

# HISTORY OF AUDIT IN CHINA

Chief Editor: *Li Jinhua*

I



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# **History of Audit in China**

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**Chief Editor: Li Jinhua**

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# Foreword

**T**he news of the first volume of the *History of Audit in China* being ready for publication is something to be celebrated. This great work has been written over many years, through the collective efforts of audit experts and scholars from related disciplines throughout the whole country, under the thoughtful guidance of the leaders of the National Audit Office. This work covers an extensive scope, from ancient times to the present day. The first volume, being on the ancient period, has drawn many scholars of ancient Chinese history onto the editorial board, and also given me the opportunity to access some of the work in advance. The leaders of the National Audit Office and members of the editorial board kindly requested that I write a few words for the preface. Unable to decline such a great honor, though accepting it also placed me under great pressure, I am still happy to avail myself of this chance to share a few of my observations with the readers.

First, I want to share my genuine feelings on this. When I first learned that the *History of Audit in China* was going to be compiled, including the ancient period, my mind experienced a mixed reaction. Since I have long had access to and experience in studies of government systems of previous ages and dynasties, from the 1950s when I began to study ancient Chinese history, I was well aware that there was basically no academic precedent for taking audit as a specialized subject of historical study, and knew it would not be easy to find related articles on this subject, at home and internationally. I was certain that it would be very difficult to delineate a systematic depiction of the ancient history of audit, much less have it correspond with the modern and contemporary

parts that followed. It was, at that time, quite impossible for me to imagine that the first volume of the *History of Audit in China* could be accomplished with such high quality by experts from two such distinct and distant disciplines — auditing and ancient history — who in fact were able to overcome many obstacles and work in close cooperation with each other. This successful cross-disciplinary collaboration and the joint efforts by many experts are thus truly commendable.

After carefully reading through the first volume of the *History of Audit in China*, I believe its success lies in the following four features:

Firstly, it provides very clear definitions. Modern audit has its own scientific definition, which ancient audit could hardly compare with. As described in the “Overview” in this volume: “ancient audit of China and modern audit are both linked to each other by far-reaching historical ties, despite being clearly distinct in their implications.” The basic conditions for delineating the formative and evolutionary route of audit, from its complex and changeable institutional infrastructures, were to specify the nature and features of audit in different periods. The author of the first volume of the *History of Audit in China* concludes, after in-depth research and discussion, that the concept of audit in this volume should be profiled from three perspectives: (1) supervision and inspection activity targeting on financial revenue and expenditure; (2) accounts examination as the basic method of such procedures; and (3) the availability of relatively independent institutions or personnel. Any supervisory activity with the above features is regarded as the performance of audit functions.” With such a definition, the evolutionary threads of the audit system become evident, through the winding streams of history.

Secondly, it forms an integrated system. The first volume of the *History of Audit in China* manages to run through the whole history of ancient China in nine chapters. The first chapter focuses on the Western Zhou Dynasty, actually tracing back to audit’s prelude before the Western Zhou, i.e., the Xia and Shang dynasties. The remaining chapters each in turn describe the audit systems in the periods of Spring and Autumn and the Warring States, the Qin and Han dynasties, the Wei, Jin, South and North dynasties, the Sui and Tang dynasties, the Five Dynasties and the Song, Liao, Xia, Jin and Yuan dynasties, as well as the Ming and Qing dynasties, scrolling out before us a full picture of “the evolution of Chinese audit for over three thousand years from the Western Zhou Dynasty to the end of Qing Dynasty.”

Most exemplary of the authors’ creativity is the period division for ancient

Chinese audit. The ancient history of audit is divided into five development stages, “based on the principal forms of audit in different historical stages,” i.e., “the periods of the Guanji, the Shangji, the Bibu, examinations by the three departments, and section and division audits,” a most significant contribution to research on the ancient history of Chinese audit.

Thirdly, it is built upon a sufficiently solid material base. The first volume is not very long, but it draws extensively on a tremendous range of historical material, which was widely yet selectively collected. From the available ancient literature, it has referenced and cited historical literature including Confucian classics, history, philosophy and belles-lettres, including some even hard-to-conceive historical material. The specific historical evidence, quoted as examples, has also been very well selected. It is clear that, in addition to the more common ancient classics, it has also widely made use of data from carapace inscriptions, bronze-ware inscriptions, bamboo slips, rare documents and archives, giving new interpretations to some of them.

Fourthly, it uses explicit argumentation. While extensively recounting historical events and activities, the author has also provided various arguments and comments about different periods. Studying ancient auditing from a historical backdrop of different periods, as required by historical materialism, best explains the claim that “audit of ancient China was rooted in the political and economic soil, with Chinese characteristics, displaying most remarkable historical features.” After evaluating the strengths and weaknesses of audit systems in different periods, the author draws the following conclusion: “After reviewing the history of audit’s evolution over more than three thousand years, it is not difficult to see that... the principal impact of auditing was positive. Ancient audit in China undoubtedly played a positive role in ensuring the stability and development of finance and economy, maintaining the dominion of centralized political power while cultivating a clean and honest bureaucratic ethos for all the historic dynasties.” From this point of view, the practical value of knowing the present through studying the past is best embodied in historical studies.

The first volume of the *History of Audit in China* enlightens us that audit practices were not only already in existence in ancient China, but also have numerous components requiring our further exploration and study, as well as many difficult points awaiting in-depth analysis and clarification. The experts and scholars on the editorial board of this volume have laid a solid foundation for future progress, toward even more achievements

in the years to come. For this, we should extend to all of them our sincerest gratitude.

Finally, I must say that, although I may not have had very extensive knowledge of audit and audit history, as a historian I was fortunate enough to have earlier access to this volume than other readers. If any of my observations here are found to be flawed, I hope you would be kind enough to offer further understanding and criticism.

*Professor Li Xueqin*

*November 2003*

# Overview

This volume describes the evolution of Chinese audit over more than 3,000 years, from the Western Zhou Dynasty to the end of the Qing Dynasty. The concept of audit in this volume is profiled from three perspectives: supervision and inspection activity targeting financial revenues and expenditures; the basic means of such activity through account examination; and the existence of relatively independent institutions or staff. Any supervisory activity having the above characteristics is considered as implementing of audit functions. The part of audit history that this volume is designed to illustrate is neither limited to the evolution of audit systems, nor restricted to the evolution of audit institutions, but to delineate a historical sketch of the evolution and development of audit as a social practice from multiple perspectives, including legislation for financial and economic supervision, institutional framework and actual audit activity. China's audit emerged out of state on nonexistence, from an ambiguous state of existence to a distinct identity, from bud to full bloom. Ancient Chinese characters such as “计” (Ji), “勾” (Gou), “稽” (Ji), “比” (Bi), “覆” (Fu), “磨” (Mo) and “勘” (Kan) were used to describe financial examination activity. They reflected the different forms of audit through its long process of development.

In the 12th century AD, an institution named “Audit” emerged during the Southern Song Dynasty. This signified that the people of the Song Dynasty were probing deeper into the behavioral nature of auditing, characterized by account-based examinations, and generating a widespread impact on the correct interpretation of the essence of audit by different dynasties after the Song. From this point, Song-dynasty audit car-

ried an epochal significance for the history of audit in China. From the Yuan Dynasty onwards, audit became more integrated with official supervision, and such terms as “检校” (Jian Jiao), “照磨” (Zhao Mo), “磨勘” (Mo Kan), “钩考” (Gou Kao), “稽考” (Ji Kao) and “稽查” (Ji Cha) were used to describe audit and supervisory activity. During the bureaucratic reforms of the Qing Dynasty, the term “audit,” which first emerged in the Song Dynasty, was used in the name of the planned specialized audit institution, which came to be known as the “Audit Board.”

There were generally two threads running through the different historical periods of the evolution of audit in ancient China: one mainly centered on accounts examination to check the veracity of grain and monetary revenues as well as expenditures, similar to today's audit of financial revenues and expenditures; the other was the examination of officials' financial and economic performance, an audit activity closely integrated with administrative supervision. The two threads complemented each other and differed only in the scale of the presence of auditing in different periods. According to the mainstream forms of audit extant in different periods and its different development patterns throughout history, audit in ancient China is generally divided into two periods and five stages of development demarcated by the Song Dynasty: the period of germination and development before the Song Dynasty, including the Guanji, Shangji and Bibu audit stages; and the institutional and legal refinement period after the Song Dynasty, including the stages of audit by the three departments and the court of audit, as well as the stage of sectional and divisional auditing. During the different stages, other forms of audit also concurrently existed and performed their respective functions, but the predominant status of the mainstream forms of audit came to the fore.

The period of the Xia, Shang and Western Zhou dynasties set the stage for the germination of audit. The origins of audit in the Western Zhou's Guanji system could be traced to the so-called seigniorial assembly on Mount Mao by King Yu of the Xia Dynasty, evidenced by information regarding audit disclosed from the carapace inscriptions. Guanji was basically a political system designed to examine and supervise the financial and economic performance of officials, including an annual examination and a three-year general examination. The audit function came to possess distinctive authority in the duties of Si Kuai and Zai Fu. Si Kuai was in charge of finance and accounting for the whole country, and generally responsible for auditing the financial accounts of the country; while Zai Fu was mainly responsible for inspecting and



supervising the financial revenues and expenditures respectively administered by different officials. This parallel audit mode produced a far-reaching impact on audit systems in the dynasties that followed.

During the periods of the Spring and Autumn and Warring States as well as the Qin and Han dynasties, audit supervision included in the Shangji system witnessed rapid development. The Guanji system of the Western Zhou Dynasty had gradually evolved into the more standardized Shangji system. The Shangji system gave priority to official performance examinations. Financial and economic performance, as well as the accountability of officials, was one of the main objectives of such examinations. With the unification of the six states by the Qin, the Shangji system was popularized across the whole country and reached its prime during the Western Han Dynasty. During the later period of the Eastern Han, the Shangji system gradually declined from wax to wane, and the audit functions included in it were also weakened. During this period, the promulgation of such economic supervision laws as the Qin-dynasty *Xiao Statutes* and the Han-dynasty *Shangji Laws* provided a legal basis for the performance of audit and supervisory functions. Some institutions and official functions in the supervisory system of the Qin and Han dynasties also began to take on an auditing role, which combined the audit function with routine administrative supervisory functions.

During the Wei, Jin, Southern and Northern dynasties to the early part of the Tang Dynasty, audit in ancient China began a period of exploration to move toward more independent and specialized directions. As an independent and specialized audit institution, the Bibu emerged in the Kingdom of Wei, with affiliations changing from time to time. Up to the Sui and Tang dynasties, it began its affiliation with the Ministry of Justice, and its audit function was increasingly strengthened. During the period of Bibu audit, the financial examination system became fully developed. Under the centralized unitary financial system, Bibu audit reached its splendid heights in the early period of the Tang Dynasty. Examination officials with a dual role in administrative efficiency inspection and financial audit were present in all central departments and local governments at various levels; and they formed an extensive audit network. Through regular compliance checks, the Bibu carried out comprehensive audits on financial revenues and expenditures of central departments, local governments and military authorities. The promulgation of *Bibu Rules* and *Bibu Standards* signified the emergence of specialized audit laws and regulations. With the Bibu playing a predominant audit