

## APPENDIX No. 2

tario Bank is now to serve five years in the penitentiary was not one nipped in the bud while its effects were yet comparatively harmless, but it was one found out only after the ruin of the bank had been completed. The wrecking process was not the work of a day or a week, or of any short period, but it will probably be found to have been continued over a series of years. No long protracted operations of dishonesty could have been possible had the law provided independent tests and automatic checks such as are employed in British banking. An independent audit would have exposed the first departure from the path of rectitude. Had there been such an audit the general manager would have been stopped early in his course of wrongdoing, and would doubtless have been removed before he could have greatly impaired the bank's resources. As it was, his dishonesty worked on insidiously until the bank's paid-up capital and its rest were all but wasted away. To say that the lack of an auditor serves to sharpen the vigilance of shareholders is really to admit the importance of the auditor's functions. If keen watchfulness on the part of shareholders is of prime necessity, then why not systematize that watchfulness in the form of an audit service? It is as the representative of the shareholders directly and of the general public indirectly that an auditor would carry on his inquiries. His activity would be serviceable to depositors and noteholders as well as to shareholders. With the right kind of auditing the very beginning of evil in the Ontario Bank would have been detected, and we should not have had to wait until the capital is gone and a really great crime has to be punished. The inquiry into the wrecking of the Ontario Bank has gone far enough to indicate very clearly to the government the points for immediate amendments in the Bank Act. In the first place the Finance Minister should have some means of verifying statements sent in by bank officials. That is, there should be government inspection. In the second place, there ought to be an independent audit. At a time when our banks are increasing in number and still more rapidly increasing in the aggregate of their capital, it is in the highest degree important that the weaknesses which have been laid bare in the Ontario Bank case should at once receive the attention of Parliament."

Extract from report of Grand Jury at Assizes in Toronto, February, 1907, 'Evening Telegram,' February 5, 1907:

*Referring to the case of Charles McGill and the Ontario Bank, we are of the opinion that it is the duty of the Government to at once establish some system of inspection of our banking and other monetary institutions that will safeguard the investing public from deceitful and fraudulent statements issued by boards of directors, who, apparently, in this instance, have been grossly negligent of their duty as trustees for the shareholders of the bank.*

The following suggestions for amendment to the Bank Act were presented to the annual meeting of the Canadian Bankers' Association, 25th November, 1909, and received no support:

'1. The Association shall appoint a board of auditors hereinafter called the board. The board so appointed shall make an annual examination of each bank and, if such examination is satisfactory, shall through the chairman of the board cause to be certified the annual statement issued by the bank to its shareholders. This certification shall state that, in the judgment of the auditors, the statement is a fair statement and a conservative representation of the bank's affairs. No statement or balance sheet shall be issued without such certificate.

'2. The board shall consist of not less than seven full members, of whom four shall form a quorum, and of not less than seven associate members, all of whom shall be elected by vote of the general managers of all the banks, and one-tenth of such vote being recorded against a candidate for either full or associate membership shall exclude him from election. The chairman of the board shall be appointed from the members of the board by a vote of the general managers of the banks.