

# The Monetary Times

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### BANK AUDITS AND INSPECTION.

Public opinion is being stimulated to demand Government inspection of banks. The wisdom of appointing independent auditors is also being urged. The suggestion that shareholders should appoint auditors is eminently reasonable. It is one of the elementary rights of shareholders in other companies that they appoint their own auditors. The Bank of British North America has always had reputable chartered accountants to audit its accounts. The present incumbents of the position are Messrs. Price, Waterhouse and Company, whose reputation is world-wide. This bank lives under a British charter, and as a Canadian institution is sui generis. But no peculiarity of principle is involved.

The case against government inspection is simple and convincing, although they who contend that, inasmuch as insurance companies are inspected, banking companies should be, imagine they are on remarkably strong ground. But there are fundamental differences between banking companies and insurance companies, even though the institutions of both classes can only exist by government permission. The difference as regards government inspection lies in the nature of the obligations towards their clients.

The word "insurance" carries its own significance. The man who takes out a straight life policy solemnly contracts to pay, so long as his life lasts, a certain sum per annum, in order to secure for his family, when he is dead, a certain safety against impecuniosity. He obligates himself to make these annual payments, because he believes that the investments and the whole management of the insurance company are absolutely sure and free from the ordinary risks of human frailty. The bank depositor is not in that case. He looks for security, but he changes his banker almost as often as his opinions. It does not follow that when the government has permitted something in the nature of a certain class of business, that it must therefore inquire minutely into everything that is done with the revenue raised with its permission. If so, the internal economy of a dram shop would be an affair of state.

There are diversities of responsibilities even in regions of government. The government compels the banks to make statements under restrictions, which bring the prison warden very close to the heedless general manager and president. But the government cannot, in the nature of things, handle banking affairs as it may properly handle insurance affairs. For the vital breath of a bank is credit and the vital breath of an insurance company is insurance. A bank will do business with you on your face. An insurance company insists on knowing all about your liver, heart, kidneys, and lungs, and even your father and mother.

Government inspection and independent auditing could certify as to accounts being properly kept, securities being in actual existence—two of the elementary duties of directors, the efficient discharge of which must always be dependent upon the appointment of directors who direct. But no government officer or private accountant, even if he were able to inspect the books of the multitudinous branches of a bank, could be a Daniel come to judgment in regard to the wisdom of credit given to business men of all sorts and sizes. The credit condemned by the government inspector to-day, might become the corner-stone of the edifice to-morrow. The asset in a signature cannot be determined by scientific scrutiny. Every transaction of an insurance company must inevitably be open to public inspection, because insurance is insurance, and in it, the sign manual of a Croesus is less than nothing against the name of a humble doctor; when it is sought to open an account. The worth of securities owned or held by a bank, is an affair primarily for the bank and its shareholders. The depositor in the bank knows that all kind of accounts are carried; and that there are such things as bad debts. He knows that they cannot be enumerated from the houstops.

The mistake made by most advocates of a change to government inspection is in assuming that their special corrective will be a cure-all. A witty Parliamentarian used to say that the only perfect things in this world were perfect fools. There never will be an absolutely inviolable system of checks or safeguards

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