Internal control, accountability and corporate governance

Medieval and modern Britain compared

Michael John Jones
Cardiff Business School, Cardiff, UK

Abstract

Purpose – The aim of this paper is to compare modern internal control systems with those in medieval England.

Design/methodology/approach – This paper uses a modern referential framework (control environment, risk assessment, information and communication, monitoring and control activities) as a lens to investigate medieval internal controls used in the twelfth century royal exchequer and other medieval institutions. It draws upon an extensive range of primary materials.

Findings – The paper demonstrates that most of the internal controls found today are present in medieval England. Stewardship and personal accountability are found to be the core elements of medieval internal control. The recent recognition of the need for the enhanced personal accountability of individuals is reminiscent of medieval thinking.

Originality/value – It investigates internal controls in medieval England for the first time and draws comparisons to today.

Keywords Management accountability, Corporate governance, Internal control, England, Accounting history

Paper type Research paper

Introduction

To function effectively and efficiently all institutions need sound and effective systems of corporate governance. Internal control is one of the most important mechanisms of delivering accountability and enables organisations to monitor and control their operations. According to Statement of Auditing Standard (SAS 300):

> [. . .] an internal control system can perhaps be distilled into the whole set of controls, financial and otherwise, which enable management to run an efficient business, safeguard assets, protect against error and fraud, and prepare accurate, complete and timely accounting records (Auditing Practices Board (APB, 1995a, para. 20)).

Anderson (1977, p. 143: as cited in Porter *et al.*, 1996, p. 177) sums this up:

> With the best of intentions, most people make mistakes. The mistakes may be errors in the end results of their work, needless inefficiencies in achieving those end results, or both. And sometimes, without the best of intentions, a few people deliberately falsify. Any organisation wishing to conduct its business in an orderly and efficient manner and to produce reliable

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> financial accounting information, both for its own and for others' use, needs some controls to minimise the effects of these endemic human failings.

This raises the interesting historical question of whether these requirements of an internal control system are effectively ahistorical? Whatever the societal institution is there a need to run that institution efficiently, to safeguard assets, to guard against fraud and to deliver proper accountable information?

The aim of this particular paper is to compare and contrast internal control systems in medieval England with those found today. In particular, the nature of modes of internal control in medieval institutions, such as the English exchequer or medieval Manor, is contrasted with that used in modern institutions such as corporations or government departments. As all institutions, whatever their historical location, need internal controls, we might expect the perennial nature of internal control to be evident in bygone as well as in present times.

When comparing the present with the past caution is needed. To explore the similarities and differences between different historical eras is potentially fruitful and may help to inform present debates and future policies. Historians are always reinterpreting the past from the standpoint of the present. As the famous historian Carr (1987, p. 24) wrote: "we can view the past, and achieve our understanding of the past, only through the eyes of the present". However, when interpreting the past through the lens of the present, it is necessary to beware anachronisms (Gaskill, 2000). Words like state, war, king and Church all have current connotations which may be different from their past meanings. They are, in effect, relative concepts bounded by historical context. This is a potential problem with all historical research, including accounting and business history. However, the historian has no choice but to use them (Carr, 1987). It is part of the historian's reinterpretation of the past. In this particular study, this problem is somewhat lessened by the overarching and flexible nature of the corporate governance framework deployed. This framework is meant to provide a reference point by which to guage internal control in the twelfth century rather than as an imposed paradigm or model. To lessen the problem of terminological anachronisms, where concepts in medieval England and modern England are likely to have had significantly different meanings, like audit, the medieval meaning is explained.

Medieval England provides an interesting comparator for twenty first century Britain as for the first time, in England, a powerful, administratively strong, centralised state emerged. It was probably the most sophisticated state since the Romans (Warren-Hollister, 2001). The English state, particularly under Henry I (1100-1135) and Henry II (1154-1189), was premised on an efficient, financial administrative system. There was unparalleled centralisation and greater logistical capacity than in any previous period (Mann, 1986). This was arguably the first time that there was a need for sophisticated accounting controls. Once established these modes of internal control, such as the audit, have survived, evolved and spread.

There has been very little specific focus on the financial administrative history of the time, particularly from an accounting or corporate governance perspective. Noke (1981) and Baxter (1989) review accounting aspects of the period while Bryer (1994, 2000a, b) addresses the feudal aspects of accounting from a Marxian perspective. Most relevant to the present paper is Hoskin and Macve (1986), who examine late-medieval developments in accounting technology. Of particular interest, they argue that the power-knowledge term "control" emerges from the late twelfth century.

It derives, they believe, from the terms contrarotulus and contre-rolle used for duplicate copies of accounting rolls (i.e. accounting records) at the English exchequer.

Twelfth century England was a relatively new state (Green, 1986). William the Conqueror had led the Norman invasion of England in 1066 and superimposed Norman rule over Anglo-Saxon institutions. For the time, he created a relatively, centralised state which was run by a feudal aristocracy where land was held for service (Britnell, 2001). Norman power was consolidated militarily and economically: militarily through the knights and castles and economically through the introduction of a sophisticated administrative system. As in any society, twelfth century England consisted of a great number of institutions: local and central, religious and lay. All of these needed some form of financial administration, and hence, internal control. There were monasteries and bishoprics, manorial estates, boroughs and guilds, and universities.

The evidence in the paper is drawn both from primary and secondary texts, in existence, in medieval times and today. Current auditing textbooks, auditing standards (APB, 1995a, b; IFAC, 2002) and modern reports[1] into internal control (Rutteman Report, 1994; The Turnbull Report, 1999, 2005) are used to provide a framework to compare and contrast the modes of internal control today and in medieval England[2]. This framework is used as a heuristic device, a point of reference rather than as an imposed model. It has five main components (control environment, risk assessment, information and communication, monitoring and control activities). The control environment is the foundational context within which the other aspects of internal control operate (Konrath, 1999). The philosophy and management style, organisational structure, methods of imposing control, assignment of authority and responsibility are all key aspects of the control environment (APB, 1995a, para. 8).

Risk assessment is the identification, evaluation and management of risks[3]. Risks can relate, *inter alia*, to financial statement fraud or to the misappropriation of assets. Information and communication involves having procedures for periodic reporting which identify, capture, process and record all of an organisation's transactions. Relevant information is necessary to run any enterprise effectively. This can be internal, such as management reports or external, such as the annual report. Information can be communicated verbally or in writing.

Monitoring involves management and supervisory activities, including internal audit. Monitoring controls are often a form of detection rather than of prevention (Walters and Dunn, 2001) and might include inspection, observation, enquiry and confirmation, computation and analytical procedures. Control activities are the day-to-day operational controls which enable an entity's objectives to be achieved. They include: competent, reliable personnel; clearly defined areas of responsibility; proper authorisation; adequate documentation; segregation of incompatible duties; independent checks on performance and the physical safeguarding of assets. These five main elements are presented in Figure 1-5 of the paper with illustrative examples both from today and from medieval Britain.

For medieval England reference was made to both original (in Latin or English) translated sources and secondary sources. The original translated sources are principally "The dialogue of the exchequer" written in c.1179 by Richard Fitz Nigel, the royal treasurer, and Walter of Henley and four Treatises on Estate Management (as reproduced in Oschinsky, 1971). In addition, a variety of other lay and ecclesiastic texts are used. While "The dialogue of the exchequer" provides important information on the macro-government of the land, the four estate management treatises show that at the micro level on the individual manor, there was also a recognition of the need for proper controls to safeguard manorial assets and income against loss or fraud.

"The dialogue of the exchequer" is an important historical document and sets out the workings of the exchequer in the twelfth century (see Jones, 2008 for a more in depth discussion). It is an insider's view of the workings of the financial administration of the Kingdom. It set out the rules by which the exchequer was governed. Following those rules Fitz Nigel (1179) believed would lead to the maintenance of the rights of the individuals and to the proper collection and expenditure of revenues. It clearly demonstrates that the general concept of internal control and specific principles (such as authorisation, division of responsibility and observation) were well-entrenched in medieval England. In particular, it details a range of control activities and monitoring devices.

The evidence on internal controls on the manors draws on four frequently copied and widely circulated treatises (*The Husbandry*, Late thirteenth century; *The Rules of Robert of Grosseteste*, circa 1240; *The Seneschauchy*, 1276; *The Husbandry of Walter of Henley*, 1280). Equivalent of modern textbooks, their aim was to instruct estate stewards and lawyers in estate management. In various ways, they all dealt with internal control on manors. *The Husbandry* deals with the duties of the steward and the proper treatment of livestock and cereal. *The Rules of Robert of Grosseteste* consists of 28 prescriptions for the good governance of estates. *The Seneschauchy* specifies the job descriptions of various manorial officials such as the steward. Finally, Walter provides a general treatise on how to improve estate management.

A variety of other primary materials are used. Texts such as the *Constitutio Domus Regis*, the *Cartae Baronum* or the *Magna Carta*, dealt with the machinery of government. There are also records from monasteries and abbeys, from guilds and livery companies, and from Merton College, Oxford. Collectively, these texts provide a potentially useful source for internal control practices of a wide range of medieval institutions.

The remainder of this paper has two sections, followed by a conclusion. In the next section, the internal control systems used in the Middle Ages are examined using modern notions of internal control as a framework of reference. Then, in the discussion, modern notions of internal control are shown to be appropriate and relevant in assessing the internal control and accountability mechanisms in medieval England.

The internal control systems of medieval England

In medieval England, there were many interlocking social institutions and networks. The kings headed the financial and administrative structure of the state. However, the Church also represented an important and enduring social institution. State and religion were entwined. The Pope was the spiritual ruler, but the kings the temporal rulers. The wealth of the kingdom lay in the land. There was a need to control the activities and vast estates of the individual monasteries, bishoprics, barons and lords.

At the regional level, the kingdom was divided into manors both lay and ecclesiastical[4]. There was a dual system of local manorial controls and centralised exchequer controls. The manors were run by stewards, bailiffs and reeves responsible to the lord of the manor for supervising the day-to-day agricultural activities of the manor. There was a need to avoid fraud and to monitor and control labour, livestock and deadstock. In addition, an internal control system was necessary to report on the year's performance and to safeguard assets. Day-to-day controls were complemented by an annual audit whose procedures mirrored those in use at the exchequer. The universities also modelled themselves on the bishoprics and monasteries which had, in turn, drawn heavily upon the Royal Exchequer. Finally, the towns and boroughs, with their associated guilds and livery companies, although comparatively less important than agriculture in this period, were growing rapidly (Masschaele, 1997). They needed the same sort of controls as other medieval institutions.

In medieval England, there is strong evidence of a need to safeguard assets and protect against error and fraud. This comes out clearly in contemporary written texts and is particularly true of stewardship and the prevention of fraud. For instance, in *The Rules of Robert Grosseteste* (Oschinsky, 1971, p. 391), there is a comprehensive statement of the objectives of a chief steward. Robert Grosseteste, Bishop of Lincoln, advises the Countess of Lincoln that she should call in her chief steward, in the presence of persons she trusted, and address him thus:

> I now beg of you – as the man to whom I have entrusted all that is in my ward and government – and strictly command that you keep my rights, franchises, and my real property whole and undamaged and that you recall, as far as it is in your power, anything that through the *negligence or wrong doing of others is suppressed or infringed upon*; and that you increase and *faithfully guard, in an honest and correct manner, my personal property and my stock*; and that you arrange for the income from my lands, rent and property to be sent *without fraud and disloyal reduction* to me personally and to my wardrobe so that it be spent according to my directions in such a way that God and my honour are served *and my profit enhanced through my own foresight and that of you and my other friends* (italics added).

In *The Seneschaucy*, there was a constant concern with fraudulent practices whether it be at lambing or harvesting. "At lambing, the bailiff ought to be present at the marking and tithing of lambs 'to prevent fraudulent practices'" (*The Seneschaucy*, c.29 in Oschinsky, 1971, p. 273). While at harvesting "the reeve should take care that threshers and winnowers do not take corn and carry it away in their dress, boots, shoes and pockets or in socks and bags hidden near the grange" (*The Seneschaucy*, c.38, in Oschinsky, 1971, p. 277).

In the contemporary texts, there was also some evidence of a concern with efficiency and with preparing good accounting records. Fitz Nigel (1179, p. 492) wrote "if those rules [the Exchequer's financial controls, including accounting records] be observed in every particular, the rights of individuals will be maintained, and the revenue due to the Treasury will come to thee in full". There was also a concern with efficiency, Fitz Nigel (1179, p. 507) comments: the Bishop of Winchester was much valued as he was "prompt and efficient in the reckoning of accounts, in the writing of the rolls and the drawing up of writs".

Control environment

The control environment of medieval England comprised three main elements: an authoritarian philosophy and management style; a hierarchical, feudal, organisational structure; and an audit (Figure 1).

The King's sovereign power was the keystone of medieval England. He held ultimate power in the land and his word was law. Land beneath the king was held in lieu-of-service. This servitium debitum (quota of service) was fixed arbitrarily by the king and was the

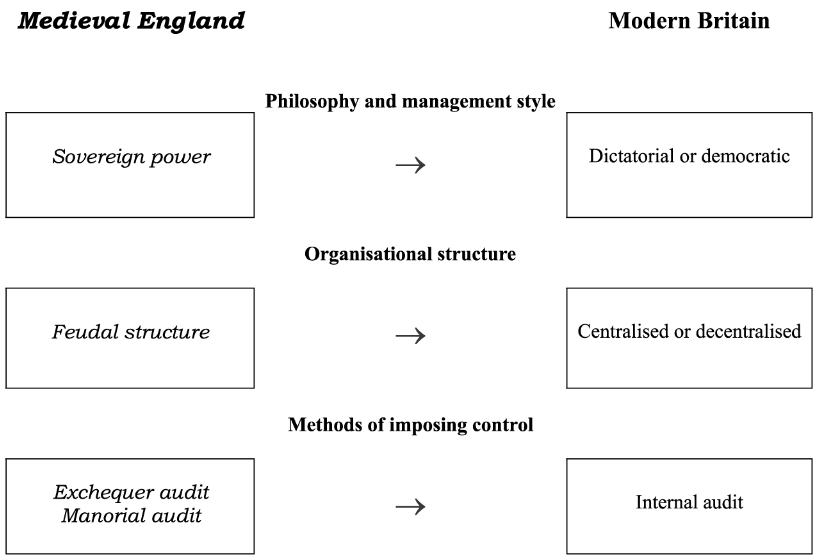

Figure 1.
Control environment

keystone of feudalism. It represented the "great feudal principle of dependent tenure in return for definite service" (Stenton, 1961, p. 123). For instance, in the *Cartae Baronum* of 1166 a whole range of enfeoffment (knight service) was recorded. Thus, Earl William of Ferrières returned a knight enfeoffment of 60 knights of which, Walter of Montgomery, held four knights fees (Douglas and Greenaway, 1953, pp. 912-14).

"Royal and aristocractic power was exercised through a multitude of personal networks" (Bates, 2001, p. 79). The relationships between lord and tenant were often complex governed by remembered custom and dependent on service (Britnell, 2001). Herlihy (1970) views this relationship as that between an authoritarian father and a dutiful son. There was a complex social and political reciprocity. The vassal's duties were to provide aid to the lord (Keeton, 1966). This aid was primarily military help (e.g. the provision of knights), but also included payment of feudal dues (e.g. knighting the vassal's eldest son) and the provision of help and advice. This vast array of feudal rights and obligations acted as social cement.

The king also exercised his power in a very authoritarian manner. For example, in 1125, 94 moneyers[5] were summoned to Winchester where they were almost all castrated and blinded (Kealey, 1972). The *Magna Carta* drawn up by King John after Runnymede on the advice of the English magnates in 1215, however, modified royal power. In this structured society, the nobles were below the king and below them were knights and then serfs. On individual estates, the role of the lord of the manor was analogous to the king in the country. Below him were bailiffs, stewards and reeves and at the very bottom were the agricultural workers. This state hierarchy was mirrored in the Church. The bishops and abbots headed a parallel administrative system consisting of clergy and monks.

In this feudal society, the accounting and control systems primarily served the purpose of stewardship rather than of efficiency or profit. Thus, *The Husbandry* starts by stressing that:

> First of all, he who will render the account ought to swear that he will render true account and that he will charge himself honestly with as many of the goods belonging to his Lord as he received; and that he will spend honestly and will not enter anything on his account roll except what he spent, honestly, and to the Lord's advantage (Oschinsky, 1971, p. 419).

The charge and discharge of officials in medieval England was the key concern. The emphasis was on the accountability of officials and maintaining the rights of individuals and collecting due revenues. These due revenues were those set down in advance through custom or practice (such as the preset "farm" (annual payment by sheriffs) of the exchequer or the norms of agricultural production in *The Husbandry of Walter of Henley*). Particularly, on the manors, there was, however, some notion of increasing revenues through making agricultural production more efficient. Thus, in *The Husbandry* on bees: "And it is more profitable to leave them to work undisturbed for two or three years than to take away the wax and honey which they made each year, that way the bees will yield more in issue, wax and honey" (Oschinsky, 1971, p. 433). Agricultural production was effectively monitored through a series of expected returns, perhaps akin to rudimentary performance indicators. There was little real concern with profits or profitability[6], although some manors did produce rudimentary profit calculations in the late thirteenth and early fourteenth centuries (Stone, 1962; Noke, 1994; Postles, 1994). Bryer (1994) sees these as feudal surpluses rather than capitalist profit. In *The Seneschaucy* (Oschinsky, 1971, p. 267) the estate steward was stated as being "capable of administrating the lands profitably".

Both the lay and religious institutions (i.e. royal government, seigniorial estates, monasteries and bishoprics) depended upon the audit as the overriding form of accountability. The most important audit was the exchequer audit[7], introduced under Henry I and refined under Henry II. This system was set up to control the collection of the King's revenue from the English shires. Essentially, individual sheriffs from individual shires, such as Herefordshire, reported biannually to the Royal Exchequer held at Winchester or London to render account for the king's money. There was a lower exchequer, or treasury[8], which had developed out of an Anglo-Saxon treasury and an upper exchequer. The upper exchequer was an accounting innovation (Lyon and Verhulst, 1967). A group of 17 royal officials observed individual sheriffs and accounted for their revenues. The treasurer questioned the sheriff closely on his accounts and calculations were carried out in public on the exchequer board, which was a sort of Abacus (Baxter, 1989). The efficient workings of the system was dependent on a variety of internal controls and checks to ensure that the sheriff did not defraud the king. It was a sophisticated, financial administrative system which, in essence, involved the centre, in the presence of the king's council, checking the accounts of the periphery, the sheriffs. The process was standardised and ritualised. Non-attendance by sheriffs at the exchequer was punished often harshly.

The numerous other centralised exchequers were generally modelled on the Royal Exchequer using an abacus-based exchequer table, tallies (wooden sticks as receipts) and written documentation through pipe rolls. They also used the charge and discharge accounting system where the reporting officials were first charged with the arrears and monies owing and then discharged through expenses and payments. On individual manors, a slightly different localised audit involved itinerant auditors visiting individual manors. Once more the basic approach derived from the exchequer audit.

This approach was used throughout medieval institutions. Two examples will suffice. First, at Beaulieu Abbey in 1269/70 Brother R, Keeper of the Pleas, rendered account for the last year. The calculation starts with the amount owing from the prior year, the receipts are added and then totalled. The necessary expenses are deducted to arrive at the final balance of 1 1/4d (Hockey, 1975). Second, at Merton College in 1289/1290 John of Waneting, subwarden of the college, rendered his account from the feast of the blessed Peter to the feast of the blessed Frideswyde (Highfield, 1964). The calculation is in the same basic format as at Beaulieu Abbey.

Rights and responsibilities were delegated to certain key individuals. In "The dialogue of the exchequer", Fitz Nigel systematically lists the duties of all the royal officials. In *The Seneschaucy*, the duties of all the manorial officials are diligently recorded. For example, at the exchequer, it was the sheriffs who were responsible for the collection of the revenues and on the manors it was the stewards, reeves and bailiffs and below them other minor officials, such as the haywards and carters. Generally, a conservative rather than an aggressive financial policy was pursued. The emphasis was on stewardship and collecting due revenues from sheriffs or stewards rather than of maximising performance or even performance measurement.

When compared to modern times, the control environment of medieval England was much more authoritarian. Power flowed downwards from the king to the sheriffs and from the lord of the manor to the stewards. This can be perhaps characterised as a "comply or else" environment. The penalties for non-compliance could be extreme and were much wider than those applicable in today's "comply or explain environment". They included for errant sheriffs fines, loss of chattels, imprisonment, loss of office and even death.

Risk assessment

Risk assessment in medieval England centred on two main objectives. First, there was the need to avoid fraud or error. Fitz Nigel (1179, p. 491) states, "Therefore, no matter what may be, or appear to be, the origin or manner of acquisition of wealth, those who by their office are appointed to keep the revenues should not be remiss in caring for them". *Walter of Henley* (in Oschinsky, 1971, p. 341) counsels against the:

> Frawde of evell servants [...] For it happeneth often that servauntes and reeves doe by theimselves and others make merchandize of theire maisters money for their owne gaine and not for the gaine of theire maister; and that is not faithfull (loialtie) dealing.

Second, there was a need to ensure that the king, abbot, bishop or lord was not deprived of any due monies (Figure 2).

At the Royal Exchequer, three of the most significant risks were debased coinage, the non-attendance by sheriffs and shortfalls in revenue collection. With the debased currency, the problem was how to ensure that the coinage paid to the king was of sound, good quality. In medieval England, "false coinage" was a real problem. Fitz Nigel (1179, p. 497) comments: "English money can be detected as false in three respects, namely false in weight, false in quality and false in stampings". A two-fold strategy was enacted. First nationally, there were recurrent attempts to control the moneyers and mints. As demonstrated earlier, the enforced penalties were often severe. Second, at the exchequer itself, the coins were rigorously sampled and tested. The aim

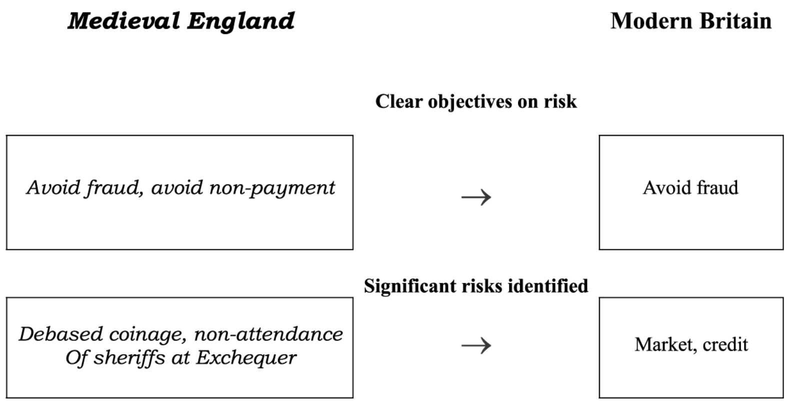

Figure 2.
Risk assessment

was to detect false coinage and then make the sheriff personally responsible for any shortfall caused by adulteration:

> Because the sheriff finding himself personally at a loss by the burning of the debased coins, takes good care, when he is about to account for the "farm", that the moneyers placed under him do not exceed the limits of the appointed standard. And when he has detected them in his offence, they are duly punished, that others may be frightened by the example made of them (Fitz Nigel, 1179, p. 517).

The problem of non-attendance was solved by imposing severe penalties if sheriffs did not appear at the exchequer at the appointed time. "Whosoever thou art that receivest a summons, thy absence, unless it can be excused by unavoidable and legitimate causes, will redound to the peril of thine own head" (Fitz Nigel, 1179, p. 538). The penalties escalated. On the first day it was a 100 shillings of silver (five pounds) for each county. By the fourth day, the sheriff was at the mercy of the king for both his property and his person.

To avoid the non-collection of due revenue, a common method of control was to set preset, estimated amounts. Originally, the "farm" was the cost of entertaining the king and his entourage on the manor for one night. Over time, this was commuted into a fixed monetary sum. If the expected farm was paid no further questions were generally asked. Under this system, unlike today, there was generally no comparison between actual and estimated yields. In the Middle Ages, the king received the estimated amount. The sheriff not only the king was responsible for any shortfall, but also pocketed any surplus. Therefore, the king was assured of his revenue.

The manors too, used preset yields. There was a predetermined and expected yield from the planting of the corn. Livestock was expected to produce a set amount of offspring and produce. To take two examples. First, 14 gallons of cow's milk ought to yield one stone of cheese and two pounds of butter. Second, 16 gallons of sheep's milk ought to yield one stone of cheese and two pounds of butter (*The Husbandry*, c.32, in Oschinsky, 1971, p. 43). Once more, the reporting official, not the lord of the manor, was responsible for shortfalls. In fact, there was a chain of responsibility. "If the Lord suffers any loss through the fault of the reeve and if the reeve has no property of his own to repay the loss" then all those on the manor are liable for the loss (*The Husbandry*, c.55, Oschinsky, 1971, p. 441). If the estimated yields were delivered, the auditors generally accepted them.

mutilation of false moneyers or the use of preset yields.

The risks in medieval England, just as today, reflected the general business environment. In modern Britain, with a sophisticated business environment, there are a wider range of risks (e.g. environmental, credit, liquidity, technology, fraud). In medieval England, the main risks can be characterised as avoiding fraud, avoiding payment in debased money and non-attendance by the sheriff at the exchequer. The avoidance of fraud in both eras is a common risk objective. The methods devised in medieval England to deal with these risks however, were different such as direct personal physical enforcement for non-attendance by sheriffs at the exchequer, the mutilation of false moneyers or the use of preset yields.

Information and communication

In medieval England literacy was growing steadily, but the spoken word was still paramount (Figure 3). However, increasingly the sealed king's writ was being used to convey the King's messages (Fitz Nigel, 1179, p. 433) and to summons the sheriffs from the shires. These summonses underpinned the efficient collection of the sums due from the sheriff:

> But if anything should be demanded from the sheriff, when he is sitting to render account, in respect of any debtor in his county, of whom, however, no mention was made in the summons, he will not be liable for it, but will rather be excluded, because the summons has not preceded the demand. Summonses are issued, therefore, in order that the King's "farm" and *the dues demanded for a variety of reasons may flow into the Treasury* (Fitz Nigel, 1179, p. 532, emphasis added).

At the exchequer itself, an oral report under oath was presented by the sheriff to the treasurer. However, a written transcript was inscribed on the accounting rolls.

At the exchequer, these formal reporting procedures were biannual. At Easter, the sheriff turned up to provide an oral interim report on the financial transactions of the shire. At September, after the harvest, the sheriff was summonsed once more to give the final oral report at which he was to settle the account. On the manors, there was also a two-stage process. Initially, the manorial audit scribes recorded the process onto accounting rolls which then formed part of the overall lay, bishopric or monastic audits.

Information and communication channels naturally reflect organisational environments. In modern Britain, the emphasis is on regular written reports, such as

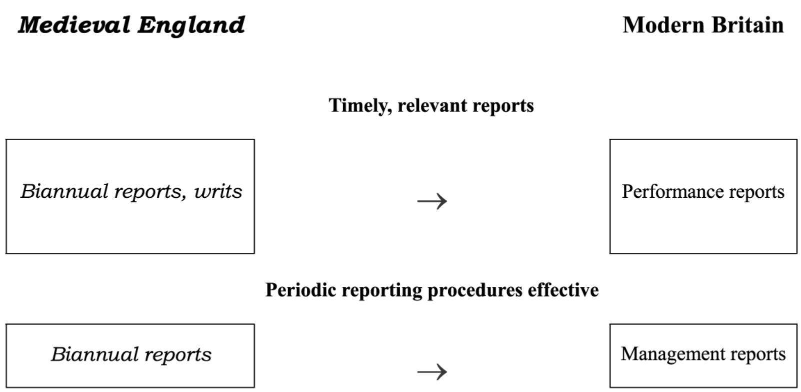

Figure 3. Information and communication

weekly or monthly management reports. By contrast, in medieval England formal reporting was generally, although not always, less frequent. There is frequent evidence in the primary sources of auditing and reporting. As set out below, audits could be, as appropriate, yearly, quarterly or even, in extreme cases, weekly. At Bury St Edmunds the 1234 statutes stated monks should render account of their receipts and expenses every year (Statutes for the Monastery of Bury St Edmunds and Westminster, as reproduced in Graham, 1912). At Merton College, the first Oxford College, in 1264, there was a yearly enquiry by eight or ten scholars into the management of the college and a yearly inquiry into the sickness of scholars (Statutes of Merton House in Maldon 1264, 1928). In the 1270 statutes, the accounts were audited annually by six or seven scholars (Statutes of Merton House 1270, 1928). Later foundations followed suit. At York monastery, a Papal envoy set up a series of injunctions requiring quarterly reporting (Injunctions to York Abbey, 1206; Cheng, 1931, p. 450). At Westminster Abbey, in the same period, accounts were also sometimes rendered weekly, if not, quarterly and yearly (Harvey, 2002). Meanwhile, at Beaulieu Abbey are set out *regule compoti* (rules of the account). Under the first rule for the year end accounting it is specified that the monk in charge of the treasury had to submit an account four times a year, each office holder had a yearly reckoning and all major officers such as the cellarer or monk in charge of the bakehouse had weekly management meetings (Finance Accounts of Beaulieu Abbey; Hockey, 1975). Finally, at the Abbey of St Edmund, Abbot Samson, in the last quarter of the twelfth century heard the account of his household expenditure weekly (Rokewode, 1840, p. 31; Butler, 1949).

Communication in the Middle Ages centred round formal and informal face-to-face meetings in which officials reported to their superiors. In modern Britain, such face-to-face contact is rarer. It is also complemented by telephone or e-mail. In both ages, however, the need for timely, relevant reports and periodic reporting was recognised. A major difference was technological in that the use of phones and e-mail has changed both the communication media and the potential frequency of informal reporting. Direct personal, face-to-face reporting has also been supplemented, if not supplanted, by more impersonal indirect controls.

Monitoring

The monitoring process in medieval England was ongoing. It comprised a series of checks and balances. Below I record some illustrations from the exchequer and from manors of monitoring such as inspection, observation, enquiry and confirmation, computation and analytical procedures (Figure 4). One method of inspection was that authorisation for expenditure was checked. This might, for example, be the king's writ. For example, if the sheriff had expended money from his farm on the king's business (such as fortification of castles) then the clerks of the works and the sheriff responsible for the castle fortifications would attend the exchequer. On the manors, inspection was common. Four examples will suffice. First, *The Seneschauchy* recommended that all the sheep be inspected three times yearly by experienced men (Oschinsky, 1971, p. 275). Second:

> Bailiff and reeve ought to inspect frequently the dairy and the cheese, when they increase and decrease in number, what their weight is, and that no loss or theft occurs in the dairy whereby the weight might suffer (Oschinsky, 1971, p. 289, *The Seneschaucy*, c.68).

	Medieval England		Modern Britain
Ongoing processes	*Exchequer audit*	→	Internal audit
Inspection	*Examine writs*	→	Examining invoices or existence of assets
Observation	*Exchequer table* *Harvest stock check*	→	Stock check
Enquiry and confirmation	*Interrogation of sheriff*	→	Debtors check, AGM
Computation	*Abacus*	→	Arithmetical checks Computer
Analytical procedures	*Comparisons with expected*	→	Trend analysis

Figure 4.
Monitoring

Third, similarly, at harvest time on the manors, there, ought to be a visual inspection of the corn by the reeve (*The Seneschaucy*, c.38 in Oschinsky, 1971, p. 277). Finally, the bailiff ought on his rounds to check the ploughs and tillage (*The Seneschauchy*, c.23, Oschinsky, 1971, p. 271).

Observation was a common technique in an age which predated widespread written documentation. At the exchequer, the sheriff was publicly examined by the sheriff in the presence of 17 court officials. The computation of the amount which the sheriff initially owed, had paid and any residual liability was calculated in public by the "calculator", using an adapted form of an Abacus. All present could see the calculation on the exchequer table. The amount of coinage that he delivered was clearly visible. In *The Seneschaucy* too there are frequent examples of personal supervision. Four examples are given below involving the bailiff, the reeve and the hayward. First, the bailiff ought to see that the threshers were closely watched and the corn kept well and cleanly threshed and the straw carefully saved in stacks and cocks (*The Seneschaucy*, c.23, Oschinsky, 1971, p. 271). Second, "The reeve ought to supervise the threshers and winnowers to avoid them stealing corn" (Oschinsky, 1971, p. 277, *The Seneschaucy*, c.38). Third, the hayward ought to supervise:

> [. . .] the mowers, gatherers and carriers and in August he ought to assemble the reapers, boon workers and hired labourers. He ought to see that the corn is well and cleanly reaped and gathered. Late and early he should keep watch that nothing is stolen, eaten by the beasts or spoilt (Oschinsky, 1971, p. 281, *The Seneschaucy*, c.49).

Finally, the bailiff was instructed to undertake a routine inspection every morning to control the yoking and unyoking of the ox teams to ensure the correct amount of ploughing was done (The *Seneschauchy*, c.18, Oschinsky, 1971, pp. 78-9).

The audit process itself, both on the manor and at the exchequer, was, in essence, adversarial based on enquiry and confirmation. It resembled a court-room encounter between a barrister and a witness. The treasurer asked the questions; the sheriff responded. A similar procedure occurred between the auditors and manorial officials.

Finally, the analytical procedures adopted in the medieval exchequer consisted of comparing the actual revenues and expenditures declared by the sheriff with those expected. If these estimated amounts were collected then there would be no further enquiry (Drew, 1947 as in Dobie, 2005). On the manors, too, the bailiff was required only to deliver the expected yields. Only occasionally were estimated yields of corn and livestock compared with the actual yields.

Despite the institutional differences between the two ages, there is clear evidence that all the major monitoring processes were present. There is a discernible shift of emphasis between the two periods. Audit inspection and analytical procedures were both central to internal control in both eras. However, arguably observation, and enquiry and confirmation were more important in medieval England, while computation is more important today. This reflects the greater importance of direct personal supervision in medieval England. Individuals were more likely to be subject to personal observation. Enquiry and confirmation, such as the interrogation of sheriffs, was a natural approach. The technological differences between the two eras are also apparent in that most of the modern monitoring controls involve written documentation. Computation in medieval England involved the abacus, while today it is computer-based.

Control activities

All of the control activities identified in the modern literature were present in the twelfth century (Figure 5). Below are some examples of competent personnel; clear areas of responsibility; adequate documentation; proper authorisation; segregation of duties; independent checks on performance and the physical safeguarding of assets (see Jones, 2006 for more detail). First, the royal officials of the king's household were experienced administrators who had generally proved themselves in the king's business. For example, Roger of Salisbury, the Justiciar, had risen from relatively humble origins to be the king's right-hand man. In addition, Fitz Nigel, Henry's treasurer (1160-1198) was a third-generation member of a family employed by the Anglo-Norman kings and was Bishop of London and an itinerant justice (Douglas and Greenaway, 1953, p. 490). The sheriffs themselves were appointed by successive kings and were dismissed if they proved inadequate for the job. For instance, in 1170, King Henry II reviewed the performance of the sheriffs. "In the first place let inquiry be made concerning the sheriffs and their bailiffs as to what and how much they have

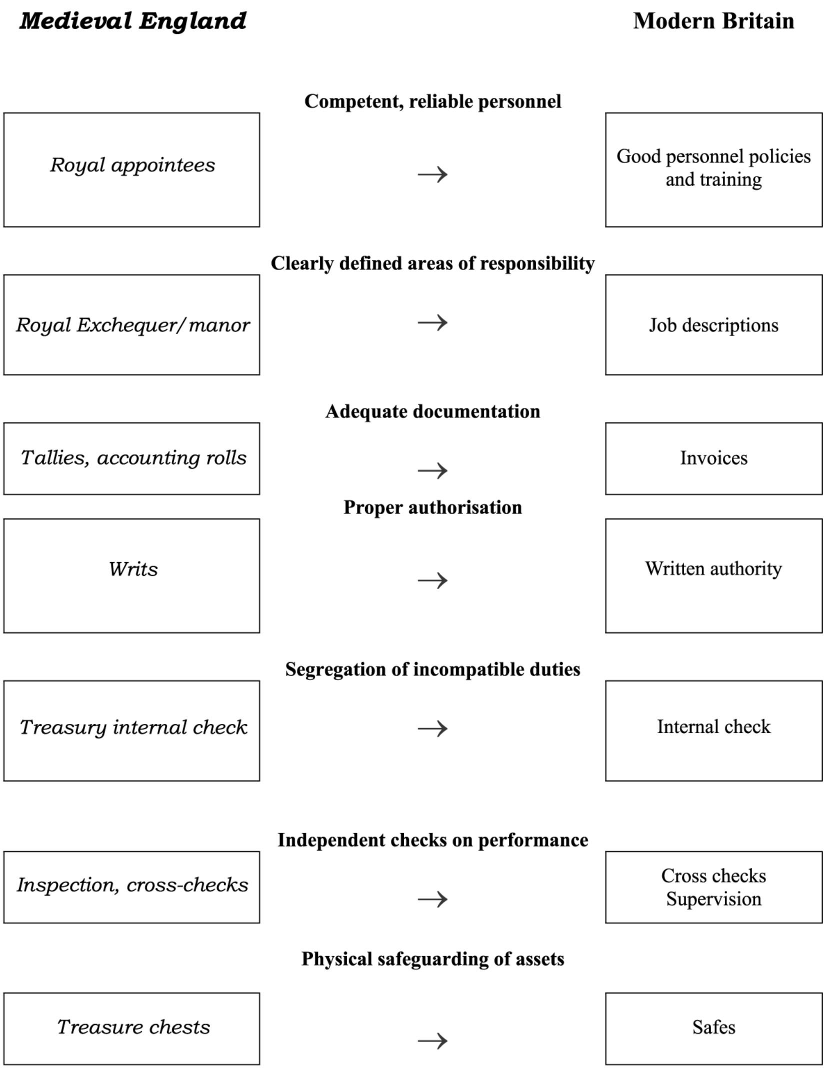

Figure 5.
Control activities

received . . . " (*The Inquest of Sheriffs*, Douglas and Greenaway, 1953, p. 439). As a result 22 sheriffs out of 57 were replaced (*The Inquest of Sheriffs*, Douglas and Greenaway, 1953, p. 437). The sheriffs were, in effect, local administrators. On the manors, the steward had "no power to dismiss, without special authorization, a bailiff or any servant who has been given office by the Lord himself" (Oschinsky, 1971, p. 267, *The Seneschaucy*, c.9). In addition, *Walter of Henley* (c.33) recommended that bailiffs and manorial servants were chosen for their skill in farming rather than for their connections (Oschinsky, 1971, p. 78).

Second, at the exchequer all of the royal officials had clearly defined areas of responsibility, analogous to modern job descriptions. A list of officials and their pay rates is listed in the Establishment of the King's Household (*Constitutio Domus Regis*) written just after Henry I's death (Douglas and Greenaway, 1953, pp. 422-7, *English Historical Documents*). To take three examples from the exchequer: the chancellor, the treasurer, and the calculator. The chancellor's job was to sit in the exchequer and take charge of the royal seal and custody of the accounting roll. The treasurer's duties involved receiving the accounts of the sheriffs and in writing the rolls. As Fitz Nigel (1179, p. 507) wrote: "his chief care lies, namely in receiving the accounts of the sheriffs and in the writing of the roll, so much so that he cannot be released from these duties while the exchequer is still sitting". The calculator's job was to preside over the exchequer table. He put down the piles of counters and was responsible for physically moving the counters to calculate the sums owing by the sheriff.

On the manor, too, a range of officials all had specific responsibilities. In *The Seneschaucy*, a late thirteenth century writer outlines the responsibilities of a series of manorial officials: steward, bailiff, reeve, hayward, carter, plough-keeper, cowherd, swineherd, shepherd, dairymaid, auditors and the office of the lord. To take three examples. The steward ought to tour the manors three times yearly and ensure that each manor is fully stocked and that "there is no extravagance or destructiveness on any manor" (Oschinsky, 1971, p. 269, *The Seneschaucy* cs. 5-16). The steward supervised the bailiffs but was responsible to the reeves. The hayward had to physically watch the "woods, the corn and meadows" as well as "sow the lands and supervise the ploughing, to supervise the harvest workers and tally against the reeve the seed-corn" (Oschinsky, 1971, p. 281, *The Seneschaucy*, cs. 47-49). Finally, "the cowherd ought to keep the cows well, feed them, sort out poor cows, keep them in a fold in summer and sleep with them" (Oschinsky, 1971, pp. 284-8, *The Seneschaucy*, cs. 55-57).

In other medieval institutions, clearly defined officials had to render periodic accounts. At Westminster Abbey c.1275-1540, 35 obedientiaries (monastic officials), including the abbot, prior, almoner, cellarer and chamberlain were identified (*The Financial Records of Westminster Abbey*; Harvey, 2002). Each of these officials was responsible for a specific area such as the kitchen or grange. In the livery companies of London, for example, there were a range of officers (such as wardens, beadles and chaplains in the Goldsmiths Company) with specified duties (Herbert, 1834, 1836).

Third, proper authorisation was insisted upon. The sheriff came armed with writs for authorised expenditures and quittances. The onus was on the sheriff, not the treasurer to prove he was rendering an honest account. All expenditures at the exchequer were expected to be authorised either through ancient customs or through specific royal writs. Fitz Nigel (1179, p. 502) comments:

> It is the duty of the constable at the Exchequer to bear witness, together with the President, in the case of royal writs covering the issue of the treasurer, or to any reckoning by those who render account. For in all writs of this kind it is proper according to ancient custom that the names of two witnesses should be subscribed.

On the manor too authorisation was demanded. From *The Seneschauchy* c.10 "The steward ought not to seek wardship, marriage, or escheat, nor ought he to dower any lady or woman, take homage or suit, nor should he sell a male serf without special authorisation from his Lord" (Oschinsky, 1971, p. 267). As for the bailiff and reeve, *The Seneschauchy* c.41: "No sales of corn and stock should be conducted by bailiff or reeve without warrant by writ" (Oschinsky, 1971, p. 279).

Fourth, at the exchequer, adequate documentation was kept by means of tallies, writs, and accounting rolls. These provided an effective "audit trail" analogous to that provided today. The amounts paid by the sheriffs to the king were recorded on tallies which provide an excellent example of a simple medieval control mechanism. They were commonly used to record financial transactions. The tally was effectively a piece of wood notched to indicate amounts then bifurcated. At the exchequer, the treasurer and the sheriff each kept half of the tally; "tally" and "counter-tally" could be matched if necessary. Writs prepared for payment were written by the scribe of the chancery. The accounting roll provided a complete copy of all the sheriffs' accounts. This included their farms, but also other feudal dues and profits from justice. At the manor, too, there was supporting documentation to underpin the manorial activities, once more principally writs, tallies and accounting rolls. For instance, in *The Seneschaucy* the reeve was instructed to keep proper records. In addition, tallies were used:

> [. . .] every reeve ought to account each week to his bailiff. They ought to strike tallies for labour and customary services used on the manor and this will enable them to answer in their account for the balance of the services, not used and commuted into money (Oschinsky, 1971, p. 279, *The Seneschaucy*, c.44).

Tallies were universally used in medieval England. Thus, in the injunctions of John of Ferentino to York Abbey in 1206 the tallies and written document were required when the obedientaries received their allowances from the treasury (Cheng, 1931, p. 450). Elsewhere, Bishop Cantilupe of Hereford ordered the making of a tally and a counter tally for the expenses of William de Neville in 1275 (Webb, 1854, 1855). The auditors also prepared accounting rolls for central exchequers.

Fifth, an important part of the medieval control activities was the segregation of duties. As today, the principle of internal check was clearly recognised and operationalised. At the exchequer, for example, there was a concern to ensure that no one official was in charge of a complete transaction. The overarching nature of this was the interrogation of the sheriff by the treasurer which was carried out in public. The basic rule was the modern equivalent that no one person should be solely responsible for the performance of an accounting transaction. This principle applied to all the exchequer's personnel. Even the most important officials' duties (such as the treasurer's or chancellor's chamberlains) dovetailed with each other. As Fitz Nigel (1179, p. 502) states:

> The duties of the chamberlains are bound up with those of the treasurer, for they are recognised as serving under one and the same dispensation of reward or loss [. . .] in all these matters they are bound in an equal bond of fellowship.

At the operational level, three copies were kept of the accounting rolls while at the treasury the keys to the treasure chest were divided up amongst the officials.

On the manor too, there was a great concern with the segregation of duties. The overall principle was set out in *The Seneschaucy*:

> The steward ought not to act as auditor for things which concern his office because he ought to be answerable, like anybody else, in the accounts of each manor for his transactions, orders, improvements and for fines and amercements of the courts presided over by him: no man ought to be judge or justice of his own actions (Oschinsky, 1971, p. 267, *The Seneschaucy*, c.12).

A specific example of internal check is illustrative. "The hayward tallied against the reeve for all seed-corn and for all boon, customary and hired labour. The reeve and the bailiff then tallied for the total and answered at the audit" (Oschinsky, 1971, p. 281, *The Seneschaucy*, c.49). In other medieval institutions too there was a concern with internal check. In the guilds, livery companies and universities two or three officials (whether they be called seneschals or wardens) were commonly appointed to office jointly. Thus, at Bridgwater's merchant guild in the reign of Edward I the burgesses chose yearly two seneschals to run the guild (Gross, 1890, p. 24, Vol.11). Finally, at Beaulieu Abbey special precautions were taken to see that the bakehouse and granary were controlled by different men. Thus, the granger must not have the key to the bakehouse nor be in charge of the bakehouse (*The Account Book of Beaulieu Abbey*, 1269/1270, in Hockey, 1975, p. 285).

Sixth, independent checks on performance were performed by supervisory officials. At the exchequer, the King's Remembrancer, Master Brown provided a direct report to the King, rather like the modern procedure of the internal auditor reporting directly to the Board of Directors. As Fitz Nigel (1179, p. 512) wrote:

> His authority at the Exchequer is not to be despised. For it is a great and strong proof of his loyalty and discretion that he was chosen by a prince of such excellent talents to keep, contrary to ancient custom, a third roll in which to record the laws of the realm and the secrets of the King, and which he may retain in his own possession and carry whethersoever he will.

Fitz Nigel (1179, p. 501), quoting the bible, commented that "A threefold cord is not quickly broken". A comparison between the three versions facilitated the detection and correction of errors (Fitz Nigel, 1179). On the manor, Robert of Grosseteste advises that trusted men from seigniorial households be present at harvest time (Oschinsky, 1971, p. 393, *The Rules of Robert of Grosseteste*, Number Four). In *Walter of Henley* (c.34), it is recommended that the bailiff or reeve be present for the whole day for the first and second fallowing and seeding to assess how much work might be expected of the plough teams (Oschinsky, 1971, p. 317).

Finally, there was great concern with the physical safeguarding of assets. The upper exchequer dealt with accounting issues while the lower exchequer acted as a treasury. Both access controls and physical controls were present. At the treasury, the access controls were provided during the day by the usher and at night by the watchman. "It is the duty of the usher to admit or exclude as is necessary, and to be diligent in guarding everything that is confined within the doors" (Fitz Nigel, 1179, p. 497). At the lower exchequer, the treasure chests were locked and the keys entrusted to two men. Fitz Nigel (1179, p. 495) writes:

> They carry the keys of the chests – for each chest has two locks of a different pattern, neither of which the key of the other will fit – and they bear the keys of them. Each chest is girded with a fixed strap, on the top of which, when the locks are closed, the seal of the treasurer is placed so that neither of the chamberlains can have access except by their joint consent.

The purses of king's silver were also transported to and from the lower exchequer by a group of men. On the manors, too, there was concern particularly to safeguard the livestock and corn. The hayward and shepherd, for example, were instructed to lie with the cattle and sleep, respectively. In addition, the dairy and the harvest were closely supervised to guard against loss and theft.

The control activities in the two eras, like the monitoring processes, were all evident and remarkably similar. The main differences were not in the existence of the control activities or in their relative importance, but were more technological in nature. Thus, for example, tallies, accounting rolls and treasure chests have been replaced by invoices, ledgers and safes. The essence of these control activities, however, remains.

Discussion

The Cadbury Committee (1992) promoted a new agenda for corporate governance reform. It is, therefore, tempting to think of internal control as a relatively new concept. However, internal control has been of perennial importance in human society. Solomon *et al.* (2000) argue that Turnbull made explicit an already implicit conceptual framework for internal control. The evidence in this paper confirms the notion that even in medieval times there was an "unstated" framework which underpinned actual practice. In medieval England, the main mechanisms of control and accountability are very similar, in principle, to those set out in modern reports on corporate governance and internal control. There was, however, perhaps a difference in emphasis in the objectives. In medieval institutions, the major concern was to safeguard assets and protect against error and fraud with the need to be efficient and to prepare good accounting records perhaps being of secondary importance. The need for effective internal control was recognised by contemporary writers and, as far as we can tell, operationalised in medieval institutions. In particular, stewardship and personal accountability were core elements of internal control and were more important than performance measurement, efficiency or, indeed, profit.

The control environment of medieval England was based on sovereign power. This was a feudal, hierarchical society with power flowing downwards. It was perhaps analogous to a very dictatorial and centralised business organisation of the type led by very powerful and authoritarian individuals in the modern era such as Robert Maxwell. A key feature of the control environment was the audit. Both the exchequer audit and the manorial audit were, in essence, internal audits. They were institutional mechanisms set up by the king and landlord to ensure the accountability of the reporting officials. They were principally concerned with stewardship rather than performance.

An assessment of financial risks was implicit within medieval England. Many of the procedures were instituted specifically to stop potentially fraudulent practices at harvest or with stock. Indeed, particularly in the estate treatises the prevention of fraud was a paramount concern. At the exchequer, much attention was devoted to instituting systems to force sheriffs to attend the exchequer and to ensure that they paid in valid, sound coinage. This risk assessment was less explicit than today, but still took place.

The importance of good, secure communication was clearly recognised in medieval England. A system was set up to deliver the king's writ to all parts of the realm within days. The summonses and accounts upon which the efficient functioning of the exchequer depended could thus be delivered in a secure and timely manner. Formal reporting was twice a year and generally less frequent than today. The interim and final report from companies to shareholders can perhaps be equated to the two exchequer (interim and final) audits. Nonetheless, the communication and documentation system in medieval England suited its time. Without the phone, fax, e-mail or printed documentation medieval administrators relied upon the writ, royal messengers on horseback and accounting rolls prepared by scribes.

The same basic processes for monitoring internal control are observable in medieval England as today. Transactions both at the exchequer and on the manor were authorised. Royal and manorial officials observed the exchequer and manorial activities to ensure due process. Enquiry in medieval times was, however, more likely to be carried out orally rather than through the medium of print. Certainly, this was true at audit. The oath replaced the signature as a method of verifying the honesty of an account and of ensuring personal responsibility. Computations were carried out, using an abacus-like exchequer board, rather than a calculator or a computer. And, finally, there were some analytical checks. However, unlike today it was much rarer to compare estimated with actual figures. Rather, predetermined figures were set out in advance such as the sheriff's "farm" or expected yields from crops or livestock. If these expected returns were met no further enquiry was carried out.

Most of the control activities found today are also recognisable in medieval England. The principles of clearly defined responsibilities and segregation of duties were well-entrenched. Accounting rolls, writs and tallies provided an effective method of ensuring that transactions were recorded and authorised. Independent checks on performance occurred, most notably at the exchequer, where the king's remembrancer reported directly to the king. There is also ample evidence of concern with the safeguarding of assets. Cash, in particular, was closely guarded – generally in locked chests with multiple locks.

Overall, therefore, in medieval England, the need for internal control was clearly recognised. In general, all of the main areas of internal control, as identified by the Turnbull Committee: control environment, risk assessment, information and communication, monitoring and control activities are present. The essence of these internal controls was present in both eras with the similarities outweighing the differences. In general, the principal differences were caused not by variations in the objectives or the approach, but more by available technology. Thus, in medieval England the writ, scribe and royal messenger replaced the printed word and telephone; the abacus not the calculator or computer was used for analysis; tallies not invoices and cheques were used for recording and paying debts; and the accounting roll took the place of the accounting ledger and computer print out. There is, however, no reason to suspect that the internal control system in medieval England was any less effective than that today. Indeed, Lyon and Verhulst (1967, p. 64) comment: "never again does one feel that financial administration so satisfactorily fulfilled the needs of the Prince, that it was so nicely geared to social, economic and political realities."

Conclusion

There were perhaps five main differences of emphasis between medieval England and modern internal control. First, there was greater emphasis on the centrality of stewardship and personal accountability as a core element of internal control. For example, personal observation as a monitoring device was stronger in medieval England. There was much more personal contact. The sheriff and the steward were directly questioned by their superiors. They were directly accountable. Their performance was evaluated through enquiry, inspection and observation of the individual rather than on the basis of written documentation. In the Middle Ages, the personal oath replaced the signature. Second, following on from this there was a lesser focus on profitability and efficiency. In addition, these terms were perhaps differently interpreted. Profitability was generally seen more narrowly in terms of the surplus of revenues receivable over amounts paid while efficiency was a relatively passive concept concerned with improvement and measured by performance indicators. In medieval England, there was much more use of estimated and predicted yields, such as for the sheriff's farm or crop and livestock yields. Once set these persisted for years. If these yields were met then no further computational analysis or enquiry was made. There was, for example, little concern with variances from budget. Sheriffs, reeves and bailiffs were personally liable out of their own pockets for any shortfalls in expected revenues. Third, the control environment in medieval England was more hierarchal and coercive than in modern Britain. The penalties for non-compliance were much more severe. The ultimate penalty for fraud today is imprisonment rather than death or physical disfigurement. Fourth, the range of risks in medieval Britain was possibly narrower than those faced today. Risk is also dealt with much more explicitly today. Fifth, information and communication were more oral than written in medieval England and formal reporting was generally less frequent.

Post-Enron there are distinct signs of a return to a more controlling environment. Internal controls are being enhanced both in the USA and in the UK. In particular, the recognition of the need for the enhanced personal accountability of individuals is apparent. Such personal accountability at the individual, rather than at the organisational level, was probably the key component of medieval governance. Until recently, the veil of limited liability and associated directors and officers insurance has made directors virtually immune from personal responsibility for either corporate failure or corporate manslaughter (Fletcher *et al.*, 2003). However, recently there have been pressures, calls and legislation to increase individuals' personal responsibility. Courts have recognised individual personal liability in a range of circumstances such as the directors of Enron and WorldCom being held personally liable for wrongdoings, the judge in *Williams* v. *National Life Health Funds* finding the managing director personally liable for losses to plaintiffs (case overturned by House of Lords, Mirchandani, 1998), and individuals being found criminally liable for gross negligence manslaughter. "Personal liability of directors is, some would say, increasingly being used to obtain social accountability" (Fletcher *et al.*, 2003, p. 135). Sikka (2007) suggests making all company directors personally liable for knowingly publishing misleading financial statements.

In the UK, under the revised Turnbull Guidance (2005), directors have to confirm they have acted to remedy significant failings in internal control. In addition, the new UK Companies Act (2006) has replaced many of the existing common law rules with a codification of directors' duties. In the USA, there is a still stronger enforcement climate. The company's chief executive officer (CEO) and chief finance officer are required to sign two certifications (Sections 302 and 906 of the Sarbanes-Oxley Act). Inter alia, they certify that they have designed internal controls over financial reporting which provide effective assurance (Ramos, 2004). Furthermore, a process of subcertification occurs where individuals lower down the organisation also provide written affidavits. Finally, under the New York Stock Exchange (NYSE) standards CEOs must certify to the NYSE annually that they are unaware of any violation of the NYSE corporate governance listing standards (Green, 2004). This return to a more comply or else control environment is reminiscent of the direct personal accountability found 900 years ago in medieval England. It recognises the obvious truth that businesses are in the end run by people not by systems. If there is to be effective governance and effective internal controls then individuals need to be returned to the centre stage. In a sense, therefore, there is a renewed realisation that despite all the sophisticated controls and technology modern management has at its disposal effective corporate governance is still, at heart, about personal responsibility.

Notes

1. In the current era, there have been a raft of UK proposals on corporate governance (The Cadbury Code, 1992; Going Concern Working Group, 1994; Rutteman Report, 1994; Hampel Report, 1998; *The Combined Code*, 1998; The Turnbull Report, 1999, 2005). A key aspect of these reports has been the importance of internal control. Of particular importance are The Rutteman Report (1994) on *Internal Control and Financial Reporting* and The Turnbull Reports (1999, 2005) on *Internal Control*.
2. These are supplemented by audit documentation relating to internal control in a "big four" UK accounting firm. This was kindly provided by a partner to the author in September 2006 with the explicit condition that nothing was to be attributed directly to the firm.
3. Significant risks will depend upon the entity, but may "include those related to market, credit, liquidity, technological, legal, health, safety and environmental, reputation, and business probity issues" (Rutteman Report, 1994, p. 13).
4. The manorial economy is traceable to the late Roman agrarian economy (Sarris, 2004).
5. Moneyers were effectively those who ran local mints throughout the country that made silver coins.
6. The concepts of profit and efficiency in medieval times were different to that of today. Profit is best seen as the surplus of revenues due over amounts paid, with little appreciation of the notion of depreciation or return on capital. Meanwhile, efficiency perhaps resembles improvement; generally operationalised through a comprehensive set of expected performance indicators. This passive notion of efficiency perhaps contrasts with the more active modern notion of maximising outputs from inputs.
7. The medieval audit was less sophisticated and based around the classical idea of to hear (audire) the account. It was premised upon the physical presence of an official who rendered on account orally in front of witnesses.
8. The treasury was basically still at heart where money was stored, paid and received. It had yet to develop into the more sophisticated modern treasury with much wider connotations.

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Corresponding author
Michael John Jones can be contacted at: JonesM12@cf.ac.uk