

The auditors sign the Annual Report and give a certificate attached to the Consolidated Balance Sheet in which they state:—

We have examined the books and records of the Companies comprising the Canadian National Railway System for the twelve months ended the 31st December, 1931. The investments in Road and Equipment appearing in the books of the Companies as at the 1st January, 1923, were accepted by us.

We certify that, in our opinion, the above Consolidated Balance Sheet is properly drawn up so as to exhibit a true and correct view of the affairs of the System as at the 31st December, 1931, and we further certify that, in our opinion, the relative Income and Profit and Loss Accounts for the year ended the 31st December, 1931, are correctly stated.

Your Committee are of opinion that the audit now in effect is not sufficient and should go much further, and the auditors should be empowered to go into every phase of the System's operations with power to call attention to any matter calling for comment in their judgment similar in principle to the powers vested in the Auditor General of Canada.

#### 9. *Financial Control.*

Heretofore there has been control of the capital expenditures of the Company but down to a comparatively recent date the expenditures on operation were vested entirely in the executive heads of Departments, and were subject only to the review of the President. No such power should be vested in any one man or small group of men under the same control. In no sense can such a system be deemed to be effective, and in the opinion of your Committee, this position should be remedied forthwith.

On the 2nd June, 1931, a Special By-Law No. 18 was enacted by the Board of Directors establishing a Finance Committee under the authority of the Statute relating to the Company, which By-Law was duly ratified by Order in Council No. P.C. 1398, passed on the 17th June, 1931. There was already Governmental control of capital expenditures under the Statute. By-Law No. 18 provides for the setting up of a Committee of the Board of Directors to be known as a "Finance Committee" to consist of three members of the Board, namely, the President of the Company who was to be the Chairman of the Committee, the Director holding the position of Deputy Minister of Railways and Canals, and the Director holding the position of Vice-President in charge of the legal affairs of the Company. The By-law further provides that such Finance Committee shall, notwithstanding anything in any other By-law to the contrary, have supervision and control over all matters relating to the capital expenditures of the Company, and particularly in respect to the provision of the moneys therefor and the allocation of such moneys. The By-law as enacted and confirmed is silent with respect to expenditures for operation and maintenance and in the opinion of your Committee the scope of the By-law should be immediately enlarged by appropriate action on the part of the Board so as to provide that two additional members of the Board shall also be members of the Finance Committee and that all expenditures for materials and/or supplies, or expenditures of any other character, save and except payrolls, amounting in value to say \$25,000 or over, should first be passed upon by the Finance Committee and subsequently ratified by the Board or the Executive Committee. Your Committee are of the opinion that such a provision would have a healthful and beneficial effect not only on the volume of purchases, especially as unanimity on the part of the entire committee is necessary under the terms of the By-law, but also the manner and character