

## CHAPTER-1 Ancient Indian Auditing and Modern Indian Auditing

In ancient India, auditing was a recognized as essential practice, particularly in administrative and governmental contexts. While the term "auditing" in its modern sense means verifying financial transactions, checking accuracy, ensuring honesty, and preventing misappropriation was well established.

### Historical Background

In ancient civilizations, the practice of auditing emerged from the necessity to ensure accountability, accuracy, and integrity in the administration of economic resources through structured record-keeping and verification mechanisms.

- **Mesopotamia (c. 3000 BCE):**
  - Cuneiform tablets (Clay/Mud Note Book) from Sumerian cities show records of receipts and disbursements.
  - Auditors (scribes) verified these transactions for temple economies.<sup>1</sup>
- **Ancient Egypt:**
  - Royal scribes acted as auditors, monitoring grain production, storage, and usage.
  - These scribes had dual responsibilities as record-keepers and auditors.<sup>2</sup>
- **Ancient Greece and Rome:**
  - Financial administrators known as *logistes* or *quaestors* conducted audits.
  - Roman Empire had formal audits for provincial governors and public accounts.<sup>3</sup>
- **India (Mauryan Empire, 321–185 BCE):**
  - Kautilya's *Arthashastra* outlines roles for auditors (called *nigrahaka*) to examine accounts and enforce penalties.<sup>4</sup>
- **Ancient China (Zhou Dynasty):**
  - Officials were appointed to inspect and verify public revenue and expenditures.

During this period, kings were in administration using amount received from public. People were having trust in their King, it's his responsibilities increased and concept of third independent person to review the transactions held during the year.

---

<sup>1</sup>Mattessich, R. (2000). *The Beginnings of Accounting and Accounting Thought*. Routledge

<sup>2</sup> Ezzamel, M. (2002). Accounting and Redistribution: The Palace and Temple Economies of Ancient Egypt. *Accounting Historians Journal*, 29(1), 61–103.

<sup>3</sup> Jones, S. (1981). *The History of Western Accounting*. Croom Helm.

<sup>4</sup> Kautilya. (4th century BCE). *Arthashastra*, translated by R. Shamasastri (1915).

## **Definition and Purpose of Auditing in Ancient India:**

### **Definition:**

Auditing in ancient India can be defined as a systematic and structured examination of financial accounts, administrative activities, and economic transactions conducted to ensure transparency, accountability, and adherence to ethical and legal standards.

It involved the review of:

- State revenues and expenditures
- Public funds management
- Record-keeping by officials
- Compliance with royal or Dharmic (ethical) duties

### **Purposes:**

The primary purposes of auditing in ancient India included:

1. **Ensuring Accountability** – To ensure that public officials, treasurers, and merchants were accountable for the money or goods entrusted to them.
2. **Preventing Fraud and Corruption** – To detect and prevent embezzlement, misuse of resources, or dishonest practices.
3. **Maintaining Financial Discipline** – To enforce discipline among administrators and ensure proper allocation and utilization of resources.
4. **Enhancing Administrative Efficiency** – To improve governance through accurate reporting and assessment of financial performance.
5. **Supporting Justice and Dharma** – To uphold principles of righteousness (dharma) in governance and economics.

### **Process of Auditing as Described in Ancient Texts:**

#### **1. Documentation:**

- **Officials or scribes** documented all economic transactions—taxes, tributes, grain collected, payments made. They wrote transactions in Clay tablets to verify the same records.

#### **2. Vouching and Verification**

- Designated officials compared physical quantities with recorded data.
- Ware house/ Storage inspections were often conducted to verify:
  - Goods in storage
  - Labor deployment
  - Expenditures on public works

*What is recorded must match what is stored. If there is a shortfall, the officer in charge is to be held liable.* <sup>5</sup>

### **3. Reporting to Higher Authority**

- Findings were reported to kings, emperors, or royal treasurers.
- Discrepancies were flagged and formally noted.
- Auditors often had to sign or seal their findings.

### **4. Accountability and Punishment**

- Ancient texts specify **penalties for mismanagement**, including fines, removal from office, or imprisonment.
- Auditors were empowered to question discrepancies and recommend action.

He who falsifies accounts shall repay double the amount lost and be dismissed from service.<sup>6</sup>

### **5. Archiving and Preservation**

- After verification and reporting, financial records and findings were systematically stored and preserved to serve as official documentation for future reference.
- These records were written on clay tablets, written on papyrus (writing material like paper), or inscribed on palm leaves were kept in temple archives, royal libraries, or government storerooms.
- Preserved documents played a crucial role in legal disputes, historical reviews, and served as evidence in administrative audits.
- The emphasis on long-term preservation highlights the ancient understanding of the importance of institutional memory and accountability.

✚ Ancient Indian texts such as **Kautilya's Arthashastra, Manusmriti, and various Smritis and Puranas** describe the principles of governance and financial control mechanisms, which include forms of auditing and inspection.

#### ✚ **Manusmriti and Other Dharmashastra Texts**

Although primarily legal and ethical codes, texts like Manusmriti, Yajnavalkya Smriti, and Narada Smriti also include principles related to financial supervision.

---

<sup>5</sup> *Kautilya's Arthashastra, Chapter 7*

<sup>6</sup> *Kautilya's Arthashastra*

### **Role of ancient Auditors:**

- **Regular Inspection:**
  - **Kings and administrators were instructed to regularly inspect the work and conduct of treasurers and revenue collectors.**
- **Ethical Handling of Public Funds:**
  - **The misuse of state wealth was viewed as a violation of *dharma*.**
- **Justice-Based Financial Review:**
  - **If an official was suspected of fraud, an inquiry was held, often with support from Brahmins and learned advisors.**
- **Temple and Land Grant Inscriptions**

Inscriptions on copper plates and stone edicts (such as those from the Gupta and Chola periods) show:

- **Detailed accounting of land grants, donations, and temple expenditures**
- **Periodic reviews of revenue from gifted lands to temples and religious institutions**
- **Public display of accounts for transparency and community accountability**

### **Techniques of Ancient Auditing**

Ancient civilizations, though lacking modern technology, developed practical and effective **auditing techniques** to manage state resources, taxes, and public goods. These techniques reflect the foundations of modern auditing principles such as verification, control, and accountability.

#### **1. Physical Verification (Inventory Checks)**

- Auditors manually **counted and inspected** physical assets (e.g., grain, livestock, tools) to verify they matched the recorded amounts.
- Used extensively in **Mesopotamia, Egypt, and Rome**, especially for temple or royal storehouses.

#### **2. Reconciliation of Records**

- Cross-checking of various records like receipts, disbursements to identify discrepancies.
- Comparing the amount of goods dispatched with the goods received.

#### **3. Detailed Record-Keeping**

- Meticulous documentation of transactions, inventories, and taxes by scribes (Auditors).
- Written on clay tablets, papyrus scrolls, or palm leaves.
- Authentication done through seals, signatures, or overseer stamps.

It was found that recorded workers' attendance and daily rations during pyramid construction in Egypt.

#### **4. Review of Records**

- Special officials (early auditors) were appointed to review the work of other officials.
- In India's *Arthashastra*, these roles were known as "Examiner of Accounts"<sup>7</sup> (Nighrahaka).

*Kautilya's Arthashastra* emphasized on rotation of auditors to prevent familiarity and collusion.

#### **5. Reporting and Accountability**

- Auditors reported directly to kings, viziers, or councils, enabling higher authorities to enforce discipline.
- Reports were presented orally or in written form, often with recommendations for punishment if fraud was found.

#### **6. Use of Seals and Stamps**

- Official seals were used to authorize or validate accounting records.
- Prevented tampering or falsification.
- Common in both Mesopotamian and Roman systems.

#### **7. Legal Codification**

- Laws laid out penalties for falsification, embezzlement, or negligence.
- Auditors were empowered to enforce these through structured processes.

*The Arthashastra* prescribes fines and dismissal for false entries or concealment of transactions/accounts.

#### **Significance/ Importance of Auditing in Ancient India:**

Auditing held a central role in governance and economic administration in ancient India, especially during the Mauryan Empire (321–185 BCE). The state's emphasis on transparency, accountability, and prevention of corruption is clearly documented in Kautilya's *Arthashastra*, one of the most comprehensive ancient texts on administration, economics, and law.

#### **1. Establishing Financial Accountability**

---

<sup>7</sup> *Kautilya's Arthashastra*

- Auditing ensured that state officials **and** treasury keepers were accountable for the revenues and expenditures under their control.
- Kautilya emphasized that all officers managing funds or goods must submit accounts regularly, and discrepancies should lead **to** penalties.

## 2. Prevention of Corruption

- Kautilya recognized that officials might misuse power and designed a system of regular audits, surprise inspections, and rotation of duties.
- The Arthashastra outlines 40 ways of embezzlement, showing how deeply fraud was studied and regulated.

## 3. Systematic Record Verification

- Auditing involved the verification of records against actual cash, goods, or labor outcomes.
- Officers called "nigrahaka" (examiners) were assigned to audit state departments such as taxation, public works, and military supply.

## 4. Legal and Ethical Governance

- The auditing system supported just governance by ensuring that revenue collection, land administration, and public expenditure were executed fairly and lawfully.
- Errors and fraud were punishable by fines or dismissal, helping build public trust in the administration.

## 5. Preservation of State Resources

- Through regular audits, the state could control wasteful spending, leakage, or theft of resources like grain, metals, or land revenues.
- Proper audits enabled the kingdom to remain financially strong and well-managed.

## 6. Foundation for Modern Audit Principles

- The auditing practices described in the *Arthashastra* reflect several modern audit principles:
  - ✚ Segregation of duties
  - ✚ Surprise Checking
  - ✚ Accountability for public funds

✚ Penalties for misstatements<sup>8</sup>

**Summary of the Ancient Auditing Process**

Step	Description
1. Record Keeping	Daily accounts of income and expenditure maintained by designated officials
2. Internal Verification	Regular review by auditors or superintendents of accounts
3. Surprise Checking	Unannounced inspections to deter dishonesty
4. Cross-Checking	Validation of accounts through independent sources
5. Documentation	Use of written records and witnesses for all transactions
6. Reporting	Regular submission of financial summaries to the king or head of the department
7. Penalties	Strict punishment for fraudulent practices

**Difference between Ancient Auditing and Modern Auditing**

Aspect	Ancient Auditing	Modern Auditing
<b>Purpose</b>	Ensured proper use of public or temple funds, prevented fraud, and maintained accountability.	Ensures accuracy of financial statements, detects fraud, ensures legal compliance, and provides assurance to stakeholders.
<b>Authority</b>	Conducted by royal officials, temple administrators, or village accountants.	Conducted by independent professional auditors (internal or external) governed by laws and standards.
<b>Scope</b>	Focused on income, expenditure, and physical verification of goods like grain, land, and valuables (Gold & Silver ornaments).	Covers financial records, internal controls, compliance, risk assessment, performance audits, etc.
<b>Methodology</b>	Manual verification, oral accounts, observation, and local testimonies.	Uses systematic procedures, sampling, analytical reviews, and computer-based tools (CAATs).
<b>Records Used</b>	Palm leaf manuscripts, stone inscriptions, written scrolls, oral records.	Modern accounting records such as ledgers, journals, trial balances, digital

<sup>8</sup> Kautilya (Chanakya) *Arthashastra* translated by R. Shamasastri (1915) and Sharma, R. S. *Aspects of Political Ideas and Institutions in Ancient India*.

<b>Aspect</b>	<b>Ancient Auditing</b>	<b>Modern Auditing</b>
		databases.
<b>Standards</b>	No standardized framework; based on customary laws, king's orders, or religious rules.	Governed by national and international standards (e.g., GAAP, IFRS, ISA, Companies Act).
<b>Reporting</b>	Reports made to kings, priests, or local heads for action.	Formal reports issued to shareholders, boards, and regulatory bodies.
<b>Frequency</b>	Periodic or as required by kings or temple management.	Usually annual; also includes interim and special audits.

**Conclusion:**

The auditing process in ancient India, especially as outlined in the *Arthashastra*, was remarkably advanced and systematic. It emphasized transparency, accountability, discipline, and justice—core values that remain central to modern auditing practices. Ancient Indian governance recognized that financial integrity was vital to state stability and ethical rule.

In short,

- ✚ Ancient Auditing was administrative and ethical, focusing on accountability and honesty.
- ✚ Modern Auditing is systematic and regulated, focusing on accuracy, compliance, and assurance for share holders and stakeholders.

**Answer the following:**

- 1. Write purposes of Auditing in Ancient India.**
- 2. Shortly describe the process of Auditing in Ancient texts.**
- 3. Explain importance of Auditing in Ancient India.**
- 4. Write Difference: Ancient Auditing and Modern Auditing**
- 5. Which are the techniques of Ancient Auditing?**
- 6. Describe role of Auditors in Ancient time.**