

## AUDITORS AND BANKERS

### Canada's Banking System—What Well Organized Managements Require

"The amendment of the Bank Act in this particular matter, as you are doubtless aware, has not been viewed with altogether unqualified approval by bankers, for the reason that they fear it may operate to give the public a misleading sense of security," was the suggestion of Mr. Vere C. Brown, superintendent of western branches of the Bank of Commerce, when speaking on the subject of auditors for the chartered banks.

"I have the best of reasons for believing that if bankers felt that all bank audits would be made on uniform, thorough and broadly intelligent lines, most of them would welcome the measure heartily. But what will the condition be if some audits are made with a high degree of intelligence as regards matters of vital importance, while others are made with a microscopic attention to small detail, but perfunctorily as to real essentials?"

"Those auditors who are engaged to audit the most highly organized and efficiently managed of our banks, will have no serious difficulty in satisfying themselves of the quality of the assets and the thorough soundness of the business; while in the case of any institution quite lacking in organization and system, the auditors would find themselves with little, if any basis, on which to form an intelligent opinion as to the value of the loans and discounts, which comprise the largest portion of the assets of a bank.

"As to our best-managed banks, I venture to express the opinion that their auditors will find an organization so highly developed and efficiently controlled as to cause them some astonishment, the fact being that we have one of the most highly developed commercial banking systems in the world."

#### Banks System of Inspection.

After describing the regulations which are usually found in a well-organized bank, relating to the establishment of lines of credit for their borrowing customers, framed with a view to maintain an effective control over the loans and discounts, Mr. Brown stated:—"There is, however, in each large Canadian bank a separate organization performing essentially the office of a critic—the department of inspection and audit. The auditing branch of the department involves confirmation of the existence of the cash, securities and tangible assets of each branch, balancing the books and generally verifying the correctness of the accounts and the balance sheet. The investigation of the quality of the loans, discounts and investments is made by the chief inspector and his staff of inspectors and assistant inspectors. In connection with this investigation the branches are required to prepare a full return of all their customer's liabilities to the bank as at a given date, embracing a copy of the customer's balance sheet and profit and loss statement, and full reports on the realizable value of securities held, the means and standing of indirect obligants, etc. Taking this as his basis the inspectors are charged with the duty of probing each account on the books of the branches and satisfying themselves that the manager's grasp of each customer's affairs is as complete as it should be, and that the latter's statement of facts respecting each account has been based on a thorough and painstaking investigation. If it should subsequently appear that there had been an unrevealed rotten spot in some important account at a branch, the question would naturally arise as to how the inspector failed to discover it. The outcome of this situation is that the inspector's report upon the assets of a branch would tend to err, if anything, on the severe side. Each inspection return contains the inspector's classification of the business of the branch under several headings, each account being rated under a class indicating its degree of desirability or undesirability, and all accounts in which the inspector sees a possibility of loss are shown separately. For these reasons where a bank's system of inspection is thoroughly organized, in the annual inspection returns of the various branches will be found a trustworthy analysis of the assets by a trained banking official whose reports would in the nature of things reflect an independent opinion.

#### Bad and Doubtful Debts.

"Supplementing the complete analysis afforded by the inspection liability returns is the annual bad and doubtful debts statement from each branch called for by the general manager. In order that it may not be left wholly to the branch manager to say which of his accounts should be classed as 'doubtful' or 'bad,' he is called upon to show in this statement not only all debts in connection with which he admits the possibility of at least a marginal loss, but also all accounts of a dragging nature, with full reports on the means and standing of the debtors and on the realizable value of the securities held. On the basis of the informa-

tion afforded in this statement as well as the information obtainable from the inspection return of the branch, the general management make an appropriation for each item in connection with which a loss might reasonably be feared, and it is needless to say that this appropriation is usually an outside amount.

"These are the conditions and these the records which will be met by those chartered accountants who are fortunate enough to be selected to audit the affairs of our many well-managed banking institutions.

"But there may possibly be some exceptions, and in order to make audits really effective, it would be desirable that the knowledge and experience gained by the auditors of the best-administered banks should be available to the auditors of other institutions. How this could be brought about is a question on which it would be premature to offer any opinion. It is only to be hoped that in due course some plan will be evolved under which the amendment to the Bank Act in this connection will be made to effectively fulfil the purpose intended.

"As far as the object aimed at is concerned, I should like to make it clear that the movement has the best wishes of bankers generally."

## VALUE OF LIFE INSURANCE

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### Life Policies and Creditors

BY C. A. HASTINGS

There are many special advantages attached by law to life policies, and they are very valuable. The almost invariable rule is that a man takes out a life policy for the protection of his wife and family, but it is quite evident that this policy fails as such if it can be seized by one's creditors. The man in business has only got himself to blame if he forces his wife and family to share his risks in business.

The law recognizes that life insurance is beneficial to the state and to the community at large, and it is provided that a policy effected in favor of the wife is for her separate use, though the husband pays the premiums.

Thus the policy becomes the absolute property of the wife and cannot be dealt with even by the husband. Of course, if the beneficiary is the husband's estate, the policy belongs to the husband, and it is not creditor-proof in consequence. Yet again, the beneficiary may be the children, for their sole use, or in favor of the wife if she survives her husband.

#### Create Separate Estates.

Most men possess the ordinary sentiments of duty and affection for his family, so perhaps it is unnecessary to go into all the details; but these men do experience much more anxiety on their account than on their own, and the only thing for them to do is to create separate estates for their families by life insurance.

It is true that there are many houses of business that are so firmly established that nothing could shake them, but the unexpected always does take place sometime or other, and it is a fact that the hard-working and honest man has been ruined before now by the dishonest practices of a partner or of an employee. Yet again, a man in prolonged bad health may be shelved by the intrigues and falsehoods of an underling.

#### Only One Excuse.

In spite of all this, many men do not take advantage of the law on the grounds of bankruptcy, but surely that objection could and would be quashed by the wife who has the power to cash the policy and thus enable her to give her husband a fresh start.

Any objection of this nature is too absurd—it is merely the fact that man delights in arguing, and is really absolutely at a loss for a bona-fide excuse, and when it comes down to arguing as to why a man should not increase his protection there is only one real excuse, and that is—that he is an impaired life.

The Bank of Toronto has opened a branch at Richdale, Alta.

"In a country as rich in its agricultural resources as Canada, the canning industry must inevitably assume important proportions," is the opening prophecy of a booklet issued by Messrs. J. Stark and Company, Toronto, bearing the caption "Industry Building" and dealing with the operations, markets and finances of Dominion Canners, Limited.