply to your despatch
 No 233 of the 23rd of
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 of the Railway, that in
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 shall be rendered, which
 will show the amounts
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 each subhead as compared
 to the estimate, ^{as far only by comparison with such}
 I am of opinion that ^{a return not for discussion}
^{of the details of the estimate}
^{is likely to be of value}

DRAFT.

MINUTE.

- Mr.
- Mr.
- Mr. Fiddes.
- Mr. Just.
- Mr. Coz.
- Sir C. Lucas.
- Sir F. Hopwood.
- Col. Seely.
- Lord Greve.

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I consider that it is the
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in the accounts of the
32
6. With regard to
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memo: I am of
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in the monthly accounts,
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of course be made in
the final account of
the year.

I do not need to mention
the fact that the
as the Local Accountant

J. H. G.