

History of Public Sector Accounting - An Appeal for Research into Pre-Colonial Approaches

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This is a brief appeal for research to be undertaken to document approaches to public sector accounting in pre-colonial governments. Such historical research will help us address current problems, for example, none of the literature on moving to accrual accounting notes the experience in the British war ministry in the early 1920s.

Accrual based financial statements were actually produced for six years. It was then decided that this approach required additional costs of at least £200,000 a year, but that “the experiment had not led to commensurate economies in administration and seemed unlikely ever to do so”¹. So the experiment was terminated. In 1950 a Parliamentary Committee also carefully reviewed the evidence for the general adoption of accrual accounting and decided that, “no practical advantage would be secured from the adoption of [an accrual]... basis of accounting.

The current approach to public sector accounting on the accrual basis only really dates from the late 20th Century alongside New Public Management. This still remains a contested approach. In contrast there have been many previous civilisations which developed mature and reasonably sophisticated approaches to public financial management.

The first solid evidence of the existence of recording numbers is the *Ishango Bone*, dated from around 20,000 years ago. This was found in 1960 in what is now the Virunga National Park in the Democratic Republic of Congo, near the Ugandan border. The lines cut into the bone are too uniform to be accidental. Archaeologists believe the lines were tally marks to keep track of something, but what that was is not clear.

But numbers, and counting, didn't truly come into being until the rise of cities. The earliest evidence for this is from about 4,000 BCE in Sumeria (in modern Iraq), one of the earliest human civilizations. With so many people, livestock, crops and artisan goods located in the same place, they needed a way to organize and keep track of it all, as it was used up, added to or traded.

Another source of ancient public sector accounting and audit comes from the Western Zhou dynasty of China (1046–771 BCE) around three millennia ago. Annual, monthly and 10-day bookkeeping reports were prepared for the accountability of public officials. These reports were then subject to audit by an official named the *Zaifu* who undertook an early form of auditing.

Kautilya, the chief minister to a major ruler of India, wrote *The Arthashastra*, a fascinating treatise on governance, in the fourth century BCE (nearly 2,500 years ago). He developed bookkeeping rules to record and classify economic data. He also emphasized the critical role of independent periodic audits and proposed the establishment of two important, but separate, offices - the Treasurer and Comptroller-Auditor as part of public financial management.

In the Athenian state (around 400 BCE), the hallmark was “its concern for the accountability of its officials.” For them, “to have officials accountable was the key to responsible government, unaccountability meant lawlessness.”² To this end, officials were required to report on their conduct ten times a year to the Assembly of the Citizens. If the explanations did not meet with

¹ HMSO (1950) Final Report of the Committee on the Form of Government Accounts, London: HMSO: page 70

² Jennifer Tolbert Roberts (1982) *Accountability in Athenian Government*, Madison: University of Wisconsin Press: page 6.

the Assembly's approval, officials were subjected to a trial, and indeed, where necessary, to impeachment³.

Aristotle also wrote: "Some officials handle large sums of money: it is therefore necessary to have other officials to receive and examine the accounts. These inspectors must administer no funds themselves. Different cities call them examiners, auditors, scrutineers and public advocates"⁴

The Roman civilisation lasted for over a thousand years. By the time of the first Emperor Augustus (from around 30 BCE), the Roman government had access to detailed financial information⁵. The word 'audit' is derived from the Latin word 'audire', which means 'to hear'.

The history of accounting is often just seen as European, but the precise origin of the double entry accounting records as outlined by the Italian Pacioli in 1494 is presently unknown. Historical evidence preserved in Turkey and Egypt indicates that the accounting records developed in the early Islamic State were similar to those outlined by Pacioli. As with the European numbering system, the Arabs may have been messengers carrying these techniques from India or even China.

All these examples of historical public financial management practices have been reasonably well researched and documented, but there are many other civilisations where this is not the case, for example:

Benin Empire (1440–1897), a large pre-colonial African state in the south of modern Nigeria developed an impressive bronze technology.

Ashanti Empire (1701–1894), a pre-colonial state in what is now Ghana. Today, the Ashanti monarchy continues as one of the constitutionally protected, sub-national traditional states within the Republic of Ghana.

Sokoto Caliphate (1804–1903), an Islamic empire in northern Nigeria, led by the Sultan of Sokoto, Sa'adu Abubakar. Founded during the Fulani Jihad in the early 19th century, it was one of the most powerful empires in sub-Saharan Africa prior to European conquest and colonization.

In each of these three cases, a reasonably sophisticated system of tax collection was developed. There must have been a recording system for this revenue, how it was kept and what it was spent on. However, almost no research has been done in this area.

Time is now running out. We are now only a generation or so away from these civilisations. But the records and the oral history may soon be lost. Accounting historians need to research and document the public financial management arrangements of these and other cases. This will widen our experience of accounting and ensure that we do not repeat the mistakes of our predecessors. Andy Wynne [andywynne@btinternet.com] would like to hear from anyone with an active interest in this area.

³ Premchand, A (1999) Public Financial Accountability, *Asian Review of Public Administration*, Vol. XI, No. 2 (July-December).

⁴ Day, Patricia and Rudolf Klein (1987), *Accountabilities*, London: Tavistock Publications: page 9.

⁵ Oldroyd, David (1995) The role of accounting in public expenditure and monetary policy in the first century AD Roman Empire, *Accounting Historians Journal*, Volume 22, Number 2, Birmingham, Alabama, December, page124.