

BANK AUDIT OR GOVERNMENT INSPECTION

Finance Minister Discusses Proposed Act and Says Amendment is a Great Advance in Our Legislation

The chief point of discussion in the parliamentary debates respecting the proposed Bank Act was the question of audit or of government inspection. When the Minister of Finance moved the second reading of the bill he noted a difference between audit and inspection, stating that inspection presumed a passing upon the quality of loans. He pointed out some difficulties in the way of doing that, especially in connection with a system such as we have, a branch system with some 2,800 branches—some, of course, small, but others important and some large, spread throughout Canada and in different parts of the world. Audit means, he thought, more than the mere checking of entries. It would be the duty of competent auditors to not only do that, but if there were any ultra vires or fraudulent or suspicious transactions to bring them to the attention of shareholders, and to have them remedied.

Head Office Inspection

As to the head office inspection, it was true that failures in Canada had usually taken place by reason of fraud and dishonesty at the head office. That had been the most convenient place, but he was far from saying, and he did not believe any one would say, that that was the only place, in a system such as ours, in which fraud could take place. It must be obvious to all that legislation could not absolutely prevent loss through fraud and dishonesty. Where there was collusion, means would be found to defeat, to some extent, the closest audit that could be invented, and he thought that all legislation could do was to protect the depositor and the public and the shareholders to the best of our ability, reasonably protect him.

It had been pointed out that the appointment of auditor, while vested by the Act in the shareholders, would really be made by the directors. Any suggestions that would ensure that the auditors appointed should be firms of the highest reputation and standing, men who would not collude, even if they were invited to collude, would receive the most careful and earnest consideration not only of the banking committee, but of the government. The suggestions that have been made would be considered. There was a provision in the Act that the government might ask the auditor appointed by the shareholders to make an inspection of the bank, if anything appeared in the statement handed into the government, or anything called to the attention of the government, would seem to require examination, and report to the government.

"I will be prepared to consider any suggestions that will tend to make that investigation a greater safeguard than the bill provides," said Mr. White to the House. "A suggestion has been made as to a minority requesting that an auditor be appointed. We will be prepared also in committee to carefully consider that; in fact, any suggestions of a practical character are not only invited, but will be welcomed, because we have all only one desire, and that is to safeguard, as far as we can by effectual legislative safeguards, the interest of the depositors, the shareholders and the public generally.

Inspection of Insurance Companies

"Something has been said of the inspection of insurance companies. There is this essential difference between the two. An insurance company at its head office has the securities in which the moneys it has received are invested. The class of securities in which it may invest is defined in the Insurance Act; there is no difficulty in inspecting these securities; they are stock securities or bonds, tangible securities. It can be readily ascertained whether or not they are under the corporate powers of the insurance companies, and there is this essential difference between banks and life insurance or loan companies which invest in mortgages and municipal debentures, that the banks invest upon personal securities, upon notes all over Canada and the world, that they have \$100,000,000 worth of current loans or discounts in a year. These are principally upon personal security, so there is that essential difference between the banks on the one hand and insurance and loan companies on the other.

As to the Audit System

"Speaking generally with regard to the audit system provided by the Act, it practically is the suggestion of Mr. McLeod, who was the general manager of the Bank of Nova Scotia, and a pioneer in this question of external inspection. The audit which is provided in this bill is the audit he had in mind. I am sure that we can so mould the provisions of this bill as to ensure that the auditors appointed by the shareholders at their annual meeting shall be reputable men of standing and capacity who will realize their duty under the Act and who will not be unduly influenced, and who will not be in a position to be unduly influenced by directors or officials or anyone else. I think that can be accomplished, and we shall try to bring that about, at the same time being willing to consider any other suggestions that have been made or may be made. It has been said that the audit system will be futile

and ineffectual. I hesitate to believe that. The audit is a well recognized principle and has been for generations throughout the British world.

Law in the United Kingdom

"The law in the United Kingdom provides for audit substantially as we have provided here. In all the provinces of Canada there is a system of audit under which auditors, appointed by shareholders examine the affairs of a company, check over the cash and securities, and make their report to the shareholders. Personally, I believe it is of very great value, but a different opinion has been expressed as to that. As against that opinion I would just set out the fact that, as I have stated, audit is recognized throughout the British Empire as a very beneficial check upon the administration of officers of companies of all kinds, and, therefore, I cannot believe that it would be ineffectual.

"On the contrary, I believe that auditors of high standing, who are not so elected as to be under the improper influence of any set of men, would carry out their work with credit to themselves and with great benefit, so far as safeguards are concerned, to the shareholders and to the public. I think that is the principle that underlies English law relating to audit.

Good Banking Legislation

"When we came to consider this, when we found, as I have stated, that in the bill left by my predecessor there was this very form of audit made permissive, when I looked up the English law and found it was compulsory in Great Britain and that it was substantially the law throughout the British Empire, I thought, and still think, that the step made in this Act is a forward step, and that the present bill is decidedly in advance in many respects of any legislation relating to banking which we have had in this country up to date."

BRITISH COLUMBIA PERMANENT LOAN'S PROGRESS

The financial year of the British Columbia Permanent Loan Company, which closed on December 31st, 1912, showing the satisfactory progress achieved by this company. The following figures show the increase made during the past year:—

	Dec. 31, '12.	Dec. 31, '11.	Increase.
Assets	\$4,141,259	\$3,553,429	\$587,830
Earnings	315,564	270,392	45,172
First mortgage loans	3,568,200	2,880,325	687,875
Sterling debentures	864,368	730,428	133,940
Permanent capital	844,172	700,000	144,172
Reserve	600,000	500,000	100,000

Two semi-annual dividends were declared at the rate of 10 per cent. per annum on the permanent stock, and \$100,000 added to the reserve. The reserve fund, together with surplus profits, now amounts to \$629,937.81.

TRUSTS AND GUARANTEE COMPANY

The net profits of the Trusts and Guarantee Company for 1912 exhibited a gain over those of the previous year, being \$117,906 as compared with \$110,194. The company's subscribed capital stock amounts to \$2,000,000. It has a balance at credit of profit and loss of \$304,540. The trust funds with interest accrued amount to \$3,599,141. The company has estates and trusts under administration of \$5,196,383. Among the assets are mortgage loans, call loans, debentures and other securities totalling \$1,251,624. Other assets are office premises, \$282,768; real estate, \$70,274; cash on hand and in bank, \$90,716. There is a guaranteed trust account amounting to \$3,599,141 comprising securities on real estate, stock, bonds, debentures, etc., \$3,457,683, and cash on hand and in bank, \$141,458. The following table gives an idea of the progress of the company during the past two years:—

	1905.	1912.
Guaranteed trust funds	\$ 82,922	\$ 3,599,141
Estates trust funds	644,442	5,196,383
Total assets	2,870,906	11,146,006
Paid-up capital	1,037,883	1,344,900
Net profits	68,002	117,906

NEW ROLLING MILL

The Owen Sound Rolling Mills Company, Limited, has been incorporated under a Dominion charter, with a capital of \$500,000. The company will build a rolling mill at Owen Sound, Ontario, where it will manufacture wrought iron and steel pipe and tubing, both butt weld and lap weld, and pipe fittings, steel and cast iron elbows, bar iron and steel, angles iron and steel rods and structural steel, fish plates, spikes and steel rails. It is said that the capital will be increased largely in the near future.