

Pietro A. Bianchi Fedrigoni

The Italian Collegio Sindacale

Theory and Practice of Joint Audit
in a Civil Law Setting

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Several colleagues have reviewed the book and offered valuable comments and suggestions.

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*To Silvia and Sandro,
for their unconditional support—always.*

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PREFACE

by Miguel Minutti-Meza¹

Under Italian corporate law, the *Collegio Sindacale* (Board of Statutory Auditors) is a mandatory corporate governance body responsible for ensuring compliance with applicable laws, company bylaws, and principles of sound administration. It oversees internal controls, financial reporting, and the external audit process. Recent regulatory developments also require statutory auditors to incorporate sustainability reporting into their oversight to ensure alignment with European and Italian standards.

The *Collegio Sindacale* typically consists of three independent members with expertise in accounting, finance, and law, usually drawn from outside the company and often from professional accounting firms. An accountant's professional training and audit experience provide the independence, qualifications, and expertise necessary for the *Collegio Sindacale* to effectively safeguard the interests of the company and its stakeholders.

The *Collegio Sindacale* shares key functions with several corporate governance mechanisms used in other jurisdictions, including audit committees, external auditors, and joint external audits. Unlike these bodies, however, its members may also provide advice on accounting, tax, and legal matters and are responsible for signing the corporate tax return. This combination of oversight and advisory responsibilities makes the Italian model distinctive within corporate governance systems. As explained by Professor Bianchi Fedrigoni, the *Collegio Sindacale* "should be analyzed as a distinct governance institution, whose effectiveness depends on the interaction between legal design, professional incentives, organizational embeddedness, and institutional context."

This monograph offers a clear and authoritative examination of the Italian *Collegio Sindacale*. Professor Bianchi Fedrigoni's combination of professional

¹ Professor and Department Chair, University of Miami (Florida).

experience and published research in leading accounting journals positions him exceptionally well to address this topic. His published work has documented how collaboration among *Collegio Sindacale* members affects external audit quality, audit fees, and corporate tax outcomes. Furthermore, his research emphasizes the benefits of professional networks that result from joint appointments of *Collegio Sindacale* members across companies.

The monograph opens with a focused analysis of the joint external audit system, used in Denmark, Finland, France, Italy, Sweden, Taiwan, and other jurisdictions, which entails the joint appointment of two or more statutory auditors to give an opinion on a company's financial statements. Next, the monograph discusses statutory auditing in Italy and the functions of the *Collegio Sindacale*, offering a clear evaluation of its principal strengths and weaknesses.

I enjoyed reading this monograph and appreciate its treatment of the *Collegio Sindacale*'s historical and legal foundations, relevant academic research, comparisons with other governance mechanisms, and recommended practices. The comprehensive discussion makes this text a valuable resource for both Italian and international practitioners and academics.

INTRODUCTION

Corporate governance systems are built around a deceptively simple question: who monitors those who manage the firm? Despite decades of regulatory reforms, professional standard-setting, and academic research, this question remains unsettled. Corporate scandals, audit failures, and financial crises continue to reveal structural weaknesses in monitoring arrangements, even in jurisdictions with sophisticated legal frameworks and highly developed professional infrastructures. At the core of these failures lies a persistent tension between formal control mechanisms and their effective operation in practice. Legal mandates, professional standards, and organizational charts may suggest robust systems of oversight, yet the actual behavior of monitoring actors often diverges from these expectations, with significant consequences for firms, stakeholders, and markets. Auditing has traditionally been conceived as the cornerstone of corporate control. By providing assurance on financial statements, auditors are expected to reduce information asymmetry, discipline managerial behavior, and protect investors and creditors. Over time, this role has been progressively expanded and refined through international standards, enhanced independence requirements, and greater transparency in audit reporting. Nevertheless, the limitations of auditing as a standalone mechanism have become increasingly evident. High levels of market concentration, economic dependence on clients, routinization of procedures, and the episodic nature of audit engagements all constrain the auditor's capacity to function as an effective monitor. These concerns have motivated regulators and scholars to explore alternative or complementary arrangements, including joint audits, audit committees, strengthened internal control systems, and broader conceptions of governance oversight.

Within this international debate, the Italian *Collegio Sindacale* (*Board of Statutory Auditors*) occupies a singular position. Frequently portrayed as an idiosyncratic or even anachronistic institution rooted in a civil-law tradition, the *Collegio Sindacale* has persisted through successive political, economic, and reg-

ulatory transformations since the late nineteenth century. Its longevity raises the question of whether it reflects genuine functional effectiveness or institutional inertia — a question this monograph sets out to examine rather than assume. At the same time, the scale of its institutional ambitions is itself puzzling: few jurisdictions have institutionalized collegial oversight with comparable continuity, legal authority, and professional qualification requirements. Whether that ambition translates into monitoring effectiveness, or whether it generates additional layers of complexity and accountability diffusion, is precisely the analytical problem at the center of this inquiry.

This monograph advances the view that the *Collegio Sindacale* cannot be adequately understood either as a mere substitute for external auditing or as a functional equivalent of joint audits or audit committees. Rather, it should be analyzed as a distinct governance institution, whose effectiveness depends on the interaction between legal design, professional incentives, organizational embeddedness, and institutional context. Approaching the *Collegio Sindacale* in this way requires moving beyond doctrinal exposition and embracing a multidisciplinary perspective that combines legal analysis, auditing theory, empirical evidence, and practitioner insight. Only through such an integrated approach is it possible to assess whether collegial monitoring constitutes a genuine alternative to prevailing audit-based models or whether it reproduces, in different form, the same vulnerabilities observed elsewhere.

The relevance of the *Collegio Sindacale* has increased rather than diminished in recent decades. Italian corporate law, professional standards, and judicial interpretation have profoundly reshaped the role of statutory auditors. Once primarily conceived as guardians of formal legality, members of the *Collegio Sindacale* are now entrusted with continuous oversight of organizational adequacy, internal control systems, risk management, and, increasingly, corporate sustainability and crisis prevention. This evolution reflects a broader reorientation of corporate control away from purely ex post verification toward preventive and process-oriented supervision. Recent legislative reforms have explicitly linked managerial responsibility to the adequacy of organizational and administrative structures, thereby expanding the scope of supervisory duties.¹ At the same time, the adoption of international auditing standards (ISA Italia), the development of detailed professional guidance by the Consiglio Nazionale dei Dottori Commercialisti ed Esperti Contabili (CNDCEC), and an increasingly demand-

¹ The key legislative reform referenced here is the strengthening of Article 2086 of the Italian Civil Code, which explicitly links managerial responsibility to the adequacy of organizational, administrative, and accounting structures.

ing body of case law have raised expectations regarding the diligence, initiative, and documentation required of statutory auditors. As a result, the *Collegio Sindacale* now operates at the intersection of multiple control logics. It is simultaneously an internal governance body, a professional organ subject to ethical and technical standards, and a potential gatekeeper whose omissions may give rise to significant civil liability. This hybrid nature makes it both powerful and exposed, rendering it an ideal lens through which to examine broader questions about the design and functioning of corporate oversight institutions in contemporary economies.

The international literature on joint audits provides a natural starting point for this inquiry. Joint audits have been repeatedly proposed as a remedy to perceived shortcomings of the single-auditor model, particularly with respect to independence, audit quality, and market concentration. By requiring two or more auditors to jointly perform the audit and issue a single opinion, joint audit regimes seek to introduce mutual monitoring, reduce economic dependence, and foster competition. Yet decades of empirical research yield a mixed and often contradictory picture. Mandatory joint audits are associated with higher audit fees without consistent evidence of superior audit quality. Voluntary joint audits may function as quality signals, but their benefits are difficult to disentangle from self-selection. Behavioral and game-theoretic studies further suggest that collegial arrangements may exacerbate free-riding and diffuse accountability rather than enhance professional skepticism.

These findings are central to the present analysis for two reasons. First, they demonstrate that collegiality is not a cure-all: adding more monitors does not automatically improve outcomes. Second, they provide a conceptual benchmark against which the *Collegio Sindacale* can be evaluated. While the Italian system shares certain surface similarities with joint audits, it differs fundamentally in its institutional embedding, continuity, and incentive structure. Treating it as a variant of joint auditing therefore risks misunderstanding both its potential and its limits. Instead, this monograph frames the *Collegio Sindacale* as a case of institutionalized collegial governance, whose effectiveness depends on factors extending beyond the audit engagement itself. Against this background, the monograph makes several contributions. It offers the most comprehensive and integrated analysis of the *Collegio Sindacale* currently available, combining historical, legal, theoretical, and empirical perspectives into a unified framework. It bridges the gap between auditing research and corporate governance theory, showing how monitoring outcomes are shaped by the interaction between audit arrangements, governance processes, and institutional context. It provides original empirical evidence on the consequences of different control models

in Italian private firms, building on prior work in this literature to compare the *Collegio Sindacale*, individual auditors, and audit firms with respect to audit quality and tax avoidance, while explicitly accounting for geographic and social heterogeneity across Italy. Finally, it speaks directly to practitioners, treating statutory auditors not as abstract agents but as professionals operating under real constraints, including limited information, organizational complexity, conflicting expectations, and growing liability exposure.

Methodologically, the monograph adopts a pluralistic approach. Legal analysis is combined with economic theory, empirical research, and professional guidance. Sources include statutory provisions, professional standards, judicial decisions, academic literature, and original empirical data. Throughout the analysis, particular attention is paid to institutional context and incentive structures. Rather than advancing universal prescriptions, the discussion emphasizes conditional relationships and mechanisms through which different control arrangements shape monitoring outcomes. This approach reflects both methodological rigor and respect for the complexity of real-world governance, especially in environments where formal rules interact with professional judgment and informal enforcement.

Part I examines the international literature on joint audits to establish the conceptual and institutional foundations of the monograph, situating the *Collegio Sindacale* against international joint audit regimes and distilling the mechanisms — knowledge synergies, accountability diffusion, familiarity risk, and institutional embeddedness — that the subsequent parts operationalize and test. Part II shifts to the practice of statutory oversight in Italy, examining how the *Collegio Sindacale* exercises its expanding supervisory mandate across organizational oversight; the management of combined audit and governance roles; emerging challenges posed by artificial intelligence, civil liability, and interaction with other governance bodies; and operational best practices. Part III provides the monograph's empirical contribution, comparing the *Collegio Sindacale*, the individual auditor, and the audit firm using large-scale cross-sectional data on Italian private firms, with explicit attention to geographic heterogeneity across Northern, Central, and Southern Italy.

Each part of the monograph addresses a primary audience while remaining accessible to the others. Part I is directed principally at scholars of auditing and corporate governance and assumes familiarity with the empirical literature on joint audits. Part II is oriented toward practitioners and legal professionals engaged with the day-to-day operation of Italian statutory oversight and can be read independently of Part I. Part III is designed for empirical researchers and evidence-oriented policymakers seeking quantitative assessment of monitoring

outcomes across control models. Readers with a primary interest in only one of these perspectives will find the relevant part self-contained; those seeking the integrated argument should read all three in sequence.

Throughout the monograph, a consistent effort is made to connect analytical insight with practical relevance. The objective is not to present the *Collegio Sindacale* as an idealized solution, nor to dismiss it as an outdated institution, but to offer a realistic and nuanced appraisal of its role in contemporary corporate governance. By doing so, the book invites scholars, practitioners, and policy-makers alike to reconsider familiar categories. Auditing is not merely a technical exercise, governance is not merely a legal framework, and control is not merely a matter of formal compliance. The *Collegio Sindacale*, with all its strengths and vulnerabilities, illustrates how these dimensions intersect. Understanding it is therefore not only an Italian concern, but a contribution to the broader conversation on how firms can be effectively monitored in complex and evolving institutional environments.

PART I
INTERNATIONAL EVIDENCE
ON JOINT AUDITS
AND COLLEGIAL MONITORING

1 INTERNATIONAL EVIDENCE ON JOINT AUDITS

1.1 Joint Audits: Definition, Conceptual Boundaries, and Regulatory Archetypes

The international debate on joint audits has gained renewed momentum over the last two decades, largely in response to concerns about audit quality, auditor independence, and the growing concentration of the audit market (European Commission 2010; Francis, Richard, and Vanstraelen 2009). However, despite the apparent simplicity of the idea of ‘having more than one auditor,’ the concept of the ‘joint audit’ remains surprisingly heterogeneous across jurisdictions and across strands of the academic literature. A precise definition is therefore a necessary starting point for any meaningful synthesis of empirical findings. Without a clear delineation of what constitutes a joint audit — and what does not — comparative analyses risk conflating fundamentally different institutional arrangements, thereby obscuring both theoretical mechanisms and empirical results (Ratzinger-Sakel, Audoussert-Coulier, Kettunen, and Lesage 2013).

In its strictest and most widely accepted sense, a joint audit is defined by three cumulative characteristics. First, two or more independent auditors are formally appointed to audit the same set of financial statements. Second, the auditors issue a single audit report, jointly signed, expressing one unified audit opinion — implying a collective rather than parallel process (Ratzinger-Sakel et al. 2013). Third, and most importantly from an economic and legal perspective, the auditors bear joint and several liability for the audit opinion expressed, aligning incentives by making each auditor fully accountable for the entire audit regardless of internal work allocation (Deng, Lu, Simunic, and Ye 2014; Audoussert-Coulier 2015). This strict definition differentiates the joint audit from alternative multi-auditor arrangements — notably the dual audit, where sepa-

rate reports are issued and liability is not shared, and the shared audit, where a principal auditor delegates components to a secondary firm while retaining sole liability — arrangements whose incentive structures and empirical effects cannot be extrapolated to genuine joint audit regimes (Ratzinger-Sakel et al. 2013; Holm and Thinggaard 2016).

The international landscape of joint audits is best described as a continuum of regulatory archetypes shaped by legal traditions, market structures, and policy objectives (Francis et al. 2009; Piot 2007). France is the paradigmatic case of a long-standing mandatory regime, where joint appointment, joint reporting, and joint liability have been required for decades, making it the primary laboratory for academic research but also limiting within-country causal inference due to the absence of a single-audit benchmark (André, Broye, Pong, and Schatt 2016). Denmark represents the archetypal deregulation case: mandatory joint audits for listed companies were abolished in 2005, creating a quasi-natural experiment on fee dynamics and auditor choice (Holm and Thinggaard 2014). Sweden illustrates voluntary adoption, where joint audits function as a signaling mechanism whose benefits are intertwined with self-selection effects (Zerni, Haapamäki, Järvinen, and Niemi 2012). Emerging markets and sector-specific regimes add further variation, with some countries applying joint or dual audit requirements only to banking or insurance, where systemic risk concerns are most salient (Al-Salhi and Al-Tai 2024). From the perspective of this monograph, establishing these conceptual boundaries matters because it sets the stage for a meaningful comparison between international joint audit regimes and the Italian *Collegio Sindacale* — an institution that shares several structural features of joint audits (collegiality, collective responsibility, a monitoring role embedded within corporate governance) while differing fundamentally in design, continuity, and incentive structure (Cameran and Prencipe 2011; Jones and Melis 2020).

The remainder of this chapter examines the economic mechanisms and empirical consequences associated with joint audit regimes. Section 1.2 introduces the main theoretical rationales underpinning joint audits and frames them as conditional rather than universal benefits. Section 1.3 reviews the empirical evidence on audit fees and cost structures. Section 1.4 turns to audit quality. Section 1.5 complements this evidence with behavioral and game-theoretic perspectives. Section 1.6 examines timeliness and coordination costs. Section 1.7 analyzes implications for audit market concentration and competition. Section 1.8 reviews the capital market consequences of joint audits. Section 1.9 synthesizes the international evidence and derives its implications for the Italian *Collegio Sindacale*.

1.2 Economic Rationales for Joint Audits: Independence, Expertise, and Market Structure

Joint audits have been justified as a governance mechanism to address three interrelated concerns: auditor independence, the effective deployment of professional expertise, and audit market structure. Each rationale is theoretically coherent but empirically conditional — its effectiveness depends on institutional design and contextual factors that are often absent in practice (European Commission 2010; Ali Hassan, Tóth, and Borbély 2026).

The foundational rationale is the “four eyes” principle: two auditors jointly responsible for the opinion introduce an additional layer of peer discipline and professional skepticism beyond what a single auditor can provide (Audouset-Coulier 2015). Critically, this mechanism relies on horizontal accountability between independent firms — each with its own reputation, client portfolio, and litigation exposure — rather than on hierarchical review within a single firm (Piot 2007). Independence gains are reinforced by joint liability, which makes each auditor accountable for the entire opinion regardless of work allocation (Deng et al. 2014). However, independence gains are not automatic: when one auditor dominates the engagement due to size or reputation, the smaller auditor may be reluctant to challenge the dominant partner, weakening the intended effect (Holm and Thinggaard 2014). Balanced joint audits — where work and power are shared roughly equally — deliver independence benefits more reliably than hierarchical ones.

The expertise rationale holds that auditor pair composition can generate complementarities. Mixed pairs of Big 4 and non-Big 4 accountants may produce a “check-and-balance” effect, with the smaller auditor more willing to challenge aggressive accounting choices while the larger contributes technical rigor (Lobo, Paugam, Zhang, and Casta 2017). Game-theoretic models refine this intuition: when auditors have similar capabilities and client fit, synergies can arise; when they are dissimilar, free-riding may dominate unless work allocation is carefully designed (Biehl, Bleibtreu, and Stefani 2021). The expertise rationale is thus conditional on auditor heterogeneity being neither too great nor too small.

The market-structure rationale — that joint audits reduce concentration by ensuring mid-tier participation in large engagements — finds support in the French experience, where non-Big 4 firms have maintained a presence in the audit of listed companies that would otherwise be foreclosed (Piot 2007; Kermiche and Piot 2016). Yet concentration has not been eliminated; joint audits mitigate rather than resolve concentration pressures. Critics note that stable pairings may reduce competitive pressure over time, and that if joint audits increase costs

without commensurate quality gains, they may discourage auditor switching and reinforce market inertia (André et al. 2016). For the Italian *Collegio Sindacale*, all three rationales are relevant but require significant reinterpretation. Like joint audits, the *Collegio* is grounded in collegiality and collective responsibility, but it combines elements of ex ante governance oversight and ex post control, blurring the boundary between auditing and internal monitoring. Its compensation is determined ex ante by shareholders rather than by market-based pricing, removing the fee-competition dynamics central to all three rationales (Melis and Rombi 2018). Understanding the rationales of joint audits — and their limits — thus provides a critical benchmark for assessing whether, and under what conditions, the Italian model may replicate or transcend the benefits traditionally attributed to joint auditing.

1.3 Audit Fees and Cost Structures under Joint Audits

The cost implications of joint audits are theoretically ambiguous and empirically context-dependent. While the presence of two auditors introduces coordination costs and potential duplication of effort, competition, specialization, and mutual monitoring may generate efficiency gains that offset these costs. The net outcome depends on auditor pair composition, work allocation, and the competitive structure of the market — not on the mere presence of two auditors (Deng et al. 2014; Thinggaard and Kiertzner 2008).

In mandatory regimes, the evidence is consistent but qualified. Cross-country comparisons show that French listed companies pay higher audit fees than comparable firms in single-audit jurisdictions such as the United Kingdom and Italy, even after controlling for size, complexity, and governance (André et al. 2016; Biswas, Lont, Mason, and McMeeking 2026). Critically, however, this premium is not accompanied by systematically higher earnings quality, raising questions about the efficiency of mandatory joint audits as a regulatory tool. Within France, audit pricing reflects strategic interactions rather than simple aggregation: Big 4-only pairs do not mechanically produce a higher premium than mixed pairs, and fee structures respond primarily to standard drivers of audit pricing — complexity, agency costs, and international exposure (Audouset-Coulier 2015; Piot 2007).

Deregulation evidence from Denmark reveals that joint audits need not be more expensive. Firms switching from joint to single audits experienced fee reductions, but this effect was concentrated among formerly unbalanced engagements dominated by one auditor; balanced joint audits produced no significant

fee reduction upon switching (Holm and Thinggaard 2014). Moreover, initial fee reductions after switching tend to dissipate over time, suggesting competitive repricing rather than sustained efficiency gains (Holm and Thinggaard 2016). Complementary evidence shows that de facto balanced joint audits can actually reduce fees relative to auditor-dominant configurations, reinforcing that internal work allocation is the decisive cost driver (Thinggaard and Kiertzner 2008).

For the Italian *Collegio Sindacale*, the audit fee literature provides two lessons. First, structural multiplicity does not guarantee cost efficiency — the institutional architecture governing remuneration, liability, and auditor interaction is what matters. Second, the cost trade-offs observed in joint audit markets cannot be directly transposed to the Italian context, where statutory auditor remuneration is set ex ante by shareholders rather than by market-based pricing (Melis and Rombi 2018). The *Collegio's* cost structure is therefore insulated from the competitive and coordination dynamics that dominate the joint audit literature, making direct fee comparisons less meaningful. What remains relevant is the conditional insight that collegial monitoring can be cost-viable when accountability is clear and effort is not diffused through free-riding.

1.4 Audit Quality under Joint Audits: Convergence, Divergence, and Identification Challenges

The evidence on whether joint audits deliver superior audit quality is mixed and context-dependent. Despite decades of research — particularly in mandatory regimes — the literature does not support the claim that joint audits systematically improve earnings quality relative to single-auditor arrangements. What it does reveal is a pattern of conditional effects: quality gains emerge in specific accounting domains, under certain auditor pair configurations, and in settings where audit structure interacts with governance and incentive alignment (Francis et al. 2009; André et al. 2016). Measurement presents the first challenge. Accrual-based proxies capture managerial reporting incentives as much as auditor effectiveness, making it difficult to isolate the causal impact of audit structure; and audit quality is not unidimensional, so improvements in one proxy (earnings conservatism) may coexist with deterioration in another (timeliness). These challenges help explain why the literature produces apparently conflicting results across settings.

In mandatory joint audit regimes, the French evidence is most instructive. Francis et al. (2009) find that firms audited by at least one Big 4 auditor exhibit lower income-increasing abnormal accruals than those audited solely by non-Big

4 firms, but that pairing two Big 4 auditors does not systematically outperform a mixed pair. André et al. (2016) document higher audit fees in France relative to single-audit jurisdictions without corresponding improvements in accrual-based quality measures, suggesting that the cost premium does not translate into measurable monitoring gains at the aggregate level. Yet granular analyses reveal heterogeneity: Lobo et al. (2017) show that Big 4 — non-Big 4 pairs are more likely to recognize goodwill impairment when economic indicators warrant it, and exhibit higher disclosure quality around impairment, supporting a “check-and-balance” hypothesis in judgment-intensive domains.

In voluntary regimes, a contrasting picture emerges. Zerni et al. (2012) find that Swedish firms voluntarily adopting joint audits exhibit higher earnings conservatism and lower abnormal accruals; Bisogno and De Luca (2016) document similar patterns among Italian Small Medium enterprises (SMEs). These positive findings, however, are inseparable from self-selection: firms that choose joint audits tend to have greater governance needs or face stronger investor scrutiny, so observed quality differences may reflect firm characteristics rather than the intrinsic effect of audit structure. The behavioral dimension further complicates the picture. Hoos, Pruijssers, and Lander (2019) find that auditors in joint settings may exhibit lower professional skepticism than those subject to internal review — shared accountability diffusing individual responsibility rather than reinforcing it. Repeated pairings compound this risk through familiarity and routinization (Piot 2007; Bianchi, Falsetta, Minutti-Meza, and Weisbrod 2019).

For the *Collegio Sindacale*, the audit quality literature offers a nuanced benchmark. Superficially collegial monitoring resembles a joint audit, but the *Collegio*'s continuous and governance-embedded role differs fundamentally from the episodic, assurance-focused engagement that characterizes joint audits (Cameran and Prencipe 2011; Jones and Melis 2020). Continuous engagement may mitigate some free-riding and accountability diffusion, but may also intensify familiarity risk. The central lesson is that audit quality under collegial arrangements depends less on formal structure than on incentive alignment, member heterogeneity, and the integration of monitoring within governance processes — themes developed in depth in Part II.

1.5 Behavioral and Game-Theoretic Perspectives on Joint Audits

Behavioral and game-theoretic research reframes the evaluation of joint audits: rather than asking whether two auditors are better than one, it asks how strategic interaction between auditors shapes effort, skepticism, and ultimately mon-

itoring quality. The answer depends on incentive structures, accountability perceptions, and coordination mechanisms — not on the number of auditors (Deng et al. 2014; Hoos et al. 2019).

The central game-theoretic insight is that joint audits fundamentally alter the incentive structure faced by each auditor. Deng et al. (2014) model the joint audit as a strategic game in which each auditor chooses their effort level while anticipating the other's. Joint audits may increase audit evidence precision through the aggregation of independent signals, but they may also induce free-riding when one auditor relies on the other's effort. Free-riding probability and severity depend on asymmetries in audit technology, liability exposure, and economic incentives: when a smaller firm has weaker incentives or lower expected losses from audit failure, it may rationally reduce effort, undermining aggregate quality. This explains why Big 4 — non-Big 4 pairs sometimes produce lower audit quality than expected despite the presence of an additional auditor (Francis et al. 2009). Biehl et al. (2021) refine this analysis by showing that when auditors have similar expertise and client fit, knowledge-sharing synergies can outweigh free-riding and coordination costs, yielding higher quality at lower cost. When auditors are dissimilar, free-riding dominates. The allocation of work is decisive in both cases.

Behavioral evidence introduces additional complexity. Hoos et al. (2019) find that shared accountability in joint settings may diffuse individual responsibility, reducing rather than enhancing professional skepticism. Accountability is shared horizontally between peers, which may encourage consensus while reducing the pressure on each individual auditor to adopt a critical stance. Repeated pairings compound this risk: Piot (2007) raises concerns that frequent collaborations lead to routinized interactions and reduced scrutiny as co-auditors become familiar with each other's methods. Network evidence reinforces the concern: Bianchi et al. (2019) show that professional networks formed through joint engagements can facilitate the diffusion not only of expertise but also of aggressive or opportunistic reporting practices across engagements, shaping auditors' norms in ways that persist over time.

These behavioral and game-theoretic mechanisms generate directly observable empirical predictions for the Italian private-firm setting examined in Chapter 11. If free-riding dominates within the *Collegio Sindacale's* collegial structure — members deferring to one another and diffusing individual accountability — we would expect firms monitored by a *Collegio* (BSA firms) to exhibit higher absolute abnormal accruals (ABSAAC) than firms monitored by a single auditor or audit firm, as collective inaction permits greater managerial discretion. Conversely, if peer-monitoring synergies dominate — members scrutinizing each

other's judgments and pooling technical knowledge — we would expect *BSA* firms to exhibit lower *ABSAAC*, reflecting tighter constraints on discretionary accruals. The same logic applies to tax-related outcomes: free-riding would be consistent with higher rates of tax restatements and greater book–tax misalignment in *BSA* firms, while peer-monitoring discipline would predict the opposite. These competing predictions precisely motivate the null hypotheses H0a and H0b formulated in Chapter 11, and explain why the empirical question of which mechanism dominates cannot be resolved by institutional analysis alone. The metrics used — abnormal accruals, tax restatements, and book–tax differences — are the same outcome variables that the joint audit literature has used to assess monitoring effectiveness in mandatory audit regimes (Francis et al. 2009; André et al. 2016), allowing the Italian evidence to speak directly to the international debate.

The *Collegio Sindacale* has two structural features that distinguish it from the joint audit settings in which these behavioral insights were developed. First, its oversight role is continuous and institutionalized rather than engagement-specific and episodic, embedding accountability within a broader governance framework that may mitigate some free-riding and diffusion-of-responsibility effects. Second, the *Collegio's* effectiveness depends on how individual members perceive their accountability, how heterogeneity among members is managed, and how conflicts are resolved within the collegial body (Cameran and Prencipe 2011; Jones and Melis 2020). Continuity may reduce acute free-riding, but may also intensify behavioral risks related to familiarity and normalization of deviance if not counterbalanced by rotation, external scrutiny, or clear enforcement.

1.6 Timeliness and Coordination Costs in Joint Audits

The impact of joint audits on reporting timeliness is theoretically ambiguous: multiple auditors may extend audit report lag through coordination and consensus-building costs, or may accelerate completion through workload division and specialization. Empirical evidence is similarly mixed, reflecting differences in institutional setting, audit organization, and the balance of work within the engagement (Ratzinger-Sakel et al. 2013; Thinggaard and Kiertzner 2008).

In emerging markets and regulated sectors, the coordination-cost hypothesis tends to dominate. Almarzouq, Alazemi, Alrefai, and Alawadhi (2025) find that joint audits are associated with longer audit report lags in Kuwait, attributing delays to additional time required for consensus-building in less standardized

environments. Similar concerns arise in dual or hybrid audit regimes where multiple auditors operate with limited integration, generating organizational inefficiencies and unclear allocation of responsibilities (Alanezi, Al-Fraih, and Al-Mujamed 2012). However, the same study finds that, under specific regulatory conditions, joint audits are associated with shorter lags, as the presence of two auditors increases pressure to meet reporting deadlines and reduces the likelihood of unilateral procrastination. This seemingly contradictory result underscores that contextual factors — regulatory oversight, auditor experience, and standardization of procedures — are decisive.

Insights from the Danish experience reinforce this conditionality. Balanced joint audits — where work and responsibility are distributed roughly equally — are better positioned to harness efficiency gains, while unbalanced engagements dominated by one auditor tend to generate delays as disagreements or information gaps surface late in the process (Holm and Thinggaard 2014). Timeliness is thus an outcome of the same strategic and behavioral forces that govern fees and quality: game-theoretic models suggest delays arise when auditors strategically postpone decisions in anticipation of disagreements, while behavioral evidence shows that shared accountability reduces the urgency to resolve issues promptly (Deng et al. 2014; Hoos et al. 2019).

For the *Collegio Sindacale*, two structural features differentiate it from the joint audit settings examined above. Its continuous oversight role allows issues to be identified and addressed throughout the year rather than concentrated at the reporting stage, potentially reducing last-minute coordination problems (Cameran and Prencipe 2011). Its integration within corporate governance structures may facilitate earlier intervention. At the same time, the joint audit literature cautions that collegiality and continuity do not automatically ensure timeliness: without clear procedures, defined roles, and effective leadership within the collegial body, coordination costs may accumulate, slowing decision-making. Timeliness is not merely a technical outcome but a reflection of how collective responsibility is managed in practice — a theme developed further in Part II.

1.7 Joint Audits, Market Structure, and Competition

Joint audits have been promoted as a regulatory instrument to counteract concentration in the market for statutory audits — a market dominated by the Big 4 following the collapse of Arthur Andersen and subsequent consolidation. The rationale operates on two levels: reducing barriers to entry for mid-tier firms by embedding competition within the engagement itself, and mitigating

systemic risk by preventing total reliance on a small number of global networks (European Commission 2010; Kermiche and Piot 2016). The evidence from France provides cautious support, but the conclusions are more qualified than proponents typically acknowledge (Audoussert-Coulier, Broye, Kermiche, and Piot 2025).

Mandatory joint audits have preserved a competitive fringe in France. Kermiche and Piot (2016) show that mixed auditor pairs — typically a Big 4 firm alongside a national or mid-tier network — are stable and prevalent, and that companies do not systematically gravitate toward Big 4-only combinations, indicating that the regime does not simply replicate concentration within the engagement. Non-Big 4 firms have maintained a presence in the audit of large, listed companies that would otherwise be foreclosed by reputational and scale requirements (Piot 2007). However, the market remains oligopolistic: joint audits mitigate, rather than eliminate, concentration pressures. The Big 4 continue to dominate in fee share and client prestige, and broader trends toward concentration driven by global mergers and reputational dynamics operate independently of joint audit requirements.

Auditor switching evidence reveals a further limitation. Joint audit pairings exhibit path dependence — stable configurations that may reduce competitive pressure over time through routinization (Piot 2007). Kermiche and Piot (2016) show that switches in France occur within a narrow set of feasible combinations, reflecting both regulatory constraints and entrenched market norms. The Danish deregulation illustrates that competitive conditions may improve temporarily following the removal of joint audit requirements, as firms renegotiate fees, but that markets converge toward new equilibria driven by underlying concentration forces rather than audit structure (Holm and Thinggaard 2014). Critics further argue that if joint audits impose higher costs without commensurate quality gains, they may reduce switching incentives and reinforce inertia rather than foster genuine competition (André et al. 2016).

For the *Collegio Sindacale*, the market-structure literature offers a complementary rather than directly comparable perspective. The *Collegio* is not an external assurance arrangement competing within the audit market but an internal governance body embedded within the firm. It can be understood as a structural complement to audit market dynamics — providing collegial monitoring independent from management and external auditors — rather than as a substitute for market-based competition (Cameran and Prencipe 2011; Jones and Melis 2020). The critical warning from the market-structure literature is that collegial oversight bodies are not immune to path dependence and familiarity: just as repeated joint audit pairings may erode competitive scrutiny, long-serving *Collegio*

members may develop relationships with management that weaken monitoring effectiveness. Rotation, transparency, and enforcement play a role for the *Collegio* analogous to competition in the audit market.

1.8 Capital Market Consequences of Joint Audits

If joint audits genuinely reduce information asymmetry between firms and external capital providers, they should produce measurable consequences in credit and equity markets. The empirical evidence supports this prediction selectively: capital market benefits are most evident in environments characterized by higher information asymmetry and weaker baseline governance, and are more muted in developed markets with strong investor protection and disclosure requirements.

In credit markets, Al-Hadi, Habib, Al-Yahyaee, and Eulaiwi (2017) find that joint audits are associated with a lower cost of debt among firms from the Gulf Cooperation Council (GCC), particularly those with higher political connections — settings where creditor reliance on audit credibility is greatest and alternative governance mechanisms are weakest. Al-Salhi and Al-Tai (2024) document a lower incidence of financial distress and default among jointly audited banks in Iraq. Both findings are consistent with joint audits functioning as a substitute governance mechanism: they generate credibility and oversight intensity precisely where baseline enforcement is limited, rather than reinforcing already robust governance arrangements. In equity markets, the pattern is broadly similar, but evidence from developed markets is negligible. Zhang, Wong, Lo, and Tian (2021) show that a mandatory dual audit regime in China is associated with lower cost of equity relative to the subsequent voluntary regime, with stronger effects for firms facing higher agency costs — consistent with mandatory audit structure serving as an *ex ante* commitment device that reassures investors. Studies from France, by contrast, find little consistent evidence of market-level reactions to joint audit features (Bédard, Gonthier-Besacier, and Schatt 2018), suggesting that where baseline disclosure is already high, the incremental informational value of collegial auditing is limited.

For the *Collegio Sindacale*, the capital market literature provides two relevant insights. First, the substitutive logic — monitoring value is highest where baseline enforcement is weakest — suggests that the *Collegio's* monitoring benefits may be most observable among smaller, private, and less transparent firms, precisely the setting studied in Chapter 11. Second, the distinction between mandatory and voluntary arrangements matters: the *Collegio's* mandate is statutory

rather than chosen, lending it a commitment-device quality similar to mandatory joint audit regimes. At the same time, unlike joint audit firms that compete in capital markets, the *Collegio* operates within a private-firm environment where capital market signals are limited, meaning its effects are more likely to be observable through internal governance outcomes — accrual discipline, tax reporting alignment — than through cost of capital.

1.9 Synthesis and Implications for the Italian Collegio Sindacale

The literature reviewed in this chapter converges on a set of robust lessons that transcend the heterogeneity of settings and methods. Four stand out as most important for understanding any form of collegial monitoring. First, collegiality without accountability and clarity diffuses responsibility. Game-theoretic models and behavioral experiments consistently show that shared accountability in collegial audit settings can erode individual professional skepticism and create conditions for free-riding (Deng et al. 2014; Hoos et al. 2019). The mere presence of multiple monitors does not mechanically improve outcomes; what matters is whether each participant perceives itself as the decisive, accountable actor in any given judgment.

Second, mandatory and voluntary regimes generate qualitatively different effects. In mandatory settings, joint audits can operate as credible commitment devices — firms cannot exit, so the audit structure functions as an *ex ante* governance guarantee (Zhang et al. 2021). In voluntary settings, the signaling value of joint audits is real but entangled with self-selection: firms that choose collegial monitoring tend to have greater governance needs, so observed quality differences may reflect firm characteristics as much as audit structure (Zerni et al. 2012). Distinguishing these two channels is essential for interpretation.

Third, institutional embeddedness trades off independence for familiarity. Repeated auditor pairings and close engagement with client management generate expertise and coordination efficiency, but they also create routinization, reduced skepticism, and potential capture over time (Piot 2007; Bianchi et al. 2019). This trade-off is structural, not incidental, and is most acute in settings characterized by long tenures and weak rotation requirements.

Fourth, cost and quality benefits from joint audits are conditional on auditor heterogeneity and balanced work allocation. Synergies arise when auditors are sufficiently similar in expertise and client fit; free-riding dominates when they are excessively dissimilar or when one auditor monopolizes the engagement

(Biehl et al. 2021; Holm and Thinggaard 2014). Neither structural multiplicity nor formal collegiality alone guarantees effectiveness.

Mapping these lessons onto the *Collegio Sindacale* requires care, because the Italian institution differs from joint audits in several fundamental respects that alter the relevance of each lesson. The first lesson — accountability diffusion — applies directly: the *Collegio*'s collective decision-making creates the same structural risk of responsibility diffusion identified in joint audit settings, and the empirical evidence in Chapter 11 is specifically designed to test whether free-riding or peer-monitoring dominates. The second lesson — mandatory versus voluntary effects — applies partially: the *Collegio*'s mandate is statutory and non-optional for firms above the relevant legal thresholds, so it shares the commitment-device quality of mandatory joint audit regimes, but it is not subject to the same endogenous auditor choice dynamics that create self-selection concerns in voluntary settings. The third lesson — embeddedness and familiarity — applies with particular force, because the *Collegio*'s continuous proximity to management and governance processes creates a much stronger familiarity risk than the episodic engagement of external auditors. Whether institutional embeddedness enhances monitoring through privileged access to information, or undermines it through capture and normalization of deviance, is a central empirical question. The fourth lesson — heterogeneity and balanced allocation — does not apply directly, because the *Collegio*'s compensation and liability structures are statutory rather than market-determined, and its internal work organization differs fundamentally from the auditor-pair dynamics studied in the joint audit literature.

The gaps in the joint audit literature that the Italian case is best positioned to fill are equally specific. Existing research on mandatory joint audits is concentrated in listed-firm settings in France and Denmark, where capital market discipline shapes both auditor incentives and firm reporting behavior. The Italian private-firm context — characterized by stronger tax–book alignment, weaker market discipline, and greater reliance on relational governance — offers a qualitatively different laboratory for testing whether collegial monitoring benefits persist in the absence of capital market pressure. No prior study has directly compared all three Italian control models simultaneously (the *Collegio Sindacale*, the individual auditor, and the audit firm) in a large-scale unified sample with explicit geographic heterogeneity. Chapter 11 addresses this gap by using abnormal accruals, tax-related restatements, effective tax rates, and book–tax differences as outcome variables — the same metrics used in the joint audit literature to assess monitoring effectiveness (Francis et al. 2009; André et al. 2016) — applied to a cross-sectional sample of 38,103 Italian private firms. This par-

allel design allows the Italian evidence to enter directly into conversation with the international literature and to test, in a new institutional context, whether the conditional benefits of collegial monitoring identified in joint audit settings extend to a continuous, governance-embedded form of collective oversight.

Chapter 2 builds directly on this synthesis by shifting the focus from international audit regimes to the Italian institutional setting. It examines how the *Collegio Sindacale* operates in practice, how its functions and responsibilities have evolved, and whether it can be understood as a distinctive and potentially more integrated model of collective monitoring within corporate governance.

Table 1.1 Relevant Papers Cited in Chapter 1

Authors	Journal / Source	Year	Setting / Regime	Outcome Variables
			Audit Fees and Cost Structure	
André, Broye, Pong, and Schatt	European Accounting Review	2016	France vs. UK and Italy (mandatory)	<i>Audit fees; abnormal accruals</i>
Audoussert-Coullier	European Accounting Review	2015	France (mandatory)	<i>Audit fees; auditor pair composition</i>
Biswas, Lort, Mason, McMeeking, and Pomare	Journal of Accounting and Public Policy	2026	Cross-country	<i>Audit fees; GCO</i>
Holm and Thinggaard	Managerial Auditing Journal	2014	Denmark (mandatory → voluntary)	<i>Audit fees; auditor dominance; independence; timeliness</i>
Holm and Thinggaard	International Journal of Auditing	2016	Denmark (mandatory → voluntary)	<i>Audit fees; auditor switching</i>
Piot	Managerial Auditing Journal	2007	France (mandatory)	<i>Audit fees; auditor switching; market concentration</i>
Thinggaard and Kiertzner	International Journal of Auditing	2008	Denmark (mandatory)	<i>Audit fees; work balance within engagement</i>
			Audit Quality	
Biehl, Bleibtreu, and Stefani	European Accounting Review	2021	Game-theoretic model	<i>Audit quality; free-riding; knowledge-sharing synergies; cost efficiency</i>
Deng, Lu, Simunic, and Ye	Journal of Accounting Research	2014	Game-theoretic model	<i>Audit effort; free-riding; joint liability; evidence precision</i>
Francis, Richard, and Vanstraelen	Auditing: A Journal of Practice & Theory	2009	France (mandatory)	<i>Abnormal accruals; auditor pair composition</i>
Hoos, Pruijssers, and Lander	Journal of Business Ethics	2019	Experimental	<i>Professional skepticism; shared accountability</i>
Ittonen and Trønnes	Auditing: A Journal of Practice & Theory	2015	Finland (joint audit engagement partners)	<i>Benefits and costs of joint audit partner appointment; engagement-level dynamics</i>
Lobo, Paugam, Zhang, and Casta	Contemporary Accounting Research	2017	France (mandatory)	<i>Goodwill impairment recognition; disclosure quality</i>
Zerni, Haapamäki, Järvinen, and Niemi	European Accounting Review	2012	Sweden (voluntary)	<i>Earnings conservatism; abnormal accruals</i>

Table 1.1 Continued

Authors	Journal / Source	Year	Setting / Regime	Outcome Variables
Audit Report Timeliness				
Alanezi, Al-Fraih, and Al-Mujamed	Journal of Economic and Administrative Sciences	2012	GCC / dual audit regimes	<i>Audit report lag; organizational inefficiencies</i>
Almarzouq, Alazemi, Alrefai, and Alawadhi	Asian Journal of Accounting Research	2025	Kuwait (mandatory)	<i>Audit report lag; timeliness</i>
Capital Market Consequences				
Al-Hadi, Habib, Al-Yahyaee, and Eulawi	International journal of auditing	2017	GCC (mandatory/voluntary)	<i>Cost of debt; creditor reliance</i>
Al-Salhi and Al-Tai	Journal of Economics and Administrative Sciences	2024	Iraq — banking sector (mandatory)	<i>Financial distress; default risk</i>
Audusset-Coulier, Broye, Kermiche, and Piot	Accounting in Europe	2025	France (mandatory)	<i>Imbalance</i>
Bédard, Gonthier-Besacrier, and Schatt	Auditing: A Journal of Practice & Theory	2018	France (mandatory)	<i>Market reaction to audit features; disclosure quality</i>
Zhang, Wong, Lo, and Tian	Accounting and Business Research	2021	China (mandatory dual audit → voluntary)	<i>Cost of equity; agency costs</i>

2 THE ITALIAN EXPERIENCE OF THE *COLLEGIO SINDACALE*

2.1 From Joint Audits to Collegial Governance: Why the Italian Case Matters

The international evidence reviewed in Chapter 1 shows that joint audits are best understood not as a universally superior audit technology, but as a contingent governance mechanism whose effects depend on incentive alignment, accountability structures, and institutional embedding. This conclusion provides the necessary background for shifting the focus from joint audits as a market-based coordination device to the Italian *Collegio Sindacale* as a form of institutionalized collegial governance. While the two share certain similarities — most notably collective decision-making and shared responsibility — their logic, functioning, and implications for monitoring are fundamentally different.

The *Collegio Sindacale* occupies a unique position in the international landscape of corporate governance. Established in the late nineteenth century, it represents the oldest continuously operating firm-level oversight institution in Western economies (Jones and Melis 2020). Unlike joint audits, which emerged primarily as a regulatory response to concerns about auditor independence and market concentration, the *Collegio Sindacale* was conceived as an internal governance body to ensure legality, proper administration, and the protection of shareholders in a context characterized by weak capital markets and limited external enforcement. Its longevity through profound political, economic, and regulatory transformations makes it a particularly instructive case for understanding how collegial monitoring can be embedded within corporate governance rather than imposed through market mechanisms.

From a conceptual standpoint, the transition from Chapter 1 to Chapter 2 marks a shift along three key dimensions. First, it involves a move from external assurance to internal oversight: joint audits operate at the boundary between the

firm and the market, providing assurance primarily to external stakeholders, whereas the *Collegio Sindacale* is an internal organ of the firm with continuous access to information and decision-making processes (Cameran and Prencipe 2011). Second, it involves a shift from episodic control to continuous monitoring: joint audits are typically concentrated around the financial reporting cycle, whereas the *Collegio* exercises oversight throughout the year. Third, it reflects a move from market-based incentives to institutionalized accountability: audit fees, competition, and reputation shape behavior in joint audit settings, while incentives in the Italian system are shaped primarily by statutory duties, civil liability, and professional norms rather than by direct market pricing (Melis and Rombi 2018). These differences matter because the joint audit literature repeatedly demonstrates that collegiality alone does not guarantee effective monitoring (Deng et al. 2014; Hoos et al. 2019). The Italian case therefore raises a fundamental question: can collegial monitoring be made more effective when it is embedded within governance structures rather than organized through contractual and market-based arrangements? The *Collegio Sindacale* offers a natural laboratory to explore this question.

Importantly, the Italian model also challenges the implicit assumption, common in the joint audit literature, that effective monitoring must be achieved through market competition among auditors. The *Collegio Sindacale*, by contrast, operates largely outside the logic of market competition: its members are appointed for fixed terms, remunerated according to statutory criteria, and subject to civil and, in some cases, criminal liability. Monitoring effectiveness is therefore expected to arise from institutional design rather than from competitive pressure. This distinction is crucial for understanding why the Italian experience cannot be evaluated using the same metrics or assumptions applied to joint audits. At the same time, the *Collegio Sindacale* is not immune to the risks identified in the joint audit literature. Collegial bodies may suffer from free-riding, diffusion of responsibility, or excessive familiarity with management, particularly when tenure is long and rotation mechanisms are weak (Jones and Melis 2020). This chapter approaches the *Collegio Sindacale* not as an idiosyncratic national curiosity, but as a comparative governance model that speaks directly to the themes developed in the international joint audit literature.

The remainder of Chapter 2 is organized as follows. Section 2.2 traces the historical origins and legal evolution of the *Collegio Sindacale*, distilling the economic concepts they create. Section 2.3 examines how the institution functions in practice, with particular attention to information access and interaction with other governance bodies. Section 2.4 analyzes incentives, accountability, and

liability, drawing explicit parallels with the behavioral and game-theoretic insights discussed in Chapter 1. Section 2.5 reviews the empirical evidence on monitoring and audit quality outcomes in the Italian setting. Section 2.6 situates the *Collegio Sindacale* in a comparative perspective. The chapter concludes by discussing policy implications, setting the stage for Part II.

2.2 Historical Origins, Legal Framework, and Economic Logic

The *Collegio Sindacale* was formally introduced into Italian company law in 1882, in an economic environment characterized by underdeveloped capital markets, concentrated ownership, and a dominant role of banks and families in corporate finance (Jones and Melis 2020). In this context, the primary regulatory concern was not the certification of financial statements for dispersed investors but the prevention of abuse by directors and the protection of shareholders' legal rights. The resulting institution was designed as an internal governance body — a collegial board of independent professionals — charged with supervising the conduct of directors and ensuring compliance with law and corporate bylaws.

The economic logic embedded in this design has three components that remain analytically central today. First, continuous oversight rather than episodic control: statutory auditors are required to attend board meetings and monitor managerial conduct throughout the year, giving them real-time exposure to strategic deliberations rather than reconstructed ex post access through documentation.¹ Second, privileged access to information: statutory auditors hold broad inspection powers and may request explanations from directors and managers at any time, reducing the information asymmetry between monitors and management that chronically limits the effectiveness of external auditors.² Third, individual civil liability alongside collective responsibility: unlike joint audit teams, where liability exposure may be asymmetrically distributed, statutory auditors

¹ Statutory auditors' attendance at board meetings and committees is governed by the vigilance mandate established in the civil code. The specific provisions creating this right of continuous presence are set out in Italian company law.

² The inspection powers of the *Collegio Sindacale* — including the right to examine corporate documents, request explanations from directors and employees, and access financial records at any time — derive from the broad vigilance mandate in Italian company law. These powers are considerably wider than those exercisable by external auditors during the audit engagement.

face a liability regime that maintains individual accountability even within a collegial body.³

The *Collegio*'s collegial structure has proven durable across more than a century of political and economic disruption; a critical turning point was the comprehensive company law reform of 2003, which introduced a partial separation between statutory auditing and governance oversight.⁴ Prior to the reform, the *Collegio Sindacale* often performed both monitoring and accounting audit functions, particularly in non-listed companies. The reform allowed, and in some cases required, the appointment of an external auditor or audit firm to perform the statutory audit of financial statements, while the *Collegio* retained its broader vigilance role — oversight of compliance with law, proper administration, and the adequacy of the company's organizational, administrative, and accounting structures. This dual structure creates a layered control system that differs fundamentally from joint audit regimes: whereas joint audits involve multiple auditors sharing responsibility for the same assurance task, the Italian system assigns complementary but distinct functions to different actors, reducing the risk of direct free-riding while increasing the need for coordination and information exchange between control bodies.

The historical continuity of the *Collegio Sindacale* has generated an enduring interpretive debate: does survival reflect genuine functional effectiveness or institutional path dependence? Jones and Melis (2020) argue that the institution has historically played a reassurance role, signaling oversight even when substantive monitoring may have been limited — a concern that resonates directly with the routinization and diffusion-of-responsibility risks identified in the joint audit literature (Piot 2007; Hoos et al. 2019). At the same time, empirical studies show that statutory auditors can influence governance outcomes, internal controls, and financial reporting when professional competence, independence, and enforcement are credible (Cortesi, Tettamanzi, and Corno 2009; Mazza and Azzali 2015). This paradox — continuity as both a source of legitimacy and a potential generator of inertia — runs through the remainder of this chapter.

³ The liability regime governing statutory auditors provides for joint and several civil liability for damages arising from failures of oversight, and Italian case law has progressively clarified and expanded this liability to emphasize active, informed vigilance rather than passive compliance. Criminal liability may also arise in specific circumstances.

⁴ The 2003 Italian company law reform (Legislative Decree 6/2003) introduced a reorganization of corporate governance models and restructured the relationship between the *Collegio Sindacale* and external auditors.

2.3 The Functioning of the *Collegio Sindacale* in Practice

A defining feature of the *Collegio Sindacale* is the continuity of its monitoring activity. Unlike external auditors and joint audit arrangements, which are inherently episodic and concentrated around the financial reporting cycle, statutory auditors engage in oversight throughout the year. This continuous presence allows the *Collegio* to observe managerial conduct, strategic decisions, and organizational changes as they unfold, rather than reconstructing them ex post through documentation and inquiry (Cameran and Prencipe 2011). Continuity translates into several operational advantages. The *Collegio* can identify weaknesses in internal controls, governance practices, or organizational structures at an early stage, potentially preventing these weaknesses from crystallizing into financial misstatements or compliance failures. It reduces reliance on year-end “crisis auditing,” where time pressure and information overload may compromise audit quality. It also mitigates some of the coordination and timeliness problems identified in the joint audit literature, where delays often arise from late-stage reconciliation of judgments between auditors (Holm and Thinggaard 2014; Almarzouq et al. 2025).

The effectiveness of any monitoring body depends critically on access to information. In this respect, the *Collegio Sindacale* enjoys a structural informational advantage relative to external auditors and joint audit teams. Statutory auditors have broad legal rights to obtain information, inspect company documents, and request explanations from directors and managers at any time. More importantly, they are required to attend meetings of the board of directors and, where applicable, executive committees, giving them direct exposure to strategic deliberations and managerial reasoning (Cortesi et al. 2009). This privileged access reduces information asymmetry between monitors and managers in a way that joint audits, which largely rely on documentation and formal communication (Francis et al. 2009), cannot replicate. However, this informational advantage also entails risks: proximity to management and repeated interaction may foster familiarity and reduce critical distance, echoing concerns raised in the behavioral literature on joint audits (Hoos et al. 2019). Information access must be balanced by strong independence norms and professional skepticism to prevent the *Collegio* from becoming a passive observer rather than an active monitor (Cameran and Prencipe 2011).

The relationship between the *Collegio Sindacale* and external auditors is a central aspect of its practical functioning. Italian corporate governance is characterized by a layered control system where statutory auditors, external auditors, and internal audit functions coexist and interact (Cameran, Daniele, and Pet-

tinicchio 2025). The *Collegio* acts as a hub within this system, facilitating information exchange and coordination among control actors (Cortesi et al. 2009). Statutory auditors are expected to maintain ongoing dialogue with external auditors, sharing insights on internal controls, risk areas, and governance issues. From the perspective of the joint audit literature, this arrangement resembles a hybrid model in which the benefits of collegial monitoring are combined with technical specialization. At the same time, the interaction raises issues of role clarity and accountability: over-reliance on external auditors' work may weaken the *Collegio's* independent judgment, while unclear allocation of responsibilities between control bodies exacerbates coordination costs analogous to those documented in joint audit settings (Deng et al. 2014; Holm and Thinggaard 2016).

A key insight from both the Italian literature and the joint audit literature is that formal design does not determine practice in a uniform way. The functioning of the *Collegio Sindacale* varies significantly across firms, depending on firm size, ownership structure, industry, and the professional characteristics of statutory auditors (Cortesi et al. 2009; Cameran and Prencipe 2011). In some cases, the *Collegio* acts as a proactive and influential governance body; in others, its role is more ceremonial, focusing on compliance rather than substantive oversight. This heterogeneity reinforces the central message of Chapter 1: collegial monitoring mechanisms are inherently fragile and context-dependent, their effectiveness depending not only on statutory powers but also on incentives, professional norms, and the willingness of individuals to exercise judgment and challenge authority.

2.4 Incentives, Accountability, and Liability of Statutory Auditors

The effectiveness of collegial monitoring ultimately hinges on how incentives, accountability, and liability are structured at the individual level. Chapter 1 showed that joint audits frequently fail not because collegiality is inherently flawed, but because shared responsibility alters auditors' strategic behavior in ways that encourage free-riding, diffusion of accountability, or excessive conformity (Deng et al. 2014; Hoos et al. 2019). The Italian framework introduces several features designed to address these problems. First, collegiality in the *Collegio Sindacale* is institutionalized and continuous rather than engagement-specific: statutory auditors interact repeatedly over time with each other and with management, transforming the incentive structure from a one-shot or episodic game into a repeated interaction where reputational concerns discipline opportunistic behavior (Jones and Melis 2020). Second, individual statutory auditors

retain personal professional visibility within the collegial body — unlike large joint audit teams, members of the *Collegio* are individually identifiable and directly accountable to shareholders, partially counteracting the diffusion of responsibility highlighted in the joint audit literature.

Compensation structures in the Italian model differ fundamentally from those governing joint audits. Remuneration of statutory auditors is determined *ex ante* by shareholders' meetings and is not directly tied to audit effort or market competition (Melis and Rombi 2018). While fixed remuneration reduces market-based distortions and client-capture pressure, it may also weaken performance incentives if effort is insufficiently monitored. The Italian system addresses this tension through a combination of professional norms, peer scrutiny within the *Collegio*, and legal accountability, rather than through market discipline alone (Cameran and Prencipe 2011).

Legal liability represents a central disciplining mechanism. Statutory auditors are subject to joint and several civil liability for damages arising from failures in oversight, and Italian case law has progressively emphasized the duty of active and informed vigilance rather than passive compliance (Jones and Melis 2020).⁵ From a game-theoretic perspective, liability increases the expected cost of shirking and free-riding, shifting the equilibrium toward higher effort levels. Unlike joint audits, where liability exposure may be asymmetrically distributed across audit firms depending on size and reputation (Deng et al. 2014), statutory auditors face a more uniform liability regime, reducing incentives for strategic underinvestment in effort based on relative bargaining power. Behavioral research suggests that clear and enforceable liability also enhances auditors' sense of personal accountability, counteracting the diffusion effects observed in collegial settings (Hoos et al. 2019). Beyond liability, the *Collegio Sindacale* operates within a dense network of formal accountability channels — reporting obligations to shareholders, interactions with external auditors, and oversight by regulatory authorities in certain sectors — that create multiple audiences to which statutory auditors are answerable and increase the professional cost of complacency (Cortesi et al. 2009). At the same time, the Italian model is not immune to behavioral risks. Long tenure, repeated interaction with management, and dense professional networks may foster familiarity and normalization of deviance — risks discussed extensively in the joint audit literature (Piot 2007;

⁵ The liability provisions governing statutory auditors are set out in Italian company law. The relevant standard is one of active, informed vigilance; the courts have consistently held that passivity in the face of observable management misconduct does not constitute a defense.

Bianchi, Carrera, and Trombetta 2019). The conditions under which these failure modes materialize, and the institutional mechanisms that can counteract them, are analyzed in depth in Chapter 9. For present purposes, the key conclusion is that institutionalized collegiality can mitigate — but not eliminate — the incentive problems inherent in collective monitoring. Effectiveness depends on the balance between stability and renewal, between trust and skepticism, and between professional autonomy and legal discipline.

2.5 Audit Quality, Monitoring Quality, and Outcomes in the Italian Setting

Early empirical work on audit quality in Italy focused on comparing different types of statutory auditors — Big 4 audit firms, non-Big 4 firms, boards of statutory auditors, and individual auditors — particularly in non-listed companies. Cameran and Prencipe (2011) examine a large sample of Italian private firms and find that, while Big audit firms deliver a distinct level of audit quality, there are no statistically significant differences in earnings quality between firms monitored by non-Big audit firms, boards of statutory auditors (*Collegio Sindacale*), and individual auditors. This result is consistent with evidence from mandatory joint audit regimes, where structural multiplicity does not automatically translate into higher earnings quality (Francis et al. 2009; André et al. 2016), and suggests that the *Collegio Sindacale* should not be expected to systematically outperform other monitoring arrangements on aggregate accrual-based measures in settings characterized by concentrated ownership and limited capital market pressure.

More recent studies adopt a more granular approach. Bianchi et al. (2019) show that individual auditors' social and professional networks — formed through repeated collegial interactions — affect client outcomes such as tax avoidance: clients monitored by better-connected statutory auditors exhibit lower effective tax rates, suggesting that collegial structures can facilitate the diffusion of expertise across engagements. This evidence raises concerns analogous to those in the joint audit literature regarding network effects and routinization: networks may disseminate both good and bad practices (Piot 2007). Bianchi, Francis, Marra, and Pecchiari (2026) extend this concern by investigating accountants with ties to Mafia-connected firms, finding that exposure to such environments increases earnings management and tax avoidance in otherwise clean firms — a finding that reinforces the behavioral risk of weak monitoring norms diffusing across dense professional networks.

A distinctive contribution of the Italian literature lies in its focus on internal controls and risk oversight, areas where the *Collegio Sindacale* plays a central

role. Mazza and Azzali (2015) show that higher internal audit quality — measured in terms of planning, testing, monitoring, competence, and independence — is associated with lower severity and persistence of control deficiencies. Since statutory auditors are legally required to oversee the adequacy of internal controls and to interact with internal audit units where they exist (Cortesi, Tettamanzi, and Corno 2009), the *Collegio* acts as a supervisory node that can amplify or dampen the effectiveness of internal audit activities. This focus on process-oriented outcomes — control remediation, risk oversight — suggests that the *Collegio's* contribution to monitoring quality may be more visible in governance processes than in headline earnings metrics.

Taken together, the existing Italian empirical literature offers a multifaceted but incomplete picture: studies have compared auditor types pairwise (Cameran and Prencipe 2011), analyzed network spillovers in specific outcome domains (Bianchi 2018; Bianchi et al. 2019; Bianchi et al. 2026), and examined internal control quality in firms with access to internal audit data (Mazza and Azzali 2015). No prior study has directly and simultaneously compared all three auditor types — the *Collegio Sindacale*, the individual auditor, and the audit firm — in a unified large-scale private-firm sample, using multiple audit quality proxies, and with explicit geographic heterogeneity. Chapter 11 fills this gap by estimating auditor-type effects on abnormal accruals, tax-related restatements, effective tax rates, and book–tax differences across 38,103 Italian private firms in a cross-sectional design that is, to date, the largest of its kind in the Italian private-firm context.

2.6 The *Collegio Sindacale* in Comparative Perspective

At the level of institutional design, the *Collegio Sindacale* can be positioned relative to two benchmarks that dominate international debates: joint audits and audit committees. Compared with joint audits, the Italian model shares the logic of collegiality and collective responsibility but embeds it within a statutory governance organ rather than a market-based contractual arrangement. The consequences are significant: the *Collegio's* continuous presence at board meetings, its broad inspection powers, and its symmetric liability regime give it an informational and incentive architecture that differs fundamentally from the episodic, fee-driven dynamics of joint audit engagements. Compared with audit committees — the dominant internal oversight mechanism in Anglo-Saxon systems — the *Collegio Sindacale* requires statutory professional qualifications (typically certified accountants or legal professionals) and enjoys direct access

to board deliberations, reducing the informational dependence on management narratives that is a persistent criticism of audit committees (Cameran and Prencepe 2011). In exchange, its position as a separate governance organ may limit its influence on strategic decisions relative to committees integrated directly within the board structure.

The *Collegio Sindacale* thus constitutes a hybrid model — combining elements of professional oversight, continuous monitoring, and statutory accountability — that does not map cleanly onto either benchmark. Its structural strengths (continuous access, individual liability, professionalization) address weaknesses documented in both joint audits and audit committees; its structural vulnerabilities (path dependence, familiarity risk, coordination with multiple control bodies) mirror those identified in both literatures. The detailed operational comparison — covering functions, working practices, and specific governance interactions — is developed in Chapter 7 of Part II.

2.7 Implications for Policy and Practice

For policymakers, the central lesson emerging from the joint audit literature and the Italian experience is that collegiality is a governance technology, not a guarantee of effectiveness. Mandating multiple monitors — whether through joint audits or statutory boards — does not automatically enhance audit quality, independence, or market confidence. Joint audits may increase costs without delivering commensurate quality benefits when coordination costs, free-riding, or accountability diffusion dominate (Deng et al. 2014; André et al. 2016). Similarly, the Italian *Collegio Sindacale* demonstrates that institutionalized collegiality can provide continuous oversight and informational advantages, but only when supported by strong accountability and enforcement (Jones and Melis 2020). Regulatory interventions should therefore focus less on the number of monitors and more on the design of incentives and accountability mechanisms.

The Italian case also offers a broader regulatory insight: institutional diversity in governance arrangements can enhance system resilience. Rather than converging on a single “best practice” model — audit committees or joint audits — regulators may benefit from allowing multiple, complementary oversight mechanisms to coexist. The *Collegio Sindacale* illustrates how an internal, legally grounded monitoring body can coexist with external auditors and internal audit functions, creating a layered control system that distributes monitoring responsibilities across different actors (Cortesi et al. 2009). Whether this institutional diversity delivers superior aggregate outcomes relative to single-mechanism sys-

tems is ultimately an empirical question — and one that the evidence in Chapter 11 begins to address.

For practitioners, the analysis underscores that formal powers and continuous access to information are necessary but not sufficient conditions for effective monitoring. The Italian evidence shows substantial heterogeneity in how the *Collegio Sindacale* functions in practice — ranging from proactive and influential bodies to more ceremonial institutions (Cameran and Prencipe 2011) — mirroring the variability observed in joint audit engagements. Role clarity, active engagement, and resistance to over-reliance on external auditors are consistently identified as prerequisites for substantive oversight. Rotation, diversity of backgrounds, and periodic self-assessment counterbalance the familiarity risks inherent in long-tenure collegial bodies — risks analyzed in depth in Chapter 9 of Part II.

2.8 Toward a Conditional Theory of Collegial Monitoring: Propositions for Testing

The analysis developed in this chapter supports the formulation of a conditional theory of collegial monitoring — not as a set of established findings, but as a set of analytically derived propositions that Part II operationalizes and Part III tests empirically. Such a theory holds that collective oversight mechanisms can enhance governance under certain conditions — continuous engagement, clear individual accountability, heterogeneity among monitors — but may fail or even backfire under others. Three propositions follow from this framework and are examined in the remainder of the monograph.

First, if the *Collegio Sindacale*'s peer-monitoring mechanism dominates its free-riding risk, then firms monitored by a *Collegio* should exhibit lower discretionary accruals and stronger tax compliance than firms monitored by individual auditors — controlling for firm size, risk, and ownership structure. Second, if the *Collegio*'s continuous and governance-embedded role generates monitoring benefits beyond those of external audit firms, those benefits should be observable in process-oriented outcomes — internal control quality, tax reporting accuracy — not only in headline earnings metrics. Third, if familiarity and institutional inertia are material concerns, the monitoring effectiveness of the *Collegio Sindacale* should vary systematically with proxies for embeddedness, tenure, and network density. Chapters 3 through 10 examine the conditions under which these propositions hold in the Italian operational context; Chapter 11 tests their empirical content directly. The *Collegio Sindacale*'s most defining

characteristic — and the source of both its analytical interest and its enduring vulnerability — is institutional continuity: the same collegial body, governed by a recognizably similar legal mandate, has operated through more than 140 years of political upheaval, economic transformation, and regulatory change. That continuity is precisely what makes the institution's current moment analytically distinctive. The rapid diffusion of artificial intelligence into corporate decision-making, risk management, and financial reporting systems is not merely another episode in a familiar reform cycle. It is a qualitative shift in the informational and technical environment within which the vigilance mandate must be exercised.⁶ Whether institutional embeddedness — the defining advantage of the *Collegio's* design — translates into effective oversight in algorithmically governed firms, or whether it becomes a source of vulnerability as new AI-generated risks exceed the evaluative capacity of conventionally qualified auditors, is the animating empirical question of Part II. The propositions stated above are the theoretical scaffolding for that inquiry.

2.9 From Institutional Analysis to Operational Practice: A Bridge from Part I to Part II

Part I has established the conceptual and comparative architecture of this monograph. Drawing on the international joint audit literature (Chapter 1) and the institutional history and incentive structure of the *Collegio Sindacale* (Chapter 2), Part I answers a prior question: what kind of institution is the *Collegio*, and what theoretical mechanisms should govern its effectiveness? The answer is a conditional one. The *Collegio Sindacale's* potential as a monitoring mechanism rests on three interrelated design features — institutional embeddedness within corporate governance, structural independence from market-based compensation, and a liability regime that preserves individual accountability within a collegial body. Whether these features translate into effective oversight depends on how they are exercised in the concrete conditions of day-to-day supervision.

Part II makes this translation explicit. It shifts the analytical register from comparative-institutional analysis to practitioner-oriented legal and operational analysis. Where Part I asked whether the *Collegio's* design is theoretically well-constructed, Part II asks how statutory auditors actually navigate the tensions that design creates: incomplete information, organizational opacity, con-

⁶ This characterization draws on the framing of regulatory velocity developed in the AI and governance literature (see Part II, Chapters 5–6)

flicts with management, documentation requirements, liability exposure, and the expanding scope of supervisory judgment. The chapters of Part II treat each of the mechanisms identified in Part I — embeddedness, independence, accountability clarity — as an operational challenge to be examined through the lens of professional practice, legal standards, and failure modes documented in Italy and comparable jurisdictions.

This operational grounding has direct empirical consequences. The observable outcome differences tested in Chapter 11 — differences in abnormal accruals, tax compliance, book–tax alignment, and restatement rates across auditor types — are not simply the mechanical product of institutional design. They are generated by the specific ways in which statutory auditors exercise their supervisory mandate in practice: whether they probe management representations or accept them passively; whether they identify organizational inadequacy early or only after it becomes visible; whether their professional networks amplify expertise or propagate weak monitoring norms. Part II makes these behavioral and operational mechanisms visible and traceable, so that the cross-sectional patterns in Part III can be interpreted with theoretical precision rather than reduced to black-box regressions.

One operational challenge deserves particular attention as a bridge from Part I. Chapter 1 showed that joint audits and collegial oversight bodies face heightened behavioral risks when new technologies or unfamiliar environments create information asymmetries that the monitoring body is ill-equipped to evaluate independently. The *Collegio Sindacale*'s institutional design — multiple members with complementary backgrounds, continuous engagement with management, and a mandate extending to organizational adequacy — makes it uniquely positioned to assess technological risks, including those arising from firms' adoption of artificial intelligence systems. At the same time, this design makes it uniquely vulnerable: the *Collegio*'s effectiveness in evaluating AI-driven processes depends on whether at least one member has the technical competence to challenge management representations, a condition that cannot be assumed and that the current appointment and qualification framework does not systematically ensure. A unitary auditor, paradoxically, may navigate this uncertainty more decisively precisely because the accountability for judgment is unambiguously individual. Chapter 5 of Part II examines this tension in detail, drawing on the behavioral and game-theoretic insights of Chapter 1 to assess the *Collegio Sindacale*'s capacity to function as an effective monitor in an increasingly algorithmically governed corporate environment.

Table 2.1 Relevant Papers Cited in Chapter 2

Authors	Journal / Source	Year	Outcome Variables
	Audit Quality — Earnings Quality and Accruals		
Cameran and Prenceipe	Economia & Management	2011	<i>Earnings quality; abnormal accruals; auditor type comparison</i>
Bianchi	Contemporary Accounting Research	2018	<i>Audit quality proxies; abnormal accruals; monitoring intensity</i>
Bianchi, Falsetta, Minutti-Meza, and Weisbrod	The Journal of the American Taxation Association	2019	<i>Tax avoidance; effective tax rate; joint audit engagement effects</i>
Bianchi, Francis, Marra, and Pecchiari	Journal of Accounting Research	2026	<i>Earnings management; tax avoidance; monitoring quality diffusion</i>
	Professional Networks and Social Capital		
Bianchi, Carrera, and Trombetta	European Accounting Review	2020	<i>Auditor social and human capital; auditor compensation; network effects</i>
	Internal Controls and Risk Oversight		
Cortesi, Tettamanzi, and Corno	Journal of Management & Governance	2009	<i>Internal control systems; governance quality; Collegio Sindacale interactions</i>
Mazza and Azzali	International Journal of Auditing	2015	<i>Internal audit quality; control deficiency severity and persistence</i>
	Incentives, Liability, and Auditor Compensation		
Cameran, Daniele, and Pettinicchio	Financial Reporting	2025	<i>Auditor Choice; determinants</i>
Melis and Rombi	Corporate Governance: An International Review	2018	<i>Statutory auditor compensation; optimal contracting; managerial power</i>
Jones and Melis	European Accounting Review	2020	<i>Institutional continuity; path dependence; reassurance role; governance design</i>

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PART II

THE BOARD OF STATUTORY AUDITORS IN PRACTICE: FUNCTIONS, EMERGING CHALLENGES, AND COMPARISON WITH OTHER CONTROL MODELS

Over the past decade, the Italian *Collegio Sindacale* has undergone a profound transformation that has reshaped both its normative identity and its practical role within corporate governance systems. Once primarily conceived as a guardian of formal legality, the Board of Statutory Auditors has progressively evolved into a central actor of substantive oversight, entrusted with the continuous monitoring of organizational adequacy, risk management, and the sustainability of corporate decision-making. This evolution reflects a systemic reorientation of Italian corporate law, professional standards, and judicial interpretation toward a conception of control that is preventive, forward-looking, and deeply embedded in the life of the firm. The expansion of duties governing organizational adequacy, the growing relevance of internal control systems, the introduction of crisis prevention obligations, and the integration of international auditing standards (ISA Italia) have collectively redefined the *raison d'être* of the *Collegio Sindacale*. The Board is thus required to assess whether corporate choices are the outcome of informed, structured, and traceable decision-making paths, capable of managing risk and safeguarding corporate continuity (Amatucci 2016).

Part II examines how this transformation materializes in practice. It focuses on the operational implications of enhanced supervisory duties, the management of independence risks — particularly in the presence of combined audit and supervisory roles — and the increasing exposure of statutory auditors to civil liability. At the same time, it situates the *Collegio Sindacale* within a broader

comparative framework, contrasting its features with those of the single statutory auditor and external audit firms. The chapters of Part II treat the mechanisms identified in Part I — embeddedness, independence, accountability, and clarity — as operational challenges to be examined through the lens of professional practice, legal standards, and documented failure modes, so that the cross-sectional patterns in Part III can be interpreted with theoretical precision.

3 OVERSIGHT OF ORGANIZATIONAL STRUCTURES AND THE IDENTIFICATION OF HIDDEN RISKS

3.1 Organizational Adequacy as a Constraint on Managerial Discretion

At the core of contemporary statutory auditing lies the assessment of the adequacy of organizational, administrative, and accounting structures.¹ The doctrine has clarified that the statutory auditors' review of organizational adequacy does not entail any form of intrusion into the merits of business decisions. Managerial discretion remains protected by the Business Judgment Rule. However, as consistently noted in scholarly analysis, the Business Judgment Rule shields *outcomes*, not *processes*. It does not extend to situations in which decisions are adopted in the absence of adequate information flows, procedural safeguards, or risk assessment mechanisms (Amatucci 2016). From this perspective, inadequate organizational arrangements represent a violation of a specific and predetermined legal obligation, rather than a questionable managerial choice. The failure to establish effective reporting systems, internal controls, and segregation of duties exposes administrators to liability and, simultaneously, activates the supervisory responsibilities of the *Collegio Sindacale*. Italian jurisprudence and professional standards converge on this point: the Board's role is not to assess whether a given investment, financing strategy, or acquisition was economically sound, but whether it was preceded by reliable internal reporting, documented risk analysis, and an organizational framework capable of monitoring its execution. In this sense, organizational adequacy functions as a structural antidote to

¹ The obligation to assess organizational, administrative, and accounting adequacy is grounded in the civil code provisions governing the supervisory mandate of statutory auditors, as reinforced by jurisprudential interpretation and the 2003 reform that reoriented the *Collegio*'s role toward preventive and forward-looking oversight.

opportunistic or opaque managerial conduct, constraining discretion through procedural rationality.

3.2 Information Flows, Internal Controls, and Supervisory Powers

The effectiveness of statutory oversight is inseparable from the quality of information flows available to the Board. Both the professional norms issued by the CNDCEC and the operational guidance developed by professional bodies stress that the *Collegio Sindacale* must actively ensure access to timely, complete, and reliable information generated by management and internal control functions. In complex organizational settings, risk does not primarily stem from isolated unlawful acts, but from fragmented or distorted information environments. The absence of formalized procedures, unclear delegation schemes, or excessive concentration of powers frequently conceals latent vulnerabilities that may only emerge ex post, often in the context of insolvency proceedings or liability litigation.

To counteract these dynamics, statutory auditors hold extensive inspection and inquiry powers, exercisable even individually.² As highlighted by doctrinal analysis, the failure to activate these powers when warning signs are present constitutes a decisive element in establishing liability for omission (Formisani 2019). Professional best practices therefore require statutory auditors to go beyond reviewing board minutes or periodic reports: they must test the actual functioning of internal procedures and verify the existence of effective segregation of duties. Beyond this, they are expected to engage directly with internal control, risk management, and compliance functions, treating organizational oversight as an investigative discipline rather than a documentary one.

The supervisory function thus acquires an investigative dimension, aimed at uncovering “hidden risks” embedded in organizational routines rather than explicitly disclosed in formal documentation. In particular, statutory auditors must assess whether reporting systems produce information that is not only accurate but also timely and decision-relevant — a distinction that matters because risk often crystallizes in the gap between what management knows and what reaches the Board. Where that gap is structurally wide, organizational adequacy

² The right to carry out inspections and request information individually — that is, without requiring a collective resolution of the Board — is expressly recognized in Italian company law. It is designed to prevent inaction caused by collective inertia or majority alignment with management.

is compromised irrespective of formal compliance with specific provisions.

The connection between organizational oversight and financial reporting outcomes is direct and theoretically grounded. Effective monitoring of organizational adequacy — by reducing information fragmentation, constraining managerial discretion at source, and forcing the formalization of decision processes — should manifest downstream in lower accrual manipulation. When statutory auditors successfully enforce procedural rationality, management retains less operational latitude to exercise discretionary accounting judgments unobserved. Firms monitored by a *Collegio Sindacale* that actively exercises its organizational oversight role should therefore exhibit lower absolute abnormal accruals (*AB-SAAC*) relative to firms where oversight is more episodic or externally oriented. Chapter 11 tests this prediction directly, using the *BSA* indicator as a proxy for collegial, governance-embedded monitoring in a cross-section of Italian private firms.

4 THE BOARD OF STATUTORY AUDITORS AND STATUTORY AUDITING: INDEPENDENCE, METHODOLOGICAL BOUNDARIES, AND THE RISK OF SELF-REVIEW

4.1 The Legal Framework for the Appointment of the Collegio Sindacale

The institutional configuration of the Italian control system is grounded in a specific legislative framework governing the appointment of monitoring bodies in private firms. The key provision is Article 2477 of the Italian Civil Code, which regulates the presence of an “organo di controllo” or a statutory auditor in limited liability companies (Società a Responsabilità Limitata [S.r.l.]). The rule establishes a dual regime combining optionality and obligation. First, the appointment of a control body is, in principle, left to shareholders’ discretion: the articles of association may provide for its existence and determine its powers, including the attribution of statutory audit functions (art. 2477, co. 1 c.c.). This feature is particularly important because it creates the legal precondition for the potential accumulation of supervisory and auditing functions within the same body.

Second, Article 2477 introduces mandatory appointment requirements under specific conditions. In particular, firms must appoint a control body or a *revisore* when they (i) are required to prepare consolidated financial statements; (ii) control a company subject to statutory audit; or (iii) exceed, for two consecutive years, at least one of the following thresholds: €4 million in total assets, €4 million in revenues, or 20 employees on average (art. 2477, co. 2 c.c.). The obligation ceases only after three consecutive years in which none of these thresholds are exceeded (art. 2477, co. 3 c.c.).

The legislative evolution of this provision—particularly following the reforms associated with the new Bankruptcy Law (Codice della crisi e dell’Insolven-

za) introduced by Decreto Legislativo 14/2019—has significantly broadened its scope. As emphasized in recent doctrinal analyses, the lowering of thresholds and the shift from a “two-out-of-three” to a “one-out-of-three” criterion have expanded the population of S.r.l. subject to mandatory control, reinforcing the role of monitoring mechanisms in the private firm segment (Houben 2024).

A further distinctive feature of the framework is its organizational flexibility. When a control body is appointed, even in monocratic form, the provisions governing the *Collegio Sindacale* of joint-stock companies (Società per Azioni [S.p.A.]) apply (art. 2477, co. 4 c.c.). At the same time, the company bylaws may choose between a single auditor and a collegial body, and may allocate or separate supervisory and audit functions. This modular design allows firms to tailor monitoring structures to their size and complexity.

Finally, the rule includes a judicial enforcement mechanism: if the shareholders fail to appoint the required control body within the prescribed timeframe, the court may intervene upon request of any interested party or following notification by the registrar of companies (art. 2477, co. 5 c.c.). This provision underscores the public-interest dimension of corporate monitoring, even within privately held firms. Crucially, the combination of statutory flexibility and functional overlap embedded in Article 2477 makes it possible, in practice, for the same body — namely the *Collegio Sindacale* — to be entrusted both with ongoing supervisory duties and with statutory audit functions. The implications of this institutional arrangement, and the tensions it generates, are examined in the following section, which focuses on the “double hat” structure.

4.2 The Structural Ambiguity of the “Double Hat”

One of the most distinctive — and analytically consequential — features of the Italian system is the possibility, expressly provided in Italian company law, that the *Collegio Sindacale* may be entrusted with the statutory audit of the accounts in non-EIP companies.¹ This institutional design places the Board in a position that is virtually unparalleled in comparative perspective: it acts simultaneously as an internal corporate body exercising supervisory oversight and as a statutory

¹ The option for the *Collegio Sindacale* to take on the statutory audit function in non-EIP companies is provided in Italian company law and is governed by Legislative Decree 39/2010 on statutory auditing. The combination of roles is subject to independence requirements and professional standards that differ from those applicable when the two functions are held separately.

auditor performing an external, technically regulated assurance engagement. Italian professional literature has long emphasized that this “dual hat” is not merely a functional accumulation of tasks, but a structural source of tension between two different logics of control. The supervisory function is continuous, dialogical, and embedded in corporate governance; statutory auditing is episodic, methodologically formalized, and governed by ISA Italia, which were conceived primarily with reference to an external, individual auditor or an audit firm. The CNDCEC guidelines clearly acknowledge this asymmetry, warning against any mechanical transposition of auditing methodologies into the collegial and equitable structure of the Board (CNDCEC 2011). The challenge for practice lies in reconciling methodological rigor with institutional specificity, without diluting either the effectiveness of supervision or the reliability of the audit.

4.3 Functional Separation and Documentation as a Safeguard

A fundamental safeguard against the risks inherent in the double role is the strict separation — conceptual, methodological, and documentary — between supervisory activities and audit activities. While synergies undoubtedly exist, particularly in risk assessment and knowledge of the entity, professional guidance consistently stresses that these synergies must not result in functional overlap. The CNDCEC’s guidance for the *sindaco-revisore* expressly requires that statutory audit activities be documented in a separate and autonomous set of working papers, distinct from the minutes and documentation of the Board’s supervisory meetings (CNDCEC 2016). This separation serves a probative and defensive function, especially in litigation contexts, by allowing ex post verification of compliance with ISA Italia, the professional judgments exercised during the audit, and the independence of the conclusions reached. Italian case law has increasingly relied on the quality and completeness of audit documentation to assess the diligence of statutory auditors; the lack of structured working papers is often interpreted as a symptom of inadequate audit planning or execution, rather than as a mere documentary omission.

4.4 Independence and the Self-Review Threat

Among the independence risks faced by the *Collegio Sindacale* acting as statutory auditor, self-review represents the most insidious and recurrent threat. The risk arises whenever the statutory auditors are required, in their audit capacity,

to evaluate accounting representations or control mechanisms that they have previously assessed — or implicitly endorsed — in their supervisory capacity. The Italian ethics framework, consistent with the International Ethics Standards Board of Accountants (IESBA) 2015 Code, identifies self-review as a threat that may compromise objectivity unless adequately mitigated (CNDCEC 2023). In the context of the *Collegio Sindacale*, this threat is structurally embedded and cannot be eliminated *ex ante*; it can only be managed through robust safeguards. Statutory auditors must refrain from any form of co-management and must perform an annual, documented assessment of independence, explicitly addressing potential self-review scenarios.

The dual role generates two analytically distinct and empirically competing interpretations. On the one hand, the *sindaco-revisore* structure deepens the self-review threat: statutory auditors who continuously interact with management and have already formed views on accounting representations during their supervisory role may lack the critical distance required to challenge those same representations in their audit capacity. If this familiarity mechanism dominates, firms where the *Collegio* holds the dual role should exhibit greater book–tax misalignment (higher *ABSBTD*) and lower effective tax rates (*ETR*), reflecting greater tolerance for tax-driven accounting discretion. On the other hand, the dual role generates knowledge spillovers: continuous governance proximity gives the *sindaco-revisore* richer information about the firm’s tax reporting processes and a stronger factual basis to identify and constrain aggressive positions. If this informational advantage dominates, the dual role should predict tighter book–tax alignment and higher *ETR*. These two mechanisms generate directly opposing predictions, which means the empirical results from the *ABSBTD* and *ETR* models in Chapter 11 can discriminate between them. Researchers interpreting audit-quality proxies for *BSA* firms must therefore treat the dual-role structure as a moderating factor — a point explicitly addressed in the research design discussion of §11.4 — rather than assuming a uniform monitoring intensity across all *BSA* observations.

4.5 ISA Italia and the Distribution of Professional Responsibility in a Collegial Body

The adoption of ISA Italia has profoundly affected the practice of statutory auditing by the *Collegio Sindacale*, but its governance implications extend beyond compliance with a set of technical procedures. The standards impose a structured audit process — planning, risk assessment, responses to assessed risks, fi-

nal reporting — designed for a single engagement partner operating within a hierarchical audit organization. Their application to a collegial body requires a fundamental rethinking of how professional responsibility is distributed among members (CNDCEC 2016). This is not a merely administrative question. From the game-theoretic perspective developed in Chapter 1, the key issue is whether the collegial application of ISA Italia reinforces peer-monitoring dynamics or instead creates conditions for free-riding.

Collective audit planning — formally discussed and approved by the Board, with explicit allocation of responsibilities among members — can function as a peer-monitoring device: each member's contribution is observable to the others, reputational incentives within the group are activated, and individual complacency is harder to sustain without visible dissent. At the same time, the principle of collegiality does not eliminate individual accountability: each statutory auditor remains personally responsible for ensuring that the audit is conducted in compliance with professional standards. This dual dimension of collective decision-making and individual responsibility mirrors the peer-monitoring equilibrium analyzed in §1.5 of Chapter 1, where balanced work allocation was identified as a necessary condition for the collegial premium over unitary auditing to materialize. Where allocation is uneven — with one member effectively carrying the audit burden while others defer — the free-riding risk identified in joint audit settings reasserts itself. Professional guidance explicitly encourages the documentation of dissenting views within the Board, not as a sign of dysfunction, but as evidence of critical judgment and as the mechanism that makes individual accountability within a collegial structure credible.

4.6 Reporting and the Unitary Report

The culmination of the dual role is the unitary report, which combines the audit opinion with the supervisory report.² This instrument represents an attempt to reconcile two different logics of accountability within a single communicative framework (CNDCEC 2025). From a practitioner's perspective, the unitary report is both an opportunity and a risk: it allows stakeholders to perceive the coherence of supervisory and audit activities, but it also exposes statutory auditors to heightened scrutiny, as inconsistencies between the two sections may

² The unitary report (*relazione unitaria di controllo societario*) integrates the audit opinion under Legislative Decree 39/2010 with the supervisory report required under Italian company law. It has been extensively standardized by the CNDCEC (2025 guidance).

be interpreted as indicators of inadequate oversight or insufficient professional skepticism. Recent professional guidance stresses that particular attention must be paid to going concern assessments and significant subsequent events. Where material uncertainties exist, failure to reflect them adequately has been repeatedly censured by Italian courts, which emphasize the protective function of statutory auditing vis-à-vis creditors as well as shareholders.

5 THE BOARD OF STATUTORY AUDITORS IN THE AGE OF ARTIFICIAL INTELLIGENCE: NEW RISK FRONTIERS, GOVERNANCE CHALLENGES, AND SUPERVISORY TECHNIQUES

5.1 Artificial Intelligence as an Organizational Risk Factor

The progressive integration of Artificial Intelligence (AI) into corporate processes marks a qualitative leap in the risk profile of Italian companies and, consequently, in the supervisory responsibilities of the *Collegio Sindacale*. Unlike traditional IT systems, AI-based tools — especially those relying on machine learning and automated decision-making — do not merely support operational efficiency. They reshape decision-making architectures, redistribute accountability within the organization, and alter the informational environment upon which corporate governance relies. The CNDCEC guidelines on AI governance explicitly frame AI not as a purely technological issue, but as a matter of organizational adequacy and correct administration (CNDCEC 2025). From this standpoint, AI systems become integral components of the organizational, administrative, and internal control structures that statutory auditors are required to assess. The *Collegio* is not expected to evaluate the technical quality of algorithms, but to verify whether the governance of AI — including decision rights, oversight mechanisms, escalation procedures, and accountability lines — is coherent with the company's risk appetite and strategic objectives.

5.2 Decision Capture as Independence Impairment

Among the most significant risks identified by professional guidance is decision capture, whereby management gradually delegates substantive decision-making power to algorithmic systems while retaining only formal respon-

sibility. In such cases, the human decision-maker becomes a mere validator of machine-generated outputs, often without a genuine capacity or willingness to challenge them. The CNDCEC guidelines emphasize that this risk is particularly acute in areas such as credit scoring, pricing strategies, procurement optimization, and personnel management, where AI tools may produce outputs perceived as “objective” or “scientifically grounded” (CNDCEC 2025). From a supervisory perspective, decision capture undermines the principle of correct administration, as it obscures the locus of responsibility and weakens *ex ante* deliberation.

Decision capture is, in analytical terms, a form of independence impairment. The same mechanisms that generate familiarity and cognitive capture in long-tenure supervisory relationships — analyzed in depth in Chapter 9 — are at work when management defers to opaque algorithmic outputs and the *Collegio* accepts those outputs without independent scrutiny. In both cases, the monitor’s effective independence erodes not through formal disqualification but through the gradual normalization of management’s preferred representations. The independence framework developed in Chapter 4 therefore applies directly: decision capture must be treated as a self-review threat to be managed through documented safeguards. The *Collegio Sindacale* is required to verify that algorithmic outputs are subject to critical human review, that decision rationales are documented independently of the AI system’s own justifications, and that override procedures are clearly defined and operationally tested. The absence of such safeguards is a strong indicator of organizational inadequacy.¹

5.3 Shadow AI as Information Fragmentation

A second, more elusive risk arises from the proliferation of unauthorized or non-inventoried AI tools within corporate structures — commonly referred to as *shadow AI*. This phenomenon typically occurs when business units independently adopt generative AI tools or external cloud-based platforms without the knowledge or approval of central IT, compliance, or data protection functions. The CNDCEC identifies two resulting vulnerabilities: exposure to data leakage and confidentiality breaches, and fragmentation of the informational environ-

¹ The supervisory powers of the *Collegio Sindacale* applicable in these circumstances include the right to request corrective measures from directors and, where necessary, to escalate to shareholders or judicial authorities, as stated in the civil code provisions governing extraordinary supervisory interventions.

ment, undermining the reliability and completeness of management reporting (CNDCEC 2025).

Shadow AI is, in analytical terms, an information fragmentation problem of precisely the kind that Chapter 3's organizational adequacy framework is designed to address. The concealment of AI adoption from central governance functions is functionally equivalent to the absence of formalized information flows that Chapter 3 identifies as a structural source of hidden risk: in both cases, management retains an informational advantage that is not mediated through the accountability structures the *Collegio* is entitled to supervise. Statutory auditors must therefore ascertain whether the company has implemented formal authorization procedures for AI adoption, an inventory and mapping of AI use cases, and monitoring mechanisms capable of detecting unauthorized tools — treating the absence of such controls as a deficiency in organizational adequacy rather than as a mere IT governance issue. The persistence of shadow AI practices is a clear symptom of inadequate internal controls and weak governance, particularly in medium-sized enterprises where digitalization often proceeds in an informal and decentralized manner.

5.4 Algorithmic Bias, Data Quality, and the Duty of Vigilance

AI systems are only as reliable as the data on which they are trained. The risk of algorithmic bias — the systematic distortion of outputs due to biased or unrepresentative datasets — poses significant legal and reputational challenges, especially in areas affecting stakeholders' rights and expectations. The CNDCEC guidelines explicitly include data governance among the areas subject to statutory oversight (CNDCEC 2025). Statutory auditors are expected to verify that the company has adopted procedures for validating training datasets, documenting data sources, and periodically testing AI systems for robustness. Just as unreliable accounting data compromise the truthfulness of financial reporting, biased or opaque datasets compromise the integrity of AI-driven decisions. In both cases, the statutory auditor's role is to ensure traceability and explainability, rather than to substitute technical expertise.

5.5 The Use of AI by the Board of Statutory Auditors

The diffusion of AI tools also affects the internal functioning of the *Collegio Sindacale* itself. Data analytics, automated testing, and generative AI can enhance

efficiency in audit planning, risk assessment, and document review. Professional guidance stresses, however, that statutory auditors must retain full control over the audit process and avoid any form of dependence on AI systems provided or managed by the audited entity (CNDCEC 2025). Reliance on explanations generated by the company's own AI tools — especially black-box systems — without independent validation may amount to a de facto abdication of professional judgment.

The interaction between AI-assisted analysis and the *Collegio's* collective deliberation model raises a specific governance concern that is absent in unitary auditing: the risk of epistemic convergence. If all three members of the Board use the same AI tool or the same AI-generated risk summary as the starting point for their supervisory deliberations, the diversity of judgment that makes peer monitoring valuable is undermined at its source. Collegiality's principal benefit over unitary auditing — as established in Chapter 1's review of the joint audit literature — is the activation of independent critical perspectives that challenge managerial representations through different analytical lenses. An AI tool that aggregates and summarizes information before the Board members interact with it individually can suppress that diversity, producing the appearance of peer monitoring while in substance consolidating judgment around a single algorithmic reading. Conversely, AI tools that support the Board by making individual analytical contributions more precise — for example, by flagging anomalies in financial ratios that a member then interrogates independently — can enhance rather than erode the peer-monitoring dynamic, provided that each member retains the capacity to interpret and contest the tool's outputs. The Board's use of AI must therefore be governed by protocols that preserve individual analytical independence before collective deliberation: each member should form a preliminary independent view before the Board discusses AI-generated outputs, and disagreements with the tool's findings should be explicitly documented. Maintaining an audit trail of prompts and outputs when generative AI is used, clearly distinguishing between factual evidence and AI-generated insights, and ensuring that confidential corporate data are not used to train external or public models remain minimum safeguards regardless of which deliberation protocol is adopted.

5.6 AI, Organizational Adequacy, and Liability Exposure

The supervisory challenges posed by AI ultimately converge on the theme of civil liability. As Italian jurisprudence has affirmed, statutory auditors are not guarantors of business success, but they are responsible for failing to react to

evident organizational deficiencies. In an AI-driven environment, such deficiencies may be less visible but no less consequential. Failure to question opaque decision-making systems, to react to the absence of governance frameworks, or to document supervisory interventions may expose statutory auditors to liability for omission, particularly where AI-related failures contribute to financial losses, regulatory sanctions, or reputational damage. AI does not alter the fundamental structure of the *Collegio Sindacale's* responsibility; it amplifies its intensity, requiring a higher degree of professional awareness, documentation, and proactive engagement with emerging risk domains.

The organizational and governance stakes of AI supervision have observable empirical consequences. Where the *Collegio Sindacale* effectively monitors algorithmic bias, decision capture, and shadow AI, it constrains managerial discretion in precisely the domains where AI-driven automation is most likely to create reporting latitude: automated revenue recognition, algorithmic inventory valuation, and AI-assisted tax optimization routines. A *Collegio* that fulfills its organizational oversight mandate in technology-intensive environments should therefore exhibit a stronger negative association with abnormal accruals (*ABSA-AC*) in technology-intensive firms relative to non-technology firms.

The empirical test of this prediction uses R&D expenditure as the partition variable separating technologically complex from less complex firms in Chapter 11. This proxy warrants explicit qualification. R&D expenditure is an indirect and imprecise measure of technological complexity: it captures pharmaceutical research, manufacturing process innovation, and engineering patents alongside digitalization, and its relationship to AI adoption intensity in any given firm is mediated by sector-specific accounting treatment and innovation strategy.² Because AIDA does not provide IT-specific intangible asset data, capitalized software expenditure, or firm-level digitalization indices, a more direct empirical mapping between the AI risk taxonomy developed in this chapter and actual AI adoption intensity is not feasible with the available data. The R&D partition therefore tests whether the *Collegio Sindacale's* monitoring association is amplified in technologically complex environments broadly defined — not specific-

² R&D expenditure as reported in AIDA captures investment in product and process innovation broadly defined, including pharmaceutical research, manufacturing process development, and engineering patents. Its relationship to AI adoption intensity is sector-specific and not directly observable in the data. A more precise empirical mapping would require granular IT-asset data, capitalized software expenditure, or firm-level digitalization indices, none of which are available in AIDA at the scale required for this analysis.

ly in AI-intensive environments as that concept is developed in §§5.1–5.5. The result is an empirical window that is informative but necessarily approximate: a stronger *BSA* monitoring effect in R&D-active firms is consistent with the AI supervision mechanism developed here, but it does not constitute a direct test of it. A more precise empirical test would require granular IT-asset data or survey-based AI-adoption indicators, which represent an important avenue for future research in this area.

6 CIVIL LIABILITY OF THE BOARD OF STATUTORY AUDITORS: OMISSION, CAUSATION, AND RISK MANAGEMENT

6.1 The Structural Foundations of Civil Liability and the Conservatism Hypothesis

Civil liability represents the most sensitive and practically consequential dimension of the *Collegio Sindacale*'s activity (Muttini 2024). It is also the area in which the distance between formal statutory provisions and *living law* is most evident. The liability regime articulates a dual structure: a direct liability for violations attributable to the auditors' own conduct, and a concurrent liability with directors for damages caused by the latter, where such damages would not have occurred had the statutory auditors properly fulfilled their supervisory duties.¹ Italian doctrine has long emphasized that this provision reflects the position of guarantee occupied by statutory auditors within corporate governance. They are not mere observers, but institutional gatekeepers entrusted with the protection of the company, shareholders, creditors, and the integrity of the market. This position does not imply strict or objective liability; rather, liability hinges on a failure to exercise the powers and duties that the legal system concretely assigns to the *Collegio Sindacale*, as reaffirmed by the Supreme Court.

The structure of this liability regime generates a theoretically well-grounded conservatism hypothesis. When liability exposure is intense — that is, when the cost of supervisory omission is high, enforceable, and well-publicized through case law — rational statutory auditors will raise the threshold at which they ac-

¹ The dual liability structure — direct and concurrent with directors — is established in Italian company law. The Supreme Court has clarified that liability must be assessed in light of the actual scope of supervisory powers, not on the basis of an abstract expectation of omniscience (see, e.g., Cassazione civile, sez. I, 2025, n. 14275).

quiesce to aggressive managerial reporting. Each failure to react to a detectable misstatement or tax irregularity carries a potential liability cost; each documented reaction reduces that cost by demonstrating active vigilance. The predicted behavioral equilibrium is therefore one of reporting conservatism: statutory auditors under credible liability pressure will constrain managers who seek to exploit discretionary accounting choices, particularly in the tax domain where restatement risk is most visible. This mechanism provides direct theoretical grounding for a negative association between *BSA* presence and tax-related restatements (*TAX_RESTAT*): firms monitored by a *Collegio Sindacale* should report fewer tax-related corrections precisely because liability conservatism raises the cost of allowing tax irregularities to pass undetected. The empirical test of this prediction in Chapter 11 is not merely descriptive; it identifies liability conservatism as the operative mechanism that links the institutional design of the *Collegio* to observable reporting outcomes in a private-firm setting.

6.2 Omission of Supervision and the Standard of Diligence

A recurring theme in Supreme Court jurisprudence is that statutory auditors' liability does not require the identification of a specific unlawful act that they should have prevented. It is sufficient that they failed to detect or react to macroscopic irregularities, or that they remained inert in the face of circumstances that should have triggered heightened vigilance.² The Supreme Court has consistently held that the duty of supervision cannot be reduced to formal compliance — such as attendance at board meetings or passive review of documentation — but requires an active, critical, and autonomous assessment of corporate conduct, proportionate to the company's size, complexity, and risk exposure. Omission of supervision is inferred when statutory auditors fail to activate inspection powers in the presence of warning signs, fail to request clarifications before anomalous transactions, or fail to react to persistent signals of financial or organizational distress. Silence or inertia in such circumstances constitutes a breach of duty even in the absence of explicit statutory violations by directors, because the supervisory function is inherently preventive.

² The duty of active, critical, and autonomous supervision — as opposed to formal or passive compliance — has been affirmed in a consistent line of Supreme Court decisions, including Cassazione civile, sez. I, 2024, n. 27789.

6.3 Causation: The Key Practical Principle

The most technically complex element of civil liability concerns the causal link between omission and damage. The governing legal standard requires a counterfactual analysis: could timely supervisory action have prevented or mitigated the harm? The counterfactual causal test for liability is explicitly required by the governing civil code provision. The Supreme Court has developed a three-step analytical framework for its application: (1) establish the content of the omitted supervisory duty; (2) assess whether timely performance would have revealed the damaging conduct; (3) determine whether the resulting intervention would have prevented or mitigated the loss. This standard is particularly demanding in insolvency proceedings, where courts often identify the relevant damage not in the initial loss but in the aggravation of the patrimonial deficit attributable to delayed intervention (Cassazione civile, sez. II, 2021, n. 31239; Cassazione civile, sez. I, 2024, n. 3922). Civil liability requires proof of actual damage; the violation of supervisory duties alone is insufficient if not causally connected to a concrete impairment of assets or creditors' interests. The operative principle distilled from Supreme Court jurisprudence is straightforward: statutory auditors who can demonstrate documented, timely reaction to warning signs are substantially better protected against liability claims than those who cannot. The absence of such documentation does not create an absolute presumption of causation, but it leaves the statutory auditor without the evidentiary resources to rebut it. From a risk management perspective, the implication is unambiguous: proactive documentation of supervisory interventions is both a governance obligation and an indispensable defense.

6.4 Individual and Collegial Liability within the Board

Although the *Collegio Sindacale* operates as a collegial body, Supreme Court jurisprudence consistently holds that collegiality does not dilute individual responsibility. Each statutory auditor is personally required to contribute actively to supervisory activities and to exercise individual powers when collective inertia emerges. Failure to express dissent, the absence of documented objections, or passive alignment with the majority may ground individual liability even where decisions were formally taken by the Board as a whole. Conversely, statutory auditors who can demonstrate proactive conduct — written warnings, recorded dissent in minutes, or autonomous inspections — may limit or exclude their liability. In this perspective, documentation assumes decisive evidentiary value,

as courts rely heavily on contemporaneous records to reconstruct the auditors' actual behavior.

6.5 Liability in the Context of Statutory Auditing and Going Concern

When the *Collegio Sindacale* is also entrusted with statutory auditing, liability exposure expands further. Supervisory omissions may intertwine with failures in audit planning, execution, or reporting, particularly with regard to going-concern assessments and subsequent events. The Supreme Court has expressly held that statutory auditors cannot omit the signaling of significant events occurring after the balance-sheet date when they were aware of them and when such events materially affect the financial position of the company (e.g., Cassazione civile, sez. I, 2024, n. 34671). Standardized or boilerplate language in the audit opinion or supervisory report, when disconnected from the company's actual risk profile, is increasingly viewed by courts as an indicator of insufficient professional skepticism. This jurisprudence reinforces the coherence obligation: supervisory findings, audit judgments, and the content of the unitary report must be mutually consistent.

7 CONTROL MODELS COMPARED: THE BOARD OF STATUTORY AUDITORS, THE INDIVIDUAL AUDITOR, AND THE AUDIT FIRM

Italian corporate law is characterized by a pluralistic architecture of control models, reflecting a stratified compromise between flexibility, proportionality, and stakeholder protection. Each model embodies a distinct conception of control, shaped by different institutional logics, professional cultures, and risk profiles. The purpose of this chapter is not to rank these models abstractly, but to compare them along the core dimensions of the audit and control process, with sufficient precision to motivate the empirical design of Chapter 11 and to inform the practitioner-oriented guidance in Chapter 9. The detailed analysis of how each model operates within specific governance contexts — including board interaction, internal audit coordination, and crisis management — is addressed in Chapters 8 and 9.

Continuity is the dimension on which the *Collegio Sindacale* holds the clearest structural advantage over both alternatives. Year-round governance embeddedness enables the detection of organizational drift and emerging risks before they crystallize in financial reporting; audit firms and individual auditors, whose engagement logic is anchored to the reporting cycle, are structurally less able to capture the weak signals that Chapter 3 identifies as the primary target of effective statutory oversight.

Accountability clarity is the dimension on which the individual auditor holds a countervailing advantage. The absence of a collegial structure eliminates the free-riding and responsibility-diffusion risks identified in Chapter 1; every supervisory judgment is unambiguously attributable to a single professional. The *Collegio Sindacale* manages this tension through the formal recording of dissent and individual inspection powers, but the risk remains that collective inertia

Table 7.1 Comparison across four governance dimensions

Dimension	Collegio Sindacale (BSA)	Individual Auditor (revisore unico)	Audit Firm (società di revisione)
Continuity of oversight	Continuous; year-round attendance at board and executive committee meetings; real-time governance access	Continuous for supervisory duties; audit engagement episodic and concentrated around reporting cycle	Episodic; audit concentrated around financial reporting cycle; limited year-round governance exposure
Accountability clarity	Collective decisions; individual liability preserved; dissent formally recorded; symmetric liability regime	Unambiguous individual accountability; no diffusion risk; but no peer-monitoring benefit	Firm-level accountability with partner visibility; hierarchical review; asymmetric liability by firm size
Independence risk	Familiarity/proximity risk from continuous governance embeddedness; self-review threat in dual-role configuration; managed through documented safeguards	Lower familiarity risk due to absence of governance embeddedness; self-review risk if advisory services provided	Structural independence from governance processes; independence threats arise primarily from fee dependency and non-audit services
Technical resources	Heterogeneous professional backgrounds; limited access to specialized departments; compensated by continuous informational access and peer deliberation	Single professional judgment; depth depends on individual competence; no peer review; may engage external experts	Specialized technical departments; standardized ISA methodologies; scalable resources; industry-specific expertise; internal quality control

insulates individual members from the accountability pressure that drives conservative supervisory behavior.

Independence risk is distributed differently across the three models. The *Collegio's* continuous governance proximity generates familiarity risk that is absent in the audit firm model but is addressable through the documented safeguards

discussed in Chapter 4. The dual-role configuration creates self-review exposure whose net effect on reporting quality depends on whether knowledge spillovers outweigh the impairment of critical distance — the competing predictions explored in §4.3 and tested in Chapter 11.

Technical resources favor audit firms in large or highly complex engagements, while the *Collegio* compensates through the informational depth generated by continuous governance access. Professional heterogeneity within a well-functioning Board can enrich deliberation, but only if each member retains sufficient technical competence to contribute meaningfully. Courts have consistently rejected technical inadequacy as a defense, placing the burden on statutory auditors to acquire the expertise their specific mandate requires.

8 INTERACTION WITH GOVERNANCE AND CONTROL BODIES: COORDINATION, OVERLAPS, AND SYSTEMIC CRITICALITIES

8.1 The Collegio Sindacale as Hub of the Integrated Control System

Modern Italian corporate governance operates as an integrated system of controls, in which multiple actors — each endowed with distinct mandates — contribute to the overall objective of lawful, sound, and sustainable corporate management. Within this system, the *Collegio Sindacale* occupies a nodal position: it combines institutional proximity to governance with legally entrenched powers of inspection, reaction, and reporting. The CNDCEC norms explicitly conceptualize the *Collegio* as the primary hub for the circulation and synthesis of information among governance and control bodies (CNDCEC 2024a; CNDCEC 2024b; Giuliano and Lavitola 2024). Its distinctive contribution lies in its capacity to integrate fragmented information, translate technical findings into governance-relevant insights, and activate remedial mechanisms when necessary. This centrality, however, is not without friction: the multiplication of control actors — board committees, internal audit, risk management functions, and the *Organismo di Vigilanza* — generates areas of overlap, ambiguity, and potential duplication that require careful coordination. Effectiveness depends not only on the *Collegio*'s internal functioning, but on the quality of its interactions with each of these actors: coordination must be structured but flexible, proportionate to the company's complexity, and oriented toward early risk detection rather than defensive compliance. In this sense, the *Collegio* acts as the keystone of the Italian corporate control system — a function it fulfills only when it actively orchestrates information flows rather than passively receiving them.

8.2 Interaction with the Board of Directors and Executive Management

The relationship between the *Collegio Sindacale* and the board of directors constitutes the core axis of statutory oversight. Statutory auditors are required to attend board meetings, ensuring real-time access to strategic decisions and managerial deliberations.¹ Such participation is not merely observational: it serves to verify the informational basis of decisions, assess the procedural correctness of deliberations, and detect early signals of governance dysfunction (Mosco and Lopreiato 2019). The Supreme Court has stressed that failure to attend meetings or to react to problematic resolutions may ground liability for omission, particularly where decisions entail significant risk exposure. At the same time, professional guidance emphasizes the need to preserve a clear boundary between supervision and management: the *Collegio* must avoid any conduct that could be construed as co-management or strategic direction, as such involvement would compromise independence and expose statutory auditors to self-review risk. Effective interaction therefore requires proximity without interference, dialogue without substitution.

8.3 Interaction with Internal Control and Risk Management Functions

The rise of internal control systems and enterprise risk management functions has significantly altered the landscape of corporate oversight. These functions, where present, operate as first- and second-line controls, producing a continuous flow of information on operational, financial, and compliance risks. The CNDCEC norms require the *Collegio Sindacale* to evaluate the adequacy and functioning of internal control and risk management systems, rather than to replicate their activities (CNDCEC 2024a; CNDCEC 2024b). In practice, this translates into periodic exchanges with internal audit and risk officers, review of risk maps and internal audit plans, and assessment of whether identified weaknesses are addressed by management in a timely manner. Professional doctrine warns that ineffective coordination may lead to two opposite but equally problematic outcomes: over-reliance on internal functions, resulting in passive supervision, or duplication of controls, leading to inefficiency and confusion

¹ The obligation to attend board meetings is established in Italian company law. The Supreme Court has consistently held that absence from meetings, or failure to react to resolutions that should have triggered supervisory intervention, may ground liability for omission; see, e.g., Cassazione civile, sez. I, 2025, n. 14275.

(Marcello and Pozzoli 2021). The *Collegio's* added value lies in its ability to contextualize internal control outputs within a broader governance and legal framework, identifying not only technical deficiencies but also organizational and strategic implications.

8.4 Interaction with the *Organismo di Vigilanza*

One of the most delicate coordination challenges concerns the relationship between the *Collegio Sindacale* and the *Organismo di Vigilanza* established under Legislative Decree 231/2001. Although both bodies perform oversight functions, their mandates are structurally distinct: the *Organismo* focuses on the effectiveness of the organizational model designed to prevent criminal liability, whereas the *Collegio* exercises a general supervisory role under corporate law. CNDCEC guidance stresses that these functions must remain separate, but information exchange is not only permitted but recommended, provided that confidentiality and independence are preserved (CNDCEC 2024a). In particular, statutory auditors should acquire information on significant violations detected by the *Organismo*, verify that corrective actions are implemented, and assess whether repeated compliance failures signal broader organizational inadequacies. The *Collegio* retains residual responsibility for overseeing the adequacy of the Decreto Legislativo 231/2001 compliance model as part of the overall organizational structure, even though it is not responsible for its day-to-day monitoring (Rosapepe 2013).

8.5 Interaction with Board Committees and Endo-Conciliary Bodies

In larger or more structured companies, the governance architecture often includes endo-conciliary committees such as audit committees, control and risk committees, or sustainability committees. The CNDCEC norms require the *Collegio Sindacale* to establish structured and periodic interaction with these committees, recognizing their role in preparing and deepening issues that fall within the Board's supervisory remit (CNDCEC 2024a). This interaction serves to reduce informational asymmetries, avoid duplication of oversight activities, and enhance the quality of supervisory judgment. Professional standards also caution against functional displacement, whereby the *Collegio* defers excessively to committee outputs without exercising independent assessment. Supreme Court case law makes clear that reliance on internal committees does not exonerate statutory auditors from responsibility when critical issues remain unaddressed.

8.6 Coordination Failures and Liability Implications

From a liability perspective, coordination failures among governance and control bodies represent a recurring pattern in judicial reasoning. Courts often reconstruct ex post how information circulated — or failed to circulate — within the governance system to determine whether statutory auditors exercised adequate vigilance. Failure to request information, to follow up on warnings issued by other control bodies, or to escalate unresolved issues may be construed as a breach of supervisory duties, even where other actors were formally involved. Conversely, statutory auditors who can demonstrate structured interaction, documented exchanges, and reasoned reliance on internal control outputs are better positioned to defend against liability claims. The detailed analysis of liability consequences and the operational practices that minimize them is treated in Chapter 6 of this monograph, which constitutes the primary reference for all liability matters addressed across Parts I and II.

9 STRENGTHS, WEAKNESSES, AND OPERATIONAL BEST PRACTICES: A CRITICAL AND EMPIRICALLY GROUNDED ASSESSMENT

9.1 Analytical Framework: Beyond Apologetics and Systemic Skepticism

Any assessment of the *Collegio Sindacale* that aspires to be useful for practitioners must avoid two symmetrical distortions: apologetic narratives that obscure operational limits and liability risks, and systemic skepticism that undervalues the structural strengths of a model central to Italian corporate governance. The purpose of this chapter is to offer a balanced and critical evaluation grounded in professional standards, doctrine, and case law. For each governance dimension, the analysis proceeds from failure mode to operational remedy — a structure that reflects the argumentative logic of a scholarly monograph and is more persuasive for practitioners, who recognize their own exposures before they seek solutions.

9.2 Continuity and Organizational Oversight

The most frequently acknowledged structural strength of the *Collegio Sindacale* is the continuity of oversight. Unlike external auditors, statutory auditors are embedded in the governance system and exercise their functions throughout the financial year. Attendance at board meetings, ongoing interaction with management, and access to internal reporting flows allow the *Collegio* to develop a cumulative understanding of the firm that enables the detection of weak signals: informal decision-making practices, recurring management overrides, deterioration of internal controls, or governance tensions that may not imme-

diately translate into quantitative indicators (Amatucci 2016). The failure mode, however, is proximity's inverse: the same continuous engagement that generates informational depth can, if allowed to operate without disciplined skepticism, produce normalization of deviance. Statutory auditors who attend enough board meetings in the same firm tend, over time, to internalize management's framing of risks and to treat recurring weaknesses as tolerable rather than as supervisory triggers. The Supreme Court reasons directly from this dynamic: proximity to governance implies greater capacity to know and react, raising the standard against which omission of supervision is assessed. A statutory auditor who was present when the warning signs emerged and failed to react cannot credibly claim ignorance.

The operational best practice follows directly from this liability logic. Supreme Court jurisprudence consistently assesses supervisory adequacy in light of the company's specific risk profile, rejecting one-size-fits-all approaches. Statutory auditors must therefore construct a documented supervisory plan — risk-based, proportionate to the company's complexity, and periodically updated in response to emerging risks — that demonstrates *ex ante* that oversight intensity was calibrated to the warning signs available at each moment. Periodic reassessment of the plan, triggered by governance tensions, organizational changes, or deteriorating financial indicators, transforms continuity from a potential liability exposure into its most powerful defense: the contemporaneous record of sustained and adaptive vigilance.

9.3 Independence and the Management of Proximity

The failure mode in this dimension is cognitive capture. Continuous interaction with management — a structural feature of the *Collegio's* design — generates familiarity that can gradually erode critical distance. Professional standards explicitly warn against confirmation bias and authority bias in long-standing appointments (CNDCEC 2023; CNDCEC 2024a). Courts increasingly scrutinize cases in which statutory auditors failed to challenge dominant managers or accepted implausible explanations without verification, interpreting such behavior as symptomatic of compromised independence rather than mere error. The liability consequence is direct: where uncritical alignment with management is demonstrable from meeting minutes, the auditor's defense — that the information provided was plausible — loses credibility precisely because the auditor had continuous access to the underlying reality that management's narrative was obscuring.

Given this liability structure, independence must be actively managed rather than presumed. The best practice requires periodic and documented reassessment of independence, addressing not only formal incompatibilities but also relational and cognitive risks. Rotation of tasks within the Board prevents any single member from becoming the default interlocutor for specific management areas, reducing the personalization of oversight that is the precursor of capture. Critical review of long-standing assumptions about management reliability — systematically asking whether the evidence for a favorable judgment is fresh or merely accumulated habit — is the cognitive analogue of documented rotation. In concentrated managerial power situations, heightened scrutiny must be explicitly reflected in planning documents, not merely applied informally.

9.4 Documentation as Substantive Evidence

The failure mode in the documentation dimension is twofold: under-documentation leaves the statutory auditor without the evidentiary resources to demonstrate adequate vigilance, while over-documentation devoid of analytical content produces the same result through a different path. Supreme Court case law relies heavily on contemporaneous records to reconstruct whether statutory auditors exercised their duties with the required diligence. Gaps in minutes, absence of recorded dissent, or generic supervisory reports are frequently interpreted as indicators of superficial oversight. The liability consequence is that the court infers passivity from silence: where the Board met regularly but minutes contain only formulaic attestations of compliance, courts treat the formal record as evidence of a ceremonial rather than substantive oversight function. As established in Chapter 6, the liability consequences of documentation failures are substantial; the operational guidance on documentation practice is addressed in this section.

The best practice follows directly from this evidentiary logic. Minutes must reflect not only decisions but also the reasoning and debates underlying them; explicit recording of dissenting opinions or reservations is not a sign of dysfunction but the evidence that makes individual accountability within a collegial structure credible. Traceable follow-up on issues previously identified demonstrates the adaptive intelligence that courts look for: a Board that identified a weakness at one meeting and documented its resolution at a subsequent meeting presents an evidentiary record that is almost impossible to characterize as passive. Documentation must be selective and meaningful rather than purely

formal: analytical content is what converts a contemporaneous record into a defense.

9.5 Early Reaction and Escalation

Detection without reaction is increasingly treated as a breach of duty in Supreme Court jurisprudence. The failure mode here is a graduated one: statutory auditors who identify a problem, note it informally, and continue to monitor without escalating may believe they are acting responsibly, but courts characterize inaction following detection as a more serious failure than non-detection. The reasoning is that detection activates the duty to react — a duty that then runs from the moment of awareness. Where the *Collegio* can demonstrate that it detected a risk at time T and took no escalation step before time T+n, the aggravation of the damage during that interval may be attributed to the omission. The liability consequence is therefore not only the failure to prevent the original damage but the failure to contain it.

The operational best practice derived from this liability structure requires statutory auditors to establish, *ex ante*, a clear decision rule distinguishing issues that can be monitored and those requiring immediate action. Formal requests for corrective measures from directors, recorded in writing and cross-referenced in subsequent meeting minutes, transform the *Collegio*'s supervisory record from a passive log into a documented escalation chain. Where corrective action is not taken within a reasonable time, the escalation to shareholders or judicial authorities is not merely permissible but — in the liability calculus established in Chapter 6 — required. Professional doctrine emphasizes that escalation is not a hostile act but an integral component of the supervisory function, particularly in crisis or pre-crisis contexts (Rosapepe 2013; Calandra Buonauro 2021).

9.6 Coordination as a Supervisory Multiplier

The failure mode in the coordination dimension is reliance without autonomy: statutory auditors who receive outputs from internal audit, risk management, or board committees without independently evaluating them may believe they are executing an efficient division of labor, but courts have made clear that reliance on other control actors does not exonerate statutory auditors from responsibility when critical issues remain unaddressed. The liability consequence is that

the *Collegio's* defense — that it relied on another body's assurances — fails whenever the Court can show that the *Collegio* had the powers and information to form its own independent judgment and did not do so.

The best practice is therefore not less coordination but better-structured coordination: documented information exchange accompanied by an explicit record of the *Collegio's* independent evaluation of what was received. Where internal audit flags a deficiency, the *Collegio's* response should appear in its own meeting minutes as an independent assessment, not merely as an acknowledgment. This approach converts coordination from a potential liability trap into a supervisory multiplier: the *Collegio* gains the informational benefit of other control bodies' work while demonstrating the independent judgment that makes its own oversight legally credible.

9.7 Crisis Prevention and Going Concern

The prevention and management of corporate crisis represent the stress test of the *Collegio's* effectiveness, and the failure mode here is the most consequential: statutory auditors who fail to intensify oversight as financial and organizational conditions deteriorate, or who accept recovery plans and going-concern assumptions without critical scrutiny, may be liable not only for the original loss but for the entire aggravation of the company's financial deficit attributable to delayed intervention. Courts have repeatedly held that the duty of supervision intensifies proportionally to observable indicators of financial distress, precisely because the statutory auditor's continuous access to governance processes gives it an informational advantage over external parties that is most valuable — and most obligating — in a crisis context.

The best practice follows from this heightened standard: continuous monitoring of liquidity and solvency indicators must be explicitly reflected in planning documents, with predetermined triggers for escalation. Recovery plans and management projections must be critically evaluated against the historical accuracy of management's forecasts; where those plans rest on optimistic assumptions that are not independently verifiable, the *Collegio* must either obtain independent verification or document its reservations explicitly in the supervisory report. Going-concern uncertainties must be reflected transparently in both the supervisory section and the audit opinion where the dual role is held, not managed through generic disclosure language that courts have consistently characterized as evidence of insufficient professional skepticism.

9.8 Empirical Predictions: Bridging the Qualitative Analysis to Chapter 11

The critical and operational analysis developed in this chapter, together with the theoretical mechanisms established in Chapters 1 and 2 and the institutional design examined throughout Part II, yields a set of formally testable predictions about the observable monitoring outcomes of the *Collegio Sindacale* relative to the individual auditor and the audit firm. These predictions structure the empirical analysis of Chapter 11 and are stated here with sufficient precision to permit clear discrimination between competing mechanisms.

Prediction 1. The knowledge-synergy mechanism predicts that the *Collegio's* collegial deliberation structure and continuous governance embeddedness constrain managerial discretion over accrual choices. The liability-conservatism mechanism established in Chapter 6 independently predicts that intense, symmetric, and individually enforceable liability exposure raises the threshold at which statutory auditors acquiesce to aggressive reporting. Both mechanisms converge on a negative association between the *BSA* indicator and absolute abnormal accruals (*ABSAAC*): firms monitored by a *Collegio Sindacale* should exhibit lower discretionary accrual intensity than firms monitored by alternative control bodies.

Prediction 2. The liability-conservatism mechanism predicts a specifically strong negative association between *BSA* presence and tax-related restatements (*TAX_RESTAT*). Tax restatements are the most visible and publicly documentable form of reporting failure in the Italian private-firm context, and therefore the domain in which the expected-cost structure of supervisory omission is highest. Firms monitored by a *Collegio Sindacale* should report fewer tax-related corrections, with this association persisting after entropy balancing for observable firm characteristics.

Prediction 3. As established in §4.3, the dual-role structure of the *sindaco-revisore* generates directly competing predictions for book–tax differences and effective tax rates. The familiarity (self-review) mechanism predicts that the *Collegio* in dual-role configurations will exhibit higher *ABSBTD* and lower *ETR*, reflecting greater tolerance for tax-driven reporting discretion. The knowledge-spillover mechanism predicts the opposite: tighter book–tax alignment and higher *ETR*, reflecting informational advantages over external auditors. The *ABSBTD* and *ETR* models in Chapter 11 test which mechanism dominates empirically.

Prediction 4. The familiarity, cognitive capture, and network spillover mechanisms analyzed in §9.3 and Chapter 5 generate a formally stated competing null: if proximity and embeddedness produce normalization of deviance that

dominates the monitoring benefits, then *BSA*-monitored firms should exhibit *higher* — not lower — values of *ABSAAC*, *TAX_RESTAT*, and *ABSBTD*, and lower *ETR*. The evidence that *BSA* firms consistently exhibit the opposite pattern across all four outcomes and multiple specifications, including entropy-balanced estimates, constitutes the empirical test that distinguishes the knowledge-synergy-and-conservatism thesis from the familiarity-and-capture alternative.

10 FROM OPERATIONAL PRACTICE TO EMPIRICAL EVIDENCE: A BRIDGE FROM PART II TO PART III

Parts I and II have developed two complementary but distinct analytical arguments. Part I established, through the international joint audit literature and an institutional analysis of the *Collegio Sindacale*, the conditions under which collegial monitoring should outperform unitary oversight: when peer-monitoring dynamics are activated by continuous engagement and individual accountability, when liability conservatism raises the cost of supervisory omission, and when institutional embeddedness generates informational advantages unavailable to episodic external auditors. Part II operationalized these mechanisms by showing how they manifest — and sometimes fail to manifest — in the concrete realities of Italian statutory oversight: the organizational adequacy mandate of Chapter 3, the self-review tensions of Chapter 4, the AI governance challenges of Chapter 5, the liability architecture of Chapter 6, and the failure modes and best practices documented in Chapter 9. The qualitative analysis has been deliberate and detailed because each mechanism it identifies generates a distinct and falsifiable empirical prediction.

The mapping from mechanism to empirical tests proposed in Part III is as follows. Knowledge synergies — the informational advantage generated by continuous governance embeddedness and collegial deliberation — should reduce managerial discretion over accrual choices; the test is the association between the *BSA* indicator and absolute abnormal accruals (*ABSAAC*). Liability conservatism — the behavioral response to intense, symmetric, and individually enforceable liability exposure documented in Chapter 6 — should reduce the incidence of observable tax reporting failures; the test is the association between *BSA* and tax-related restatements (*TAX_RESTAT*). The dual-role ambiguity of the *sindaco-revisore* — generating competing predictions from the self-review and know-

ledge-spillover mechanisms — is tested through book–tax differences (*ABSBDT*) and effective tax rates (*ETR*), where the direction of the *BSA* coefficient identifies which mechanism dominates. Regional network quality — the geographic variation in professional community density and enforcement intensity that shapes both the benefits and the risks of collegial embeddedness — is tested through the North/Center/South partition in the additional analyses of Chapter 11.

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PART III
AUDIT OUTCOMES ACROSS
CONTROL MODELS
IN ITALIAN PRIVATE FIRMS

11 EMPIRICAL ANALYSIS

11.1 Motivation and Research Questions

Existing empirical research on audit quality in Italian private firms has largely been organized around binary distinctions — Big 4 versus non-Big 4 auditors, or the presence versus absence of a statutory audit function — without fully exploiting the institutional diversity offered by the coexistence of collegial boards, individual auditors, and audit firms that is unique to the Italian system (Cameran and Prencipe 2011; Bianchi 2018; Cameran et al. 2025). International research has increasingly emphasized the role of professional networks, social capital, and local enforcement environments in shaping audit outcomes, yet these insights have rarely been integrated into a unified analysis of control models within a single country (Bianchi et al. 2020). From a practitioner perspective, firms and professionals face concrete choices among alternative control arrangements, but empirical guidance on the monitoring consequences of these choices remains limited.

This chapter addresses these gaps by comparing the *Collegio Sindacale* (Board of Statutory Auditors [BSA]), the external audit firm (*società di revisione*), and the individual statutory auditor (*revisore unico*) in terms of their association with audit quality and tax avoidance in Italian private firms. Unlike listed companies, private firms operate in an environment characterized by weaker market discipline, lower disclosure requirements, and greater reliance on internal and relational forms of control. Differences in monitoring effectiveness are therefore more likely to emerge and to be attributable to the control model itself rather than to capital market pressures. Italy's pronounced territorial differences in social capital, institutional quality, and informal enforcement — which have been shown to affect economic behavior and governance outcomes — allow the analysis to examine whether monitoring effectiveness varies systematically across regions, linking the auditing literature to broader theories of institutio-

nal embeddedness. The analysis draws on AIDA (Bureau van Dijk) data covering 38,103 Italian private firms in fiscal year 2024, combining four audit quality proxies with broad industry and regional coverage that no prior study in this literature has achieved.

11.2 The Collegio Sindacale between Audit Quality and Tax Expertise

The Italian private firm setting is particularly suitable for examining the interaction between audit quality and tax incentives. The earnings management literature has largely focused on listed firms, where financial reporting is shaped by capital market pressures and reputational concerns. Private firms, however, face a markedly different incentive structure: as Burgstahler et al. (2006) document, private firms engage in more earnings management than public firms, especially in environments where tax and financial reporting are closely aligned and enforcement is relatively weak. Italy represents precisely such a context. The strong alignment between tax and financial reporting and relatively weak legal enforcement creates structural incentives for tax-motivated discretionary accounting, making the monitoring role of auditors and statutory bodies central in determining whether discretionary behavior is constrained or facilitated.

Within this framework, the *BSA* occupies a distinctive institutional position. Unlike the individual auditor or the audit firm, the *BSA* is a collegial body embedded within the governance structure of the firm, combining continuous oversight with, in many cases, statutory audit responsibilities. This institutional embeddedness provides access to internal information flows and ongoing interaction with management, but also exposes the monitoring process to proximity risks and potential social ties with the firm's leadership.

The literature on joint and collegial auditing highlights two opposing mechanisms that may arise in such environments. On the one hand, collaborative audit structures may enhance audit quality through knowledge sharing, peer consultation, and cross-review processes that improve the detection of reporting irregularities. The "four-eyes principle" and the exchange of expertise among auditors can increase the likelihood of detecting errors or opportunistic accounting choices. Empirical evidence from Italian joint engagements similarly suggests that collaboration among auditors facilitates knowledge transfer and professional interaction, potentially improving monitoring effectiveness. On the other hand, proximity to management and repeated interaction within professional networks may also weaken monitoring incentives. Network spillovers can

transmit aggressive reporting norms across engagements, while familiarity with the client environment may generate cognitive capture or tolerance toward opportunistic reporting practices. These competing forces imply that the net monitoring effect of the *BSA* relative to alternative control structures is ultimately an empirical question.

The institutional comparison between the *BSA*, the *revisore unico*, and audit firms therefore yields distinct predictions regarding observable reporting outcomes. If the collegial monitoring structure of the *BSA* generates knowledge synergies and reinforces conservative reporting incentives, firms monitored by a *BSA* should exhibit lower levels of discretionary accounting and reduced indicators of aggressive tax behavior. Conversely, if familiarity, proximity, or network spillovers dominate, *BSA*-monitored firms may display weaker reporting discipline relative to firms monitored by external auditors. Building on the theoretical mechanisms and the formally stated predictions developed in Section 9.8, these competing forces translate into two sets of empirical expectations concerning audit quality and tax avoidance behavior.

First, if collegial deliberation and shared liability strengthen monitoring incentives, the *BSA* should constrain managerial discretion over accounting choices. Under this mechanism, firms monitored by a *BSA* should exhibit lower levels of discretionary accruals and a reduced incidence of observable reporting failures, such as tax-related restatements, compared to firms monitored by a *revisore unico* or an external audit firm. Second, the dual-role configuration frequently observed in private firms—where the *BSA* simultaneously performs governance oversight and audit functions—creates ambiguous predictions for tax-motivated reporting behavior. Enhanced informational access may allow the *BSA* to enforce tighter alignment between book income and taxable income, reducing tax-driven accounting discretion. However, familiarity with the firm's internal processes could also increase tolerance toward tax-minimizing strategies, resulting in larger book–tax differences and lower effective tax rates. Because these mechanisms generate opposing theoretical predictions, the relative effectiveness of each monitoring model remains an empirical question. Accordingly, the empirical analysis is structured around the following null hypotheses:

H_{0a}: There are no statistically significant differences in audit quality between private firms monitored by a Collegio Sindacale and those monitored by a revisore unico or a società di revisione.

H_{0b}: There are no statistically significant differences in tax avoidance between private firms monitored by a Collegio Sindacale and those monitored by a revisore unico or a società di revisione.

Rejecting these null hypotheses in the direction predicted by the knowledge-synergy and liability mechanisms would suggest that the collegial monitoring structure of the *BSA* improves reporting discipline in private firms. Conversely, failure to reject — or evidence consistent with the opposite pattern — would support the alternative view that familiarity, proximity, and network spillovers weaken monitoring effectiveness.

11.3 Sample Selection and Composition

The sample is constructed using financial statement data from AIDA (Bureau van Dijk) and initially covers Italian private companies from all geographic regions over the period 2015–2024. Table 11.1 summarizes the sample selection process. We begin with 1,195,244 firm-year observations extracted from 108 AIDA files, corresponding to 103,070 unique firms. We exclude firms that were inactive prior to 2015, observations prior to 2015, and duplicate firm-year records. This procedure yields a financial panel of 865,556 firm-year observations across 103,070 firms. To compute abnormal accruals using the Modified Jones model, we retain observations with sufficient accounting data and apply standard industry-year requirements. This results in the accruals panel used to construct audit quality measures.

AIDA provides information on audit structure — specifically, the identity and type of the auditor of record, distinguishing the *Collegio Sindacale*, the individual auditor, and the audit firm — only for the most recent fiscal year in its database, which corresponds to FY2024 for the current extraction. Because auditor-type classification is unavailable for prior years, a panel design exploiting within-firm variation in control model assignment is not feasible with this data source. The empirical analysis is therefore cross-sectional by data necessity, and the sample is restricted to 2024. The initial 2024 cross-section includes 79,417 firms. We exclude 24,348 firms with no auditor of any type recorded in AIDA. These firms are predominantly micro-enterprises that fall below the statutory size thresholds triggering mandatory audit or supervisory body requirements under Italian company law: they are systematically smaller, younger, more concentrated in Southern regions, and more heavily represented in construction and retail trade than the firms that remain in the analysis sample. As such, they lie outside the population for which the mechanism-based predictions developed in Parts I and II are theoretically relevant — statutory audit and oversight quality can only be observed where a statutory audit or oversight body exists. I further exclude 16,966 observations with missing values on one or more dependent va-

riables or control variables required for the common estimation sample. The final analysis sample consists of 38,103 firms.

Table 11.1 Sample Selection

Selection criterion	Firm-year observations	Unique firms
Panel A: Construction of financial panel (AIDA, 2015–2024)		
Firm-year observations from 108 AIDA extraction files	1,195,244	103,070
Less: firms inactive before 2015	(229,598)	
Less: observations prior to 2015	(90,746)	
Less: duplicate firm-year records	(9,344)	
Full financial panel	865,556	103,070
Panel B: Estimation of abnormal accruals (Modified Jones model)		
Observations with sufficient data for accruals estimation	427,455	
Less: observations with missing accruals inputs or insufficient cell size	(438,101)	
Panel with accruals information	865,556	103,070
Panel C: 2024 cross-section and audit structure		
Restrict panel to fiscal year 2024	79,417	79,417
Less: firms with no auditor of any type	(24,348)	
Less: observations with any missing dependent variable or control	(16,966)	
Final analysis sample	38,103	38,103

This Table illustrates the sample selection process.

Table 11.2 provides the composition of the final 2024 sample by industry (Panel A) and region (Panel B). The sample is broadly distributed across sectors, with manufacturing representing 41.6% of firms, followed by wholesale and retail trade (24.7%) and construction (8.4%). The remaining firms are spread across transportation, professional services, information and communication, health services, and other sectors, ensuring substantial industry heterogeneity. Geographically, the sample reflects the economic structure of Italy: Lombar-

dy alone accounts for 30.7% of observations, followed by Veneto (12.7%) and Emilia-Romagna (10.2%), while the Central and Southern regions are also well represented. This broad industry and territorial coverage enhances the external validity of the analysis and allows for meaningful cross-sectional comparisons across economic environments.

Table 11.2 Sample Composition

Panel A — Sample composition by industry (NACE Section)					
NACE Section	N	% of total	% Audit firm	% Individ. Aud.	% BSA
Manufacturing	15852	41.6%	32.6%	45.6%	21.8%
Wholesale and retail trade	9404	24.7%	27.6%	54.2%	18.2%
Construction	3184	8.4%	19.2%	66.3%	14.5%
Transportation and storage	1905	5.0%	30.0%	48.1%	21.9%
Administrative and support services	1255	3.3%	37.1%	39.4%	23.5%
Professional, scientific, technical	1208	3.2%	48.8%	32.1%	19.1%
Information and communication	1199	3.1%	56.9%	27.6%	15.5%
Human health and social work	902	2.4%	30.4%	26.9%	42.7%
Accommodation and food service	845	2.2%	30.7%	53.8%	15.5%
Water supply, sewerage, waste mgmt	822	2.2%	33.9%	48.8%	17.3%
Real estate	615	1.6%	41.3%	29.9%	28.8%
Electricity, gas, steam	454	1.2%	70.9%	13.4%	15.6%
Arts, entertainment and recreation	194	0.5%	49.5%	30.4%	20.1%
Other service activities	146	0.4%	24.0%	56.2%	19.9%
Education	106	0.3%	39.6%	37.7%	23.6%
Other	12	0.0%	12.5%	62.5%	25.0%
TOTAL	38103	100.0%	32.1%	47.5%	20.4%

Panel B — Sample composition by region					
Region	N	% of total	% Audit firm	% Individ. Aud.	% BSA
Lombardia	11680	30.7%	41.6%	40.5%	17.9%
Veneto	4833	12.7%	29.7%	51.7%	18.6%
Emilia-Romagna	3886	10.2%	35.8%	41.9%	22.3%
Lazio	2749	7.2%	27.1%	49.6%	23.3%

Piemonte	2651	7.0%	38.1%	42.0%	19.9%
Toscana	2431	6.4%	25.5%	47.6%	26.9%
Campania	2079	5.5%	11.2%	63.3%	25.5%
Puglia	1171	3.1%	15.5%	63.2%	21.3%
Sicilia	1016	2.7%	15.1%	62.8%	22.1%
Trentino-Alto Adige/Südtirol	999	2.6%	52.6%	36.0%	11.4%
Marche	982	2.6%	22.7%	56.1%	21.2%
Friuli-Venezia Giulia	897	2.4%	30.7%	53.2%	16.2%
Liguria	639	1.7%	32.7%	43.3%	23.9%
Abruzzo	614	1.6%	18.7%	59.1%	22.5%
Umbria	493	1.3%	21.5%	57.8%	20.7%
Sardegna	329	0.9%	18.2%	57.1%	24.6%
Calabria	316	0.8%	10.8%	69.3%	19.9%
Basilicata	190	0.5%	14.2%	63.7%	22.1%
Valle d'Aosta/Vallée d'Aoste	75	0.2%	42.7%	41.3%	16.0%
Molise	73	0.2%	17.8%	54.8%	27.4%
TOTAL	38103	100.0%	32.1%	47.5%	20.4%

This Table provides the sample composition by Industry (Panel A) and Region (Panel B).

11.4 Research Design

To examine whether the *Collegio Sindacale* is associated with different monitoring outcomes relative to the *revisore unico* and the *società di revisione*, I estimate the following cross-sectional model:

$$\begin{aligned}
 DV_i = & \beta_0 + \beta_1 BSA_i + \beta_2 FIRM_AGE_i + \beta_3 SIZE_i + \beta_4 ROA_i + \\
 & \beta_5 LEVERAGE_i + \beta_6 SALES_GROWTH_i + \beta_7 CFO_VOL_i + \\
 & \beta_8 SALES_VOL_i + \beta_9 PPE_GROWTH_i + \beta_{10} LAG_ACCRUALS_i + \varepsilon_i
 \end{aligned} \quad (1)$$

Equation (1) estimates the relationship between our test variable, *BSA*, and four measures of reporting quality: abnormal accruals, tax-related restatements, book-tax differences, and effective tax rate. When the dependent variable is abnormal accruals, book-tax differences, and effective tax rate, I use an OLS framework, while for tax-related restatements, I use a logit regression. The main variable of interest is *BSA*, an indicator equal to one if the *Collegio* of firm *i* is in

charge of the statutory audit, and zero if an individual auditor or an audit firm is in charge of the statutory audit.

The primary proxy for audit quality is absolute abnormal accruals (*ABSA-AC*), estimated using the Modified Jones model. Total accruals are first computed as the difference between accounting earnings and operating cash flows. Within each industry, normal accruals are estimated as a function of changes in revenues and property, plant, and equipment, and abnormal accruals are obtained as the residual from this model. We use the absolute value of abnormal accruals to capture the magnitude of discretionary accounting choices irrespective of direction. Larger values indicate greater managerial discretion and, therefore, weaker monitoring effectiveness. This approach follows established audit quality research and is consistent with the framework employed in Bianchi (2018), where discretionary accruals are used as an outcome measure of monitoring intensity in Italian private firms.

To capture monitoring quality in the tax domain, we follow prior studies using Italian settings (e.g., Bianchi 2018; Bianchi et al. 2019; Bianchi et al. 2026) and construct an indicator variable for tax-related restatements (*TAX_RESTAT*), which equals one when a firm reports a correction to previously disclosed tax information and zero otherwise. Tax restatements represent observable failures in the oversight of tax-related financial reporting and provide an outcome-based measure of monitoring effectiveness. While accrual-based measures capture discretion embedded in ongoing reporting choices, tax restatements reflect more visible breakdowns in the monitoring process, particularly in environments where tax minimization incentives are strong.

As a broader measure of tax discretion, we compute book–tax differences (*BTD*) as the scaled difference between pre-tax accounting income and an estimate of taxable income. Taxable income is proxied by dividing current tax expense by the applicable statutory corporate tax rate. This construction follows Desai and Dharmapala (2006) and Hanlon (2005), and captures the gap between accounting income and income reported for tax purposes. We use the absolute value of book–tax differences (*ABSBTD*) to measure the magnitude of tax–book misalignment. Small book–tax differences suggest close alignment between financial reporting and tax reporting, while large differences indicate greater divergence and potentially greater tax-related discretion. In the Italian context, where tax and accounting rules are closely linked, substantial book–tax differences may reflect aggressive tax planning or opportunistic accounting choices.

As an additional proxy for tax avoidance, we compute the effective tax rate (*ETR*) as current tax expense divided by pre-tax income. The analysis is restricted to firms with positive pre-tax income to ensure meaningful interpretation.

Lower effective tax rates indicate that a firm pays less tax relative to its accounting income and are typically interpreted as evidence of greater tax avoidance. This measure is consistent with the design used in Bianchi et al. (2019) in examining monitoring outcomes in Italian private firms.

All regressions include a comprehensive set of firm-level controls, consistent with prior literature on audit quality and tax avoidance using Italian settings (e.g., Bianchi 2018; Bianchi et al. 2019; Bianchi et al. 2026). *Firm age* is measured as the natural logarithm of the number of years since incorporation and controls for lifecycle effects, as older firms may exhibit more stable reporting patterns and governance structures. Firm size, *Size*, is measured as the natural logarithm of total assets and captures scale effects, given that larger firms are subject to greater scrutiny and typically have more complex reporting environments. Profitability, *ROA*, is proxied by return on assets, computed as net income scaled by total assets. More profitable firms may have stronger incentives to manage earnings downward for tax purposes or upward for contractual reasons. *Leverage* is measured as total debt scaled by total assets and captures the influence of creditor monitoring and debt-related reporting incentives. *Sales growth* is calculated as the annual percentage change in revenues and captures expansion dynamics that may be associated with more volatile accruals. Cash flow volatility, *CFO VOLATILITY*, and sales volatility, *SALES VOLATILITY*, are measured as the standard deviation of operating cash flows and sales, respectively, over a rolling window, and control for underlying business risk. Growth in property, plant, and equipment, *PPE GROWTH*, is measured as the percentage change in fixed tangible assets and proxies for investment activity, which may affect accrual patterns. *Lagged accruals* are included to account for persistence in accrual behavior, and an indicator for *Negative equity* controls for financial distress, which may affect both reporting incentives and monitoring intensity. All models include industry and region fixed effects, and standard errors are clustered at the province level.

11.5 Descriptive Statistics

Table 11.3, Panel A reports descriptive statistics for the 2024 sample. The mean absolute abnormal accruals (*ABSAAC*) equal 0.100, and Tax-related restatements (*TAX_RESTAT*) occur in 8.3% of observations. The average effective tax rate (*ETR*) is 28.9%, while absolute book–tax differences (*ABSBD*) average 0.038, suggesting meaningful dispersion between accounting and taxable income. Regarding firm characteristics, the average firm is 28

years old, total assets are €37 million, while sales revenues are €32 million. The average *ROA* is 7.3%, and leverage is 15.9%. I document that 32.1% of firms in my final sample are audited by an audit firm (*società di revisione*), 47.5% by an individual auditor (*revisore unico*), and 20.4% by a *Collegio Sindacale*. Panel B compares firms monitored by a *Collegio Sindacale* to those monitored by other control bodies. In univariate terms, *BSA* firms exhibit lower *ABSAAC* (0.084 versus 0.105), fewer tax restatements (6.8% versus 8.7%), and smaller *ABSBTD* (0.032 versus 0.040). Differences in *ETR* are small and statistically insignificant. Firms audited by the *BSA* are also larger and older on average, reinforcing the need for multivariate analysis to isolate the effect of the control model. Panel C reports Pearson correlations among the main variables. I document that *BSA* is negatively correlated with absolute abnormal accruals (*ABSAAC*) and with absolute book–tax differences (*ABSBTD*), suggesting that firms monitored by a *Collegio* exhibit, on average, lower discretionary accrual intensity and smaller tax–book misalignment. The correlation between *BSA* and *TAX_RESTAT* is also negative, indicating that tax-related restatements are less frequent among *BSA* firms in simple pairwise comparisons. The association between *BSA* and *ETR* is economically small and statistically insignificant, consistent with the earlier univariate evidence. This preliminary evidence is consistent with the hypothesis that *Collegio*-monitored firms exhibit less aggressive reporting behavior.

Table 11.3 Descriptive Statistics

Panel A — Summary Statistics						
Variable	N	Mean	Median	P25	P75	SD
ABSAAC	38103	0.100	0.067	0.030	0.127	0.113
AAC	38103	0.002	0.013	-0.057	0.074	0.147
TAX_RESTAT	38103	0.083	0.000	0.000	0.000	0.276
ETR	38103	0.289	0.285	0.155	0.348	0.216
ABSBTD	38103	0.038	0.022	0.010	0.042	0.078
BTD	38103	-0.022	-0.016	-0.035	-0.001	0.084
BSA	38103	0.204	0.000	0.000	0.000	0.403
Audit firm	38103	0.321	0.000	0.000	1.000	0.467
Individual auditor	38103	0.475	0.000	0.000	1.000	0.499
Firm age (log)	38103	3.246	3.332	2.890	3.714	0.642

Size (log assets)	38103	9.604	9.449	8.869	10.171	0.971
ROA	38103	0.073	0.049	0.013	0.113	0.113
Leverage	38103	0.159	0.109	0.007	0.267	0.164
Sales growth	38103	0.065	0.014	-0.088	0.112	0.656
CFO volatility	38103	0.119	0.066	0.034	0.124	0.287
Sales volatility	38103	0.175	0.114	0.063	0.202	0.240
PPE growth	38103	0.111	-0.033	-0.171	0.114	0.891
Lagged accruals	38103	-0.217	-0.181	-0.371	-0.035	0.277
Negative equity	38103	0.009	0.000	0.000	0.000	0.094

Panel B — Mean Comparison: Non-BSA vs BSA (t-test)

Variable	Non-BSA mean	BSA mean	Difference	t-stat	p-value
ABSAAC	0.105	0.084	-0.021***	14.65	0.000
AAC	0.000	0.009	0.009***	-4.68	0.000
TAX_RESTAT	0.087	0.068	-0.019***	5.47	0.000
ETR	0.289	0.286	-0.003	1.09	0.277
ABSBTD	0.040	0.032	-0.008***	8.17	0.000
BTD	-0.023	-0.017	0.006***	-5.27	0.000
Firm age (log)	3.180	3.505	0.325***	-40.63	0.000
Size (log assets)	9.556	9.795	0.239***	-19.47	0.000
ROA	0.077	0.055	-0.022***	15.33	0.000
Leverage	0.157	0.165	0.008***	-3.62	0.000
Sales growth	0.075	0.029	-0.046***	5.55	0.000
CFO volatility	0.127	0.090	-0.036***	9.94	0.000
Sales volatility	0.179	0.162	-0.017***	5.47	0.000
PPE growth	0.114	0.099	-0.015	1.33	0.185
Lagged accruals	-0.210	-0.242	-0.032***	9.12	0.000
Negative equity	0.010	0.006	-0.004***	3.14	0.002
N. observations	30345	7758			

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Table 11.3 (continued)

Variable	(1) ABSAAC	(2) AAC	(3) TAXRESTAT	(4) ETR	(5) ABSBTD	(6) BTD
ABSAAC	1.000					
AAC	-0.169***	1.000				
TAX_RESTAT	0.029***	-0.017***	1.000			
ETR	-0.012**	-0.013**	-0.018***	1.000		
ABSBTD	0.189***	-0.037***	0.027***	-0.143***	1.000	
BTD	-0.064***	0.115***	-0.004	-0.060***	-0.626***	1.000
BSA	-0.075***	0.024***	-0.028***	-0.006	-0.042***	0.027***

This table presents descriptive statistics for the variables used in the main analyses. Panel A shows descriptive statistics for the final sample. Panel B shows differences in means between treatment and control firms. Panel C shows results of correlation matrix, where a star indicates that the correlation is significant at the 0.05 level or better. Variable definitions are included in Appendix A.

11.6 Accruals Model

Table 11.4 presents the results for the absolute abnormal accruals (*ABSAAC*) model. Column 1 estimates the model on the full sample and includes indicators for *Audit Firm* and *Individual Auditor*, with the *Collegio Sindacale (BSA)* serving as the omitted baseline group. Columns 2 through 5 instead focus directly on the *BSA* indicator, using alternative subsamples and an entropy balancing specification. In Column 1, I find a positive and significant coefficient on *Audit Firm* (coeff: 0.018; p-value < 0.01) and on *Individual Auditor* (coeff: 0.003; p-value < 0.01), relative to the *BSA* baseline. These results indicate that firms monitored by an audit firm or a sole auditor exhibit higher absolute abnormal accruals compared to firms monitored by a *Collegio*. Economically, the magnitude is larger for audit firms, suggesting greater accrual intensity relative to the *Collegio* reference category. Column 2 shifts the focus to the *BSA* indicator. We find a negative and significant coefficient on *BSA* (coeff: -0.010; p-value < 0.01), confirming that, relative to the pooled alternative group, firms monitored by a *Collegio* display lower discretionary accruals. Columns 3 and 4 partition the sample into income-increasing and income-decreasing accruals. In Column 3, we find a negative and significant coefficient on *BSA* (coeff: -0.003; < 0.05), and in Column 4, the coefficient is larger in magnitude and remains significant (coeff: -0.017; p-value < 0.01), indicating that the association persists across accrual directions. Because auditor type is not randomly

assigned, in Column 5, I use entropy balancing, a quasi-matching approach that reweights each control observation so that, after reweighting, the first and second moments (means and variances) of matched variables in the treatment and control groups are nearly identical, ensuring covariate balance (McMullin and Schonberger 2020). I continue to find a negative and significant coefficient on *BSA* (coeff: -0.006 ; p -value < 0.01), suggesting that the association is not driven by observable differences in firm fundamentals. Across all specifications, the evidence indicates that firms monitored by a *Collegio Sindacale* exhibit lower discretionary accrual intensity than firms monitored by alternative control bodies.

Table 11.4 Absolute Abnormal Accruals

	(1) ABSAAC	(2) ABSAAC	(3) ABSAAC (AAC>0)	(4) ABSAAC (AAC≤0)	(5) ABSAAC
Audit firm	0.018*** (11.72)				
Individual auditor	0.003*** (2.60)				
BSA		-0.010*** (-7.93)	-0.003** (-2.20)	-0.017*** (-10.53)	-0.006*** (-5.40)
Firm age (log)	-0.015*** (-9.99)	-0.015*** (-10.32)	-0.009*** (-5.75)	-0.021*** (-10.31)	-0.015*** (-8.47)
Size (log assets)	0.001* (1.87)	0.004*** (4.76)	0.002*** (3.83)	0.006*** (4.16)	0.003*** (5.13)
ROA	0.105*** (11.14)	0.102*** (10.88)	0.211*** (16.04)	-0.023 (-1.57)	0.075*** (4.77)
Leverage	0.032*** (6.56)	0.029*** (5.69)	0.054*** (8.85)	-0.004 (-0.53)	0.019*** (4.05)
Sales growth	0.001 (0.51)	0.001 (0.47)	-0.015*** (-9.95)	0.010*** (4.85)	0.001 (0.40)
CFO volatility	0.076*** (8.47)	0.076*** (8.49)	0.068*** (6.09)	0.081*** (8.35)	0.105*** (10.19)
Sales volatility	0.046*** (10.34)	0.046*** (10.46)	0.055*** (8.44)	0.028*** (4.72)	0.040*** (8.67)

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PPE growth	0.006*** (7.10)	0.006*** (7.16)	0.002** (2.10)	0.007*** (6.69)	0.007*** (5.69)
Lagged accruals	-0.003 (-0.53)	-0.003 (-0.60)	0.023*** (6.93)	-0.019** (-2.53)	0.002 (0.53)
Negative equity	0.073*** (6.29)	0.075*** (6.56)	0.057*** (4.54)	0.068*** (3.55)	0.070*** (6.46)
<i>Observations</i>	38,102	38,102	21,123	16,977	38,102
<i>Adj. R²</i>	0.135	0.133	0.162	0.147	0.128
<i>Industry FE</i>	YES	YES	YES	YES	YES
<i>Region FE</i>	YES	YES	YES	YES	YES

This table examines the association between BSA and Absolute Abnormal Accruals (ABSAC). Column (1) reports OLS results using the full sample, where the variables of interest are Audit Firm and Individual Auditor. Column (2) presents results for the full sample with BSA as the variable of interest. Columns (3) and (4) report results after partitioning the sample into income-increasing abnormal accruals (positive abnormal accruals) and income-decreasing abnormal accruals (negative abnormal accruals), respectively. Column (5) presents the results of an entropy balancing analysis based on the full sample. Variable definitions are provided in Appendix A. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively. All models include industry and region fixed effects, which are not reported for brevity. All t-statistics (in brackets) and p-values are calculated using clustered standard errors at the province level.

11.7 Tax Restatements

Table 11.5 reports the results for tax-related restatements (*TAX_RESTAT*). In Column 1, I find a positive and significant coefficient on *Audit Firm* (coeff: 0.582; p-value < 0.01), while the coefficient on *Individual Auditor* is positive but statistically insignificant (coeff: 0.060; p-value > 0.10). These results indicate that, relative to the *Collegio Sindacale* baseline, firms monitored by audit firms are significantly more likely to report tax-related restatements. The absence of statistical significance for Individual Auditor suggests that the difference relative to the *Collegio* is primarily driven by audit firms. Column 2 shifts the focus to the BSA indicator. I find a negative and significant coefficient on BSA (coeff: -0.336; p-value < 0.01), indicating that firms monitored by a *Collegio Sindacale* are less likely to experience tax-related restatements compared to firms monitored by alternative control bodies. The magnitude of the coefficient is economically meaningful, suggesting a substantially lower likelihood of tax reporting corrections among BSA-monitored firms. In Column 3, using entropy balancing to address observable differences across control models, I continue to find a negative and significant coefficient on BSA (coeff: -0.340; p-value <

0.01). The persistence of the result under entropy balancing indicates that the lower incidence of tax restatements among *BSA* firms is not driven by systematic differences in firm characteristics. Overall, the evidence from Table 11.5 is consistent with the liability-conservatism mechanism established in Chapter 6, which predicts that intense and individually enforceable liability exposure constrains acquiescence to tax irregularities.

Table 11.5 Tax Restatements

	(1) TAX_RESTAT	(2) TAX_RESTAT	(3) TAX_RESTAT
Audit firm	0.582*** (12.48)		
Individual auditor	0.060 (1.12)		
BSA		-0.336*** (-7.73)	-0.340*** (-7.48)
Firm age (log)	-0.011 (-0.44)	-0.021 (-0.80)	-0.129*** (-3.31)
Size (log assets)	0.396*** (16.23)	0.488*** (19.05)	0.513*** (16.43)
ROA	-0.013 (-0.08)	-0.121 (-0.73)	-0.172 (-0.59)
Leverage	-0.236 (-1.09)	-0.328 (-1.43)	-0.263 (-1.04)
Sales growth	-0.023 (-0.85)	-0.024 (-0.88)	-0.007 (-0.17)
CFO volatility	-0.054 (-0.93)	-0.037 (-0.66)	0.020 (0.22)
Sales volatility	0.148* (1.84)	0.142* (1.76)	0.169 (1.28)
PPE growth	-0.002 (-0.08)	0.001 (0.06)	0.022 (0.63)
Lagged accruals	0.187*** (2.64)	0.171** (2.38)	0.201** (1.98)

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Negative equity	0.081 (0.41)	0.137 (0.70)	0.211 (0.54)
Observations	38,073	38,073	38,073
Pseudo R ²	0.052	0.047	0.047
Industry FE	YES	YES	YES
Region FE	YES	YES	YES

This table examines the association between BSA and Tax Restatements (TAX_RESTAT). Column (1) reports Logit results using the full sample, where the variables of interest are *Audit Firm* and *Individual Auditor*. Column (2) presents results for the full sample with BSA as the variable of interest. Column (3) presents the results of an entropy balancing analysis based on the full sample. Variable definitions are provided in Appendix A. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively. All models include industry and region fixed effects, which are not reported for brevity. All z-statistics (in brackets) and p-values are calculated using clustered standard errors at the province level.

11.8 Book–Tax Differences

Table 11.6 reports the results for book–tax differences. Column 1 estimates the model on the full sample and includes indicators for *Audit Firm* and *Individual Auditor*, with the *Collegio Sindacale* serving as the omitted baseline group. In Column 1, I find a positive and significant coefficient on *Audit Firm* (coeff: 0.011; p-value < 0.01) and a negative and significant coefficient on *Individual Auditor* (coeff: –0.004; p-value < 0.01). These results indicate that, relative to the *Collegio* baseline, firms monitored by audit firms exhibit larger absolute book–tax differences, whereas firms monitored by an individual auditor exhibit smaller differences. Column 2 shifts the focus to the BSA indicator. I find a negative and significant coefficient on BSA (coeff: –0.003; p-value < 0.01), indicating that firms monitored by a *Collegio Sindacale* exhibit smaller absolute book–tax differences compared to firms monitored by alternative control bodies. The result remains statistically significant in Column 3, which uses entropy balancing (coeff: –0.002; p-value < 0.10), suggesting that the association is not driven by observable firm characteristics. Column 4 examines signed book–tax differences (BTD). In this specification, I find a positive and significant coefficient on BSA (coeff: 0.004; p-value < 0.01). This result indicates that, on average, BSA-monitored firms display less negative (i.e., less income-reducing) book–tax gaps relative to the comparison group. Taken together with the absolute specification, the evidence suggests that firms monitored by a *Collegio Sindacale* exhibit lower tax–book misalignment and reduced tax-related discretion relative to alternative audit structures. Taken together, these results

are more consistent with the knowledge-spillover interpretation than with the self-review interpretation: tighter tax–book alignment and less income-reducing discretion point toward the *Collegio* constraining, rather than facilitating, tax-motivated reporting choices.

Table 11.6 Book-Tax Differences

	(1) ABSBTD	(2) ABSBTD	(3) ABSBTD	(4) BTD
Audit firm	0.011*** (10.99)			
Individual auditor	-0.004*** (-3.59)			
BSA		-0.003*** (-2.70)	-0.002* (-1.71)	0.004*** (3.89)
Firm age (log)	-0.004*** (-5.25)	-0.004*** (-5.42)	-0.003** (-2.16)	0.006*** (9.19)
Size (log assets)	-0.007*** (-9.94)	-0.004*** (-6.91)	-0.005*** (-4.62)	0.005*** (9.27)
ROA	-0.000 (-0.02)	-0.004 (-0.32)	-0.076*** (-2.65)	0.227*** (19.62)
Leverage	-0.013** (-2.22)	-0.016*** (-2.60)	-0.022** (-2.21)	0.028*** (6.18)
Sales growth	-0.001 (-0.63)	-0.001 (-0.66)	-0.004** (-2.27)	0.002 (1.50)
CFO volatility	0.024*** (3.46)	0.024*** (3.55)	0.065*** (3.13)	-0.016** (-2.45)
Sales volatility	0.023*** (5.62)	0.023*** (5.66)	0.024*** (5.92)	-0.003 (-0.63)
PPE growth	-0.001** (-2.26)	-0.001** (-2.19)	-0.002*** (-2.77)	0.001 (1.50)
Lagged accruals	0.004 (1.42)	0.003 (1.28)	0.004 (1.22)	-0.017*** (-6.94)
Negative equity	0.257*** (9.40)	0.259*** (9.47)	0.282*** (6.54)	-0.208*** (-8.51)

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<i>Observations</i>	38,102	38,102	38,102	38,102
<i>Adj. R²</i>	0.149	0.144	0.173	0.188
<i>Industry FE</i>	YES	YES	YES	YES
<i>Region FE</i>	YES	YES	YES	YES

*This table examines the association between BSA and Book–Tax Differences (ABSBDT). Column (1) reports OLS results using the full sample, where the variables of interest are Audit Firm and Individual Auditor, and the dependent variable is Absolute Book–Tax Differences (ABSBDT). Column (2) presents results for the full sample with BSA as the variable of interest. Column (3) reports the results of an entropy balancing analysis based on the full sample. Column (4) presents results for the full sample using signed Book–Tax Differences (BTD) as the dependent variable. Variable definitions are provided in Appendix A. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively. All models include industry and region fixed effects, which are not reported for brevity. All t-statistics (in brackets) and p-values are calculated using clustered standard errors at the province level.*

11.9 Effective Tax Rate

Table 11.7 reports the results for the effective tax rate (ETR), estimated on the subsample of firms with positive pre-tax income. Column 1 includes indicators for *Audit Firm* and *Individual Auditor*, with the *Collegio Sindacale* serving as the omitted baseline group. No statistically significant differences emerge in this specification. Column 2 focuses on the *BSA* indicator and likewise does not yield statistically significant results. In Column 3, however, using entropy balancing to address observable differences across control models, I find a negative and significant coefficient on *BSA* (coeff: -0.006 ; p-value < 0.05). This result suggests that, after reweighting, firms monitored by a *Collegio Sindacale* exhibit lower effective tax rates relative to firms monitored by alternative control bodies. Overall, the evidence from the ETR model is weaker than that obtained for abnormal accruals, tax restatements, and book–tax differences. While the entropy-balanced specification indicates a modest reduction in effective tax rates among *BSA*-monitored firms, the baseline models do not show systematic differences. This pattern suggests that the *Collegio*'s association with monitoring quality is more clearly reflected in accrual discipline and tax reporting alignment than in average effective tax burdens.

Table 11.7 Effective Tax Rate (ETR)

	(1) ETR	(2) ETR	(3) ETR
Audit firm	0.004 (1.00)		
Individual auditor	0.001 (0.28)		
BSA		-0.002 (-0.70)	-0.006** (-2.05)
Firm age (log)	-0.021*** (-9.53)	-0.021*** (-9.58)	-0.025*** (-8.54)
Size (log assets)	-0.014*** (-12.33)	-0.013*** (-12.92)	-0.014*** (-7.96)
ROA	-0.453*** (-21.73)	-0.453*** (-21.74)	-0.529*** (-19.39)
Leverage	0.141*** (13.51)	0.141*** (13.35)	0.157*** (17.01)
Sales growth	-0.005** (-2.37)	-0.005** (-2.38)	-0.002 (-0.79)
CFO volatility	0.011* (1.90)	0.011* (1.93)	0.030*** (3.36)
Sales volatility	-0.017** (-2.42)	-0.017** (-2.43)	-0.040*** (-3.24)
PPE growth	0.002 (1.35)	0.002 (1.37)	0.001 (0.31)
Lagged accruals	0.035*** (5.06)	0.035*** (5.06)	0.049*** (5.48)
Negative equity	-0.048 (-1.20)	-0.047 (-1.18)	-0.022 (-0.33)
<i>Observations</i>	33,808	33,808	33,808
<i>Adj. R²</i>	0.116	0.116	0.120
<i>Industry FE</i>	YES	YES	YES
<i>Region FE</i>	YES	YES	YES

*This table examines the association between BSA and the Effective Tax Rate (ETR). The analysis is restricted to firms with positive earnings before taxes. Column (1) reports OLS results using the full sample, where the variables of interest are Audit Firm and Individual Auditor. Column (2) presents results for the full sample with BSA as the variable of interest. Column (3) reports the results of an entropy balancing analysis based on the full sample. Variable definitions are provided in Appendix A. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively. All models include industry and region fixed effects, which are not reported for brevity. All t-statistics (in brackets) and p-values are calculated using clustered standard errors at the province level.*

11.10 Additional Analyses

The additional analyses test two theoretically motivated predictions derived from the network-spillover mechanism. First, the regional partition (Table 11.8) tests whether the *BSA* monitoring association is stronger in Northern Italy, where professional market density and network quality are higher, and weaker in Southern Italy, where network spillovers of weaker monitoring norms are more prevalent. If collegial monitoring benefits are partly transmitted through professional community quality — as the Bianchi et al. (2020) evidence suggests — the *BSA* advantage should be geographically differentiated in a predictable direction, with the South representing an environment where proximity risks dominate monitoring benefits. Second, the size and accrual-intensity partition (Table 11.9) tests whether the *BSA* advantage over the *revisore unico* is more pronounced among large firms and in high accrual-intensity industries, where collegial knowledge pooling and liability conservatism are more valuable because the monitoring challenge is structurally greater. These are *ex ante* theoretical predictions, not *post hoc* heterogeneity checks.

11.11 Cross-Sectional Analyses by Region

Table 11.8 reports the cross-sectional results by macro-region: Northern, Central, and Southern Italy. The specifications mirror the baseline models and are estimated separately for each area. For absolute abnormal accruals (*ABSAAC*), the *BSA* coefficient remains negative and statistically significant in the North and Center, and smaller and statistically insignificant in the South. Untabulated interaction tests fail to reject equality of the *BSA* effect across regions. The weaker result in the South is therefore consistent with insufficient statistical power — given the substantially smaller sample size — rather than with a genuine regional difference in accrual-based monitoring outcomes.

A similar pattern emerges for *TAX_RESTAT*. The *BSA* coefficients are economically comparable across the three regions, and untabulated interaction tests provide no evidence of regional heterogeneity. The apparent variation in statistical significance across subsamples reflects differences in sample size rather than structural differences in monitoring effectiveness.

By contrast, the tax aggressiveness measures display meaningful regional differences. For *ETR*, the *BSA* coefficient is negative in the North but positive in the Center and South. Untabulated interaction tests indicate marginal regional heterogeneity, suggesting that the association between the *Collegio*

Sindacale and effective tax rates differs across macro-areas. A similar pattern arises for *ABSBTD*: the *BSA* coefficient is negative in the North but close to zero or slightly positive in the Center and South, and interaction tests reject equality across regions.

These results are consistent with the regional prediction: the *Collegio*'s monitoring association in accrual discipline and tax reporting is stable across Italy, while its tax aggressiveness effect reflects the North's denser professional market and stronger institutional environment, with proximity and network spillover risks more prevalent in the Center and South.

Table 11.8 Cross-sectional Analyses by Region

Panel A: Northern Regions				
	ABSAAC	TAX_RESTAT	ETR (RAI>0)	ABSBTD
BSA	-0.010*** (-7.73)	-0.353*** (-6.26)	-0.007* (-1.85)	-0.004*** (-4.17)
N	24,585	24,554	21,556	24,585
R2 / Pseudo R2	0.143	0.051	0.107	0.164
Industry FE and Controls	YES	YES	YES	YES
Panel B: Central Regions				
	ABSAAC	TAX_RESTAT	ETR (RAI>0)	ABSBTD
BSA	-0.011*** (-4.23)	-0.332*** (-2.75)	0.007 (0.71)	-0.001 (-0.23)
N	6,654	6,574	5,914	6,654
R2 / Pseudo R2	0.119	0.063	0.137	0.080
Industry FE and Controls	YES	YES	YES	YES
Panel C: Southern Regions				
	ABSAAC	TAX_RESTAT	ETR (RAI>0)	ABSBTD
BSA	-0.005	-0.309***	0.008	0.001

(continued on next page)

	(-1.33)	(-3.64)	(0.97)	(0.56)
N	5,788	5,716	5,395	5,788
R2 / Pseudo R2	0.129	0.049	0.132	0.211
Industry FE and Controls	YES	YES	YES	YES

*This table examines cross-sectional differences in the association between BSA and audit-related outcomes across Italian regions. Panel A reports results for firms headquartered in Northern Italy. Panel B reports results for firms headquartered in Central Italy. Panel C reports results for firms headquartered in Southern Italy. In all panels, Column (1) presents results using ABSACC as the dependent variable; Column (2) uses TAX_RESTAT; Column (3) uses ETR (restricted to firms with positive earnings before taxes); and Column (4) uses ABSBTD. Variable definitions are provided in Appendix A. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively. All models include industry fixed effects, which are not reported for brevity. All t-statistics (in brackets) and p-values are calculated using clustered standard errors at the province level.*

11.12 Cross-Sectional Analyses by Size and Accrual Intensity

Table 11.9 reports cross-sectional analyses by firm size and by industry-level accrual intensity. These partitions allow us to assess whether the association between the *Collegio Sindacale* and monitoring outcomes varies with economic complexity and reporting discretion. Panel A presents results for large firms (above the median size). The *BSA* coefficient is negative and statistically significant for *ABSAAC*, *TAX_RESTAT*, and *ABSBTD*, while it is not significant for *ETR*. This pattern mirrors the main results and suggests that the *Collegio* is associated with lower discretionary accruals, fewer tax-related restatements, and smaller book–tax differences among larger firms. Panel B reports results for small firms (below the median size). The *BSA* coefficient remains negative and significant for *ABSAAC* and *TAX_RESTAT*, but is not statistically different from zero for *ABSBTD* and *ETR*.

Panels C and D partition the sample by accrual intensity at the industry level. In high accrual-intensity industries (Panel C), the *BSA* coefficient is negative and statistically significant for *ABSAAC*, *TAX_RESTAT*, and *ABSBTD*, and also significant for *ETR*. In low accrual-intensity industries (Panel D), the *BSA* coefficient remains negative and significant for *ABSAAC* and *TAX_RESTAT*, but is not statistically significant for *ABSBTD* and *ETR*. Overall, the results indicate that the association between the *Collegio Sindacale* and lower accrual discretion and tax restatements is robust across firm size and industry reporting environments. The tax aggressiveness measures show stronger associations in economically more complex settings — larger firms and high-accrual-intensity

industries — suggesting that the *Collegio's* monitoring role may be particularly salient where discretion is structurally higher. This pattern is consistent with the prediction that collegial knowledge pooling is most valuable — and most measurable — where managerial discretion is structurally higher, providing direct empirical support for the size-and-complexity prediction.

Panels E and F introduce a further cross-sectional partition based on R&D activity. This partition is motivated by the AI governance analysis developed in Chapter 5. Technologically active firms face greater reporting complexity due to intangible investments, algorithmic decision-making, and valuation uncertainty. If the *Collegio's* monitoring association is driven by collective expertise and deliberation, it should be particularly pronounced in such environments.

In R&D-active firms (Panel E), the *BSA* coefficient is economically larger for *ABSAAC* (coeff: -0.020 ; p-value < 0.01) and *TAX_RESTAT* (coeff: -0.555 ; p-value < 0.01), compared to non-R&D firms (Panel F), (coeff: -0.009 ; p-value < 0.01) and (coeff: -0.312 ; p-value < 0.01), respectively. Untabulated tests confirm that the difference in coefficients between R&D and non-R&D firms is statistically significant for both *ABSAAC* (Column 1) and *TAX_RESTAT* (Column 2). This indicates that the association between the *Collegio Sindacale* and lower accrual discretion and fewer tax restatements is significantly stronger in technologically active firms. By contrast, the tax aggressiveness measures (*ETR* and *ABSBTD*) do not display statistically significant differences across R&D partitions.

Taken together, the cross-sectional evidence suggests that the core audit quality association of the *Collegio*—captured by accrual discipline and reduced restatements—is robust across firm size and reporting environments, and is amplified in technologically complex settings. In contrast, tax aggressiveness measures exhibit heterogeneity primarily across geographic regions rather than across R&D partitions. This reinforces the interpretation that the collegial structure of the *Collegio Sindacale* may be particularly effective in environments characterized by higher informational complexity and discretionary scope.

Table 11.9 Cross-sectional Analyses by Size and Accrual Intensity

Panel A: Large firms				
	ABSAAC	TAX_RESTAT	ETR (RAI>0)	ABSBTD
BSA	-0.014*** (-8.19)	-0.349*** (-5.90)	-0.003 (-0.99)	-0.006*** (-4.44)
N	17,511	17,488	15,363	17,511

(continued on next page)

R ² / Pseudo R ²	0.131	0.039	0.092	0.094
Industry and Region FE	YES	YES	YES	YES
Controls	YES	YES	YES	YES

Panel B: Small firms

	ABSAAC	TAX_RESTAT	ETR (RAI>0)	ABSBTD
BSA	-0.005*** (-2.77)	-0.375*** (-3.70)	0.002 (0.37)	0.001 (0.44)
N	17,512	17,317	15,628	17,512
R ² / Pseudo R ²	0.152	0.025	0.136	0.191
Industry and Region FE	YES	YES	YES	YES
Controls	YES	YES	YES	YES

Panel C: High accrual intensity

	ABSAAC	TAX_RESTAT	ETR (RAI>0)	ABSBTD
BSA	-0.011*** (-6.49)	-0.384*** (-6.96)	-0.006* (-1.77)	-0.004** (-2.53)
N	23,850	23,844	21,138	23,850
R ² / Pseudo R ²	0.130	0.046	0.111	0.149
Industry and Region FE	YES	YES	YES	YES
Controls	YES	YES	YES	YES

Panel D: Low accrual intensity

	ABSAAC	TAX_RESTAT	ETR (RAI>0)	ABSBTD
BSA	-0.009*** (-3.57)	-0.262*** (-3.68)	0.005 (0.87)	-0.002 (-1.47)
N	11,175	11,154	9,853	11,175
R ² / Pseudo R ²	0.144	0.048	0.126	0.148
Industry and Region FE	YES	YES	YES	YES
Controls	YES	YES	YES	YES

Panel E: R&D-active firms				
	ABSAAC	TAX_RESTAT	ETR (RAI>0)	ABSBDT
BSA	-0.020*** (-5.04)	-0.555*** (-4.34)	-0.014 (-1.39)	-0.005 (-1.17)
N	3,268	3,144	2,662	3,268
R ² / Pseudo R ²	0.154	0.069	0.121	0.259
Industry and Region FE	YES	YES	YES	YES
Controls	YES	YES	YES	YES

Panel F: Non-R&D firms				
	ABSAAC	TAX_RESTAT	ETR (RAI>0)	ABSBDT
BSA	-0.009*** (-6.94)	-0.312*** (-6.59)	-0.001 (-0.19)	-0.003** (-2.49)
N	31,754	31,727	28,327	31,754
R ² / Pseudo R ²	0.136	0.047	0.118	0.139
Industry and Region FE	YES	YES	YES	YES
Controls	YES	YES	YES	YES

*This table examines cross-sectional differences in the association between BSA and audit-related outcomes. Panel A reports results for large firms (above the median firm size). Panel B reports results for small firms (below the median firm size). Panel C reports results for firms operating in high accrual-intensity industries (above the median level of industry accruals). Panel D reports results for firms operating in low accrual-intensity industries (below the median level of industry accruals). Panel E reports results for R&D Active firms. Panel F reports results for non-R&D firms. In all panels, Column (1) presents results using ABSACC as the dependent variable; Column (2) uses TAX_RESTAT; Column (3) uses ETR (restricted to firms with positive earnings before taxes); and Column (4) uses ABSBDT. Variable definitions are provided in Appendix A. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively. All t-statistics (in brackets) and p-values are calculated using clustered standard errors at the province level.*

11.13 Conclusion

This chapter examines whether alternative control models operating within the same institutional environment are associated with different monitoring outcomes in Italian private firms. Comparing the *Collegio Sindacale*, the individual auditor, and the audit firm across a cross-section of 38,103 firms, the analysis finds that BSA-monitored firms exhibit lower discretionary accrual intensity and fewer tax-related restatements across multiple specifications and estimation

strategies. The *ABSBTD* results indicate tighter book–tax alignment and less income-reducing discretion for *BSA* firms; the *ETR* association is weaker and concentrated in the entropy-balanced specification.

These findings connect directly to the theoretical mechanisms developed in Parts I and II. The negative *BSA–ABSAAC* association is consistent with the knowledge-synergy mechanism (§1.5, Chapter 1) and with the organizational embeddedness argument developed in Chapter 3 of Part II: when the *Collegio Sindacale* exercises its continuous oversight mandate — enforcing procedural rationality in organizational structures and constraining information fragmentation — management retains less operational latitude for accrual manipulation. The negative *BSA–TAX_RESTAT* association is consistent with the liability-conservatism mechanism proposed in Chapter 6: the intense, symmetric, and individually enforceable liability exposure of the *Collegio* raises the threshold at which statutory auditors acquiesce to tax irregularities, producing a measurable reduction in the incidence of tax reporting failures. The North-versus-Center/South heterogeneity in tax aggressiveness measures is consistent with the proximity and familiarity risk analysis of Chapter 9: the same governance embeddedness that generates monitoring benefits in high-quality professional environments becomes a source of normalization risk in regions where weak monitoring norms circulate more densely through professional networks. The accrual discipline and tax restatement results, by contrast, are stable across regions, confirming that these outcomes — which are more directly driven by liability conservatism and organizational oversight discipline than by network quality — do not depend on the geographic institutional environment in the same way.

The evidence does not support the view that the *Collegio Sindacale* constitutes a weaker substitute for external auditing in private firms, nor does it suggest unconditional superiority. Rather, the findings point to a context-dependent form of collegial monitoring that, in an environment characterized by strong tax–book alignment and limited market discipline, is associated with lower discretionary reporting intensity and fewer tax reporting failures. This institutional context-dependence is itself a theoretical result: the relative effectiveness of different control models cannot be assessed outside the specific incentive, enforcement, and professional environment in which they operate.

Three limitations should nevertheless be acknowledged, each of which also points to promising avenues for future research. First, the empirical design is cross-sectional, as the audit-structure information was available in AIDA only for fiscal year 2024. This constraint precludes the use of firm fixed effects and limits causal identification. Although the entropy-balancing procedure mitigates observable differences across control models by achieving covariate balance, it

cannot address unobservable heterogeneity. Accordingly, the reported results should be interpreted as conditional associations rather than causal estimates. Future research could address this limitation by constructing panel datasets linking auditor-type information to historical financial data, allowing for the identification of auditor transitions and the estimation of firm fixed-effects models that substantially strengthen causal inference and permit the analysis of persistence and dynamic adjustment in firms' reporting behavior.

Second, the absence of audit fee data in AIDA for private firms prevents a direct evaluation of the cost dimension of collegial monitoring. Without information on audit fees, it is not possible to determine whether the monitoring associations documented here are accompanied by a cost premium relative to the *revisore unico* or audit firms. Addressing this gap would allow future research to examine the cost–benefit trade-off of the *Collegio* model, an issue that remains central to the broader policy debate on the relative efficiency of alternative control structures.

Third, the empirical analysis captures regional differences through broad geographic partitions, which serve as reduced-form proxies for variation in professional environments. While this approach allows the identification of heterogeneous monitoring patterns across macro-areas, it does not directly measure the professional network structures through which monitoring norms may diffuse. Future research could therefore construct more granular indicators of professional network quality — using auditor co-occurrence data to derive province-level measures of network density and exposure — thereby enabling a more direct test of the network-spillover mechanism discussed in Section 3.2.

More broadly, the results suggest that the economics of joint audit in civil-law governance systems cannot be understood solely through abstract comparisons with external auditing models. Instead, the monitoring properties of institutions such as the *Collegio Sindacale* emerge from the interactions between organizational embeddedness, liability incentives, and the quality of the surrounding professional environment.

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Appendix A

Variable	Definition
<i>ABSAAC</i>	Absolute value of abnormal accruals estimated using the Modified Jones (1991) model. Total accruals are defined as earnings before extraordinary items minus operating cash flows. Abnormal accruals are obtained as the residual from an industry-year regression of total accruals on the change in revenues and property, plant, and equipment, scaled by lagged total assets.
<i>AAC</i>	Signed abnormal accruals estimated using the Modified Jones model. Positive (negative) values indicate income-increasing (income-decreasing) discretionary accruals.
<i>TAX_RESTAT</i>	Indicator variable equal to one if the firm reports a tax-related restatement in fiscal year 2024, and zero otherwise.
<i>BTD</i>	Book–tax differences, computed as pre-tax accounting income minus estimated taxable income, scaled by total assets. Taxable income is proxied as current tax expense divided by the statutory corporate tax rate.
<i>ABSBDT</i>	Absolute value of book–tax differences. This measure captures the magnitude of the divergence between accounting income and taxable income.
<i>ETR</i>	Effective tax rate, defined as current tax expense divided by pre-tax accounting income. Computed only for firms with positive pre-tax income.
<i>BSA</i>	Indicator variable equal to one if the statutory audit is performed by a <i>Collegio Sindacale (BSA)</i> and zero otherwise.
<i>AUDIT_FIRM</i>	Indicator variable equal to one if the statutory audit is performed by a <i>società di revisione</i> (audit firm) and zero otherwise.
<i>INDIVIDUAL_AUDITOR</i>	Indicator variable equal to one if the statutory audit is performed by a <i>revisore unico</i> (individual auditor) and zero otherwise.
<i>FIRM_AGE</i>	Natural logarithm of the number of years since firm incorporation.
<i>SIZE</i>	Natural logarithm of total assets.
<i>ROA</i>	Return on assets, measured as net income divided by total assets.
<i>LEVERAGE</i>	Total debt divided by total assets.
<i>SALES_GROWTH</i>	Percentage change in sales revenues from the prior year.
<i>CFO_VOLATILITY</i>	Standard deviation of operating cash flows over a rolling window, scaled by total assets.
<i>SALES_VOLATILITY</i>	Standard deviation of sales revenues over a rolling window, scaled by total assets.
<i>PPE_GROWTH</i>	Percentage change in property, plant, and equipment.
<i>LAG_ACCRUALS</i>	Total accruals in the prior year scaled by total assets.
<i>NEGATIVE_EQUITY</i>	Indicator variable equal to one if total equity is negative and zero otherwise.
<i>Industry FE</i>	Indicator variables based on NACE (2 digits) industry.
<i>Region FE</i>	Indicator variables based on the firm's registered headquarters region.

The Italian Collegio Sindacale

Corporate governance rests on a deceptively simple question: who monitors those who manage the firm? Decades of reform have refined the answer without settling it, and the limits of auditing as a standalone mechanism have become increasingly evident.

The Italian *Collegio Sindacale* (Board of Statutory Auditors) occupies a singular position in this debate. A permanent, collegial, professionally qualified body, it has persisted since the late nineteenth century while its mandate has expanded to encompass organizational adequacy, internal controls, and — in many cases — the statutory audit itself. Its longevity raises a question this monograph addresses rather than assumes: functional effectiveness, or institutional inertia?

The volume argues that the *Collegio Sindacale* is neither a substitute for external audit nor a functional equivalent of joint audits or audit committees, but a distinct governance institution whose effectiveness depends on legal design, professional incentives, and institutional context. Combining legal analysis, auditing theory, and original empirical evidence, it offers an integrated reassessment of collegial oversight.

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