

THE AUDITOR'S ATTITUDE TO FIRE INSURANCE.

(By E. P. Heaton.)

Any business, manufacturing or mercantile, that cannot stand the annual payment of premiums for adequate insurance is fundamentally wrong, and an auditor who does not make it a part of his business to see that such adequate protection is carried, fails to grasp an opportunity that is properly his. Many auditors take full advantage of the opportunity in this respect, and I have known of cases where such attitude on their part has prevented most direful results, but the neglected opportunity is probably more largely in evidence.

STRIKING EXAMPLES.

The citation of one or two illustrations will probably attract more forceful attention than an elaborate treatise on the abstract question; in the two cases I shall quote the conditions have come before me in consequence of disastrous fires, which have occurred. I have not the slightest notion who the firms' auditors were, nor do I know whether they had auditors or not. No reflection can, therefore, be possibly intended or implied; both of the instances that follow have occurred during 1914, and they have therefore the merit of being quite modern.

Case No. 1. Manufacturing plant, the whole being destroyed, but a warehouse containing finished stock was saved with trifling loss. Here are the figures as determined by the insurance companies' adjusters, viz.:

Sound value of insurable property...	\$107,849.00
Actual loss by fire thereupon	182,027.00
Total insurance carried.	65,000.00

In connection with this case it is interesting to note that apart from the buildings, the insurance was divided between plant and stock in the several buildings destroyed with the following results:—

Sound value of plant and stock.	\$119,358.00
Actual loss thereon.	110,036.00
Total insurance carried thereon.	25,500.00
Loss paid by insurance companies	24,804.00

Juggle with these figures in any way one likes, the fact that stands out prominently and indisputably is that, apart from the loss of business, this firm suffered a direct, solid, actual monetary loss of about \$120,000.00.

Case No. 2. Manufacturing plant, where fire destroyed only the storehouse containing finished stock with but trifling loss to the manufacturing sections, and here the adjusted figures were:—

Sound value of stock.	\$100,237.00
Actual loss thereon.	99,217.00
Insurance carried and paid by insurance companies.	57,500.00

In this case the actual monetary loss, not counting prospective profit on the manufactured stock, was about \$42,000.00.

It is quite possible that in these cases the value or necessity of adequate insurance had been thrust upon both concerns by considerate, conscientious auditors; it is quite possible that those in authority told the auditors to mind their own business, as others similarly situated have done; it is even quite possible that the proprietors or officials, in both cases, ridiculed the possibility of a disastrous fire occurring in their respective establishments, and derided ad-

vice from whomsoever tendered; it will not strain an average intelligence to assume that all this really transpired, nor would such knowledge detract from the importance of the lesson instances of the kind quoted should impressively convey.

NECESSITY OF ADDITIONAL INSURANCE.

It is obvious, in the cases I have cited, that if the auditor had succeeded in impressing upon the owners the absolute necessity for additional insurance covering, he would have performed for them a most commendable service, and I think I am justified in using the illustrations to inculcate the doctrine that it is a part of the auditor's duty to see that his client, at all times, carries adequate fire insurance protection.

It is at this point that I may be, not inaptly, challenged as to what is adequate fire insurance protection, and I must confess that it is impossible to give an absolutely unquestioned or undebatable answer; so much depends upon the questioner's idiosyncracies. There can, however, be a fairly clear understanding when conditions are normal, and I think the following general statements will be found sufficiently clear to obviate elaborations:

ADEQUATE PROTECTION.

1st. That when a Co-Insurance Clause is used by the companies, and presumably accepted by the insured, adequate insurance involves the carrying of such a proportion of insurance to value as the percentage used in the clause calls for; it may be more; it cannot be less and be adequate. Bear in mind that the Co-Insurance Clause, which has only to be mentioned to send cold shivers coursing down the spinal column, is nothing more nor less than an agreement to carry 80 per cent. or 90 per cent. or 100 per cent. of insurance to value. The Co-Insurance Clause is so generally adopted that a safe and simple rule to follow is to carry insurance to value in accordance with the figure stipulated in the clause.

2nd. Where, by reason of peculiar features of construction or class of material insured, the probable loss by fire is not likely to be very serious, or where for any other reason the Co-Insurance Clause is not carried, "adequate" insurance should provide for the maximum, not the minimum, possible loss. It is just here that experience and judgment count for much, and as it is human to err, the auditor should, in the circumstances mentioned, fortify himself by proper advice from some one competent to give it.

The British moratorium has been extended for another month from September 4th.

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Laurentide's report for the year ended June 30, shows net profits available for dividends of \$730,774. This compares with \$758,085 for the previous year. Capital expenditure during the year was slightly over \$1,900,000, a sum of \$2,400,000 having been secured by the issue of new ordinary stock at par last summer. To provide the balance of funds required for the construction of the new power plant and increased paper plant, it is proposed to create a new issue of \$4,000,000 bonds which will provide for the redemption at maturity of the existing issue, as well as funds for the completion of the new work, and leave a considerable sum in the treasury for any possible future requirements. It is intended to dispose of the new issue of bonds only as and when required for the above purposes.