An Auditing Perspective of the Historical Development of Internal Control

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It is conceivable that internal control preceded auditing and other elements of the accounting profession. Internal Control emerged as a common-sense, natural product of the profit motive. As soon as the first entrepreneurs contrived a method for making a profit, they contrived ways of controlling and protecting that profit. As soon as it was determined that profits could be expanded by the employment of others, it was recognized that complete trust was not the most profitable policy and that some form of control should be established.

This paper recapitulates the findings of accounting historians who have studied the historical development of internal control; however, it should be recognized that the history of internal control is still being researched and documented.

Early Beginnings

Kenneth Most has stated that there is concrete evidence that internal control existed in the Mesopotamian civilization as early as 3600 B.C. Most points out that the Sumerians recorded commercial transactions on stone dating back to 3600 B.C. and 400 years later on clay. It was customary for summaries to be prepared by scribes other than those who had provided the original lists of payments. Further, the documents of the period reveal tiny marks, dots, ticks, and circles at the side of the figures, indicating that checking had been performed. Williard Stone noted that in ancient Egypt, in the Pharaoh’s central finance department, the “house of silver of the treasury,” internal control and auditing were in use. Scribes prepared records of receipts and disbursements of silver, corn and other commodities. One recorded on papyrus the amount brought to the warehouse and another checked the emptying of the containers on the roof as it was poured into the storage building. An audit was performed by a third scribe who compared these two records. An official order was required for withdrawals and the scribe in charge of the storehouse recorded the disbursements and retained the order. His records of receipts, disbursements and inventory balances were periodically audited by another scribe or his superior.

Stone gives an account of internal control in the Persian civilization of 549 to 330 B.C. He reports that Darius (521-486 B.C.) used government scribes, called the “King’s eyes and ears,” to perform an important function in the control of his extensive empire. For convenience of administration the empire was sectioned into satrapies each with a “satrap” as the civil administrator and tax collector.