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THE CONTINUITY OF THE BOARD OF STATUTORY AUDITORS ACROSS SOCIAL, ECONOMIC AND POLITICAL INSTITUTIONAL CHANGES

ABSTRACT

This study examines how and why the board of statutory auditors, an important accounting institution, has continued to operate from its establishment in 1882 until today, with little change in its nature and role. This is despite the fundamental changes that have occurred in the Italian social, economic and political environment. This study reveals that even though Italy's societal institutions have substantially changed, the board of statutory auditors has continued to exist with no real change in its essence. This long-lived accounting institution has continued to operate, with no material change in its nature, across different historical blocs, such as monarchy, fascism, post-war socio-democratic republic, neoliberal republic, and major changes in Italian politics and economy. This accounting institution has also faced a series of potentially significant sources of change, which appeared dramatic at first sight, but had no significant far-reaching historical impact, as hegemony was unaffected. In Italian society, the board of statutory auditors has provided a reassurance role, in principle this is to monitor company directors, a role which is perceived to benefit all society. However, in practice, this institution has provided a legitimating, rather than a substantive monitoring mechanism. It helped to exercise a hegemonic control for the ruling class, whose power was diffused across society through civil institutions during various historical blocs.

KEYWORDS: accounting history, board of statutory auditors, hegemony, Italy.

1. INTRODUCTION

Established in 1882 in Italy the board of statutory auditors (named either *Collegio sindacale* or *Collegio dei sindaci*) is the first and longest continuing independent oversight accounting institution operating at the individual firm-level in the western world. It predates well-known internationally internal oversight mechanisms, such as the audit committee or the internal audit. It was established 58 years before the New York Stock Exchange (1940) first endorsed the audit committee, a similar accounting institution; 95 years before the New York Stock Exchange (1977) adopted a listing requirement that audit committees be composed entirely of independent directors; and 110 years before the Cadbury report (1992) recommended UK listed companies appoint an independent audit committee.

This study aims to examine how and why the board of statutory auditors (hereafter BOSA) has continued to operate with little change in its nature and role across and despite the fundamental changes that have occurred in the social, economic and political environment in Italy, which has witnessed different historical blocs from BOSA's establishment in 1882 until today.

This study adopts the theoretical lens provided by Gramsci, an early twentieth century Italian Marxist theorist.¹ Gramsci's theory of hegemony is particularly appropriate for this study not only because, as suggested by Evans (2017: 26), 'potential insights may arise from applying theoretical frameworks developed in the same setting as the case to be explored', but also because it explains 'how society comes to be structured around particular power formations' (Spence, 2009: 209). Gramsci's theory focuses on the institutions of civil society, such as BOSA, arguing they represent a key source of social stability. It seeks to explain how and why these institutions, which reflect the economic and social systems where they are embedded, are maintained or changed. Through themes such as historical blocs, system of alliances, hegemony and conjunctural and organic crises,

¹ This paper relies primarily on the '*Quaderni del carcere*' which Gramsci wrote originally in Italian. However, for the convenience of the international reader, we have cited the English translation: 'Selections from the Prison Notebooks of Antonio Gramsci', translated by Hoare and Nowell-Smith (Gramsci, 1971). This edition is the most widely used one in social science discussions of Gramsci.

Gramsci's theory facilitates a comprehensive analysis of the history of BOSA as an accounting institution, the change and continuity in its membership, technical functions and social role.

When BOSA was founded in 1882, it was the only independent oversight institution for Italian companies. This was approximately 93 years before external auditors (*Decreto del Presidente della Repubblica*, 1975, March 31st, n. 136) and over one century before the audit committee became regulated in Italy (Preda Code, 1999). Having survived over 135 years, BOSA is still in existence, despite the emergence of other Italian accounting oversight institutions (external auditing firms and audit committees). Some of the technical functions assigned by law to BOSA have sometimes overlapped with those of external auditing firms and the audit committee. However, BOSA has always and still retains a distinctive existence. Internal and external auditors have always reported to BOSA. The specific function of this board has always been to serve as a nominally independent oversight body. Directly appointed by the shareholders, BOSA has always been composed of formally independent individuals, expected to monitor the decisions (and the decision-making process) of company directors through participation at the board of directors' meetings (Melis, 2004).² In Italian society, BOSA has provided a reassurance role, a role perceived to benefit all society. Company directors were expected to be monitored independently and so, as a result, they would comply with societal rules, regulations and expectations. However, in practice, this institution has provided a legitimating, rather than a substantive monitoring mechanism. It has helped to exercise a hegemonic control for the ruling class, by legitimating dominant groups, whose power was diffused across society through civil institutions, during various historical blocs.

There are two main contributions of this article. First, this study contributes to the accounting history literature on change and continuity. Prior literature has generally paid greater attention to change, rather than to continuity (Napier, 2006). By exploiting the uniqueness of the continuity of BOSA and the changes of Italy's political, social and economic institutional environment from 1882

² At the board meeting, executive and non-executive directors make operational and strategic decisions and vote, whereas the statutory auditors attend as silent non-voting observers. Their main task is to monitor that company directors act within the law, the corporate bylaws and the 'principles of business administration' (Melis, 2004).

to the present day, our study addresses a substantial gap in the historical prior literature on independent oversight accounting institutions. The prior accounting history literature engaged with accountability issues, seeking to understand the changes in the various systems that held corporate executives accountable (Carnegie, Napier, 2016). However, it focused on how accounting institutions either evolved over time reacting to changes in societal institutions (e.g. Wootton, Wolk, 1992) or they morphed even when societal institutions stayed the same (Radcliffe, Spence, Stein, 2017). This raises the interesting question of how and why does an accounting institution continue over time, without any substantial change in its nature and role, despite the fundamental changes in the economic, political and social institutional environment? Our study reveals how and why an important Italian accounting institution, and one of the longest continuous accounting institutions worldwide, has continued to operate across the social, political and economic changes of Italian society since its establishment in 1882 until today. Continuity, rather than change, has characterised BOSA's history. Continuity was allowed by the existing Gramscian 'system of alliances' of societal groups and the hegemonic power exercised with the consensual legitimacy of civil society, thanks to the gradual 'absorption' of emerging social groups and the use of Gramscian 'common sense' to persuade society of the benefits of BOSA's existence and role. For the first 116 years no significant change occurred in BOSA's role or existence. Only in 1998, when Italy was on the verge of an organic crisis, did BOSA lose its external auditing function, but even this was mitigated. Our study contributes to improving our conceptual understanding of accounting, and, more specifically, of the relationship between accounting institutions and society as it shows that accounting institutions can continue to exist by remaining relatively constant despite important changes in societal institutions.

Second, this study contributes to the internationalisation of the literature on the history of accounting institutions and their social role. By exploiting the uniqueness of Italy's institutional characteristics, it extends our knowledge of the relationship between accounting institutions and

society outside and beyond Anglo-American institutional settings. The accounting history literature on the relationship between accounting and the society has generally analysed social influences on the development of accounting practices and techniques (e.g. bookkeeping, budgeting systems, cost accounting, and value-added accounting, e.g., Burchell et al., 1985; Preston et al., 1992; Hoskin, Macve, 1986; Carmona et al, 1997). The literature on the history of accounting institutions has generally focused on local and national professional bodies (e.g., Lee, 1995; Walker, Shackleton, 1995, Carnegie, Edwards, 2001; Walker, 2004), and analysed the relationship between the accounting profession, the economy, civil society and the State (Richardson, 2017). It has also examined the history of firm-level accounting institutions, such as accounting firms (e.g., Wootton, Wolk, 1992; Flesher, Previts, Samson, 2017) and regulatory bodies (e.g., Radcliffe et al, 2017). However, firm-level internal oversight institutions (e.g., audit committees) have been examined to a lesser extent. These institutions were established to represent an appropriate monitoring for company's directors (e.g., Birkett; 1986; Carnegie, Napier, 2016). As in all accounting history literature (Parker, 1993; Carmona, 2004; Napier, 2006), this research has mainly focused, although not exclusively, on Anglo-American countries. Despite Italy's undeniable place in the history of accounting (e.g., Melis, 2007; Sargiacomo et al, 2012; Coronella et al, 2015; Vollmers et al, 2016), the study of Italy's accounting institutions has been largely neglected in the international literature. Given Italy's long and distinguished history of accounting institutions and its variable historical blocs, Italy provides an interesting setting to examine the relationship between accounting institutions and society.

The remainder of this article is organised as follows. Section two presents the theoretical lens for the paper, Gramsci's hegemony theory. Section three contains the research methods. In section four we briefly provide a contextualisation of BOSA within Italy's social, economic and political context from 1882 to today. Then, in section five, the key findings are presented. Finally, we present our discussion and conclusion.

2. GRAMSCI'S THEORY OF HEGEMONY

Gramsci's theory of hegemony has been adopted in accounting literature in order to theorise how accounting contributes, and is related, to institutions, civil and political society in a variety of scenarios (Cooper, 1995; Ferguson et al, 2005; Warsame, 2006; Alawattage, Wickramsainghe, 2008; Spence, 2007, 2009; Lee, 2010; Xu et al, 2014), including the accounting profession (Goddard, 2002; Yee, 2009; Gillis, 2014) and accounting regulation (Richardson, 1989; Mantzari, Sigalas, Hines, 2017; Mantzari, Georgiou, 2019). In particular, Gramsci's theory has been adopted to explain the relationship between economic crises, political power and the role of the Chinese public accounting profession in the adoption and diffusion of political ideologies (Yee, 2009; Gillis, 2014). It has also explained how accountants have sought to institutionalise expertise and establish a hegemonic regime which consolidated their professional elitist position within society (Goddard, 2002). Gramsci's theory of hegemony has also contributed to explain consent and the bolstering role of 'common sense' in the accounting profession (Mantzari, Georgiou, 2019).

Gramsci's concept of hegemony focuses on how 'structures' (i.e. institutions), which reflect the economic and social systems in which they are embedded, are maintained or changed. Gramsci suggested that hegemony of the ruling class over others is not solely economically and politically based. He saw hegemony as characterised by the 'spontaneous consent given by the great masses of the population to the general direction imposed on social life by the dominant fundamental group' (Gramsci, 1971: 145). Ruling classes have an ideological hegemony over the rest of people through 'political and ideological leadership', rather than by force (Simon, 1982: 21). Gramsci emphasised that 'the stabilisation of society involves both *coercion* and *consent*' (Spence, 2009: 209), 'without force predominating excessively over consent' (Gramsci, 1971: 80). 'The 'normal' exercise of hegemony ... is characterised by the combination of force and consent, which balance each other reciprocally (Gramsci, 1971: 248). Power is not centralised in the 'State apparatus' but diffused

across society through institutions. This ‘consensus culture’ helps to ensure the continuity of the status quo. Although consent plays the most important role, the involvement of the State implies that the potential for coercion is always in the background (Richardson, 1989).

Gramsci argued that hegemonic control is also exercised ideologically through the development of a hegemonic culture where the ideas, values, institutions, and assumptions of the ruling class become ‘common sense’ (Bates 1975; Goddard 2002: 659).³ Consent is secured by the diffusion of the ruling class’ beliefs (Bates, 1975: 352). These ‘unchallenged, self-evident, truths’ become ‘the only way of running society’. Perceived as benefiting all society, they may generally only benefit the dominant group. Hegemony represents the pervasion throughout civil society of a system of values, attitudes and beliefs supporting the established order.

Once established, hegemony is rarely ephemeral; rather it manifests itself in ‘historical blocs’. In a Gramscian perspective, ‘history is characterised by a series of historical blocs’ (i.e. ‘a social order within a given historical epoch’; Spence, 2009: 209-210). Hegemony is then exercised through coercive and bureaucratic State authority, economic dominance, and consensual legitimacy of civil society. The institutions of civil society represent a key source of stability. The hegemony of the dominant class is produced and reproduced through a nexus of institutions, social relations, and ideas.

Civil society includes a range of institutions, such as trade unions, professional bodies, schools, and the church, which generate and organise consent (Gramsci, 1971). As noted by Spence (2009: 210), in a Gramscian perspective this goes ‘beyond a notion of centralised power’ and encourages a ‘view of power as diffuse throughout society’. Indeed, the maintenance of hegemony ‘involves the co-option of antagonistic groups into the hegemonic coalition’, i.e. into the existing system of

³ Gramsci (1971: 322) used the term ‘common sense’ with a negative tone, distinguishing it from ‘good sense’. While the former leads to acritical consent of the ideology of the ruling class, the latter contributes to a critical understanding of the dominant ideology.

alliances. Emerging disaffected social groups could threaten hegemony. Thus, their absorption helps to preserve hegemony.

A social group cannot dominate purely through force and coercion; rather, it should exert 'intellectual and moral leadership' (Gramsci, 1971: 57), and make alliances with a variety of groups. Hegemony is an intricate balance of achieving, maintaining and supporting powerful groups within society: a system of alliances among various social groups within an 'integral State' (i.e. a socio-political order). A Gramscian 'State' is thus much broader than the traditional Western State (Lehman, Tinker, 1987).

Hegemony becomes a 'world-view', diffused by agencies of 'ideological control' (e.g., academia). Gramsci (1971: 14) believed that intellectuals (e.g., ecclesiastics, lawyers, notaries) played an important role in the hegemonic coalition as they used their cultural influence and prestige to make their worldview appear obvious and hence difficult to challenge. They create 'common sense'. Gramsci (1971: 6) coined the term 'organic intellectual' (i.e. an intellectual 'who speaks for the interests of a specific class') and stressed that knowledge is never neutral as it reflects the existing political-economic and social contexts. Organic intellectuals, distinguished less by their profession (which may be any job characteristic of their class), are the 'thinking and organising element' (i.e. the intellectual leaders) of a particular social class (Gramsci, 1971: 131). As such, their discourses, in effect, can be construed as being self-serving as they contribute to the hegemony of the class to which they organically belong. Gramsci even considered 'traditional' professional intellectuals, regarded by themselves and the general population as autonomous and independent of the ruling class, as conservative allies that assisted the ruling class. This prevailing consciousness, internalised by the broad masses, becomes an 'unchallenged, self-evident, truth' (i.e. 'common sense'). All ruling classes seek to perpetuate their own philosophy, culture and morality and render them as an undisputable part of the natural order. Hegemony forms a significant basis of power for the ruling

class. People may be critical and look for improvements or reforms, but the basic beliefs and values underpinning society are not challenged.

Change, an important theme in accounting history (Napier, 2006), has two forms in Gramsci's theory: 'organic' crisis and 'conjunctural' crisis. There is sharp difference between these two forms of crisis. An organic crisis, the most fundamental change, mostly refers to the whole society directly, and, indirectly, to specific societal institutions. It entails 'incurable structural contradictions' and marks the end of a period of hegemony. By contrast, a 'conjunctural crisis' may refer either to the whole society or to a specific societal institution. It brings about criticism of, for example, specific policies or institutions, that appears dramatic in the short term, but has no impact on the prevailing social order. Hence, it has no far-reaching historical impact as it does not affect hegemony (Gramsci, 1971). The existing ruling class either disregards the criticisms or assimilates them into the prevailing hegemony.

3. METHODS

This paper constitutes part of the new accounting history as it is grounded in the archives; but informed by theory. Gramsci's theory provides an interdisciplinary perspective on companies' accountability (Carnegie, Napier, 2016). We consulted multiple data sources, including both primary and secondary data, to examine the role, functions and membership of BOSA from 1882 to today. The archival data available, particularly in the nineteenth and early twentieth centuries, were limited and often contained gaps. We addressed this lack of systematic data by triangulating different sources.

Primary data were gathered from corporate historical documents (e.g., Banca D'Italia, Fiat, IRI, Parmalat reports) after an extensive search of their corporate archives.⁴ For example, the Banca D'Italia and FIAT annual reports were systematically available since their foundation (1895 and

⁴ To find these companies we searched through the oldest and the most important Italian companies in the Italian Chamber of commerce's national database.

1899, respectively). From 1911 onwards, corporate historical documents were integrated using three historical secondary sources which contained details of the names and, sometimes, the professional qualification of BOSA's members. First, 'Notizie statistiche', edited by Credito Italiano (1906-1925) and by the Italian association of joint-stock companies ASIPA (1928-1960), provided data, *inter alia*, on BOSA's membership from 1906 to 1960.⁵ The content of these datasets varied from year to year. Then, *Calepino dell'azionista* (edited by Mediobanca) and the Italian Securities and Exchange Commission (Consob) corporate boards' database contained data from 1962 and 1998, respectively, until today. These data were particularly useful to examine the identities of BOSA's members, to analyse the Gramscian gradual 'absorption' of disaffected important groups (i.e. accountants) as well as to integrate primary sources on single case studies (e.g., Mediobanca, Parmalat), which helped to examine the role and the limited effectiveness of BOSA as an independent oversight institution.

The Parliamentary archives (including the Chamber of Fasci and Corporations, and the Senate of the Kingdom) and minutes (*Atti Parlamentari*) were also consulted. The archival records of these institutional bodies provided useful information on the discussions which led to the development of the content of the 1926 company law (*Regio decreto legge* n. 2214), the 1936 Royal Decree (*Regio decreto legge* n. 1548), the 1939 *Legge* n. 1966; the 1942 Civil Code, and the Republican legislative acts 1974 law (*Decreto legislativo* n. 216), the 1975 law (*Decreto del Presidente della Repubblica* n. 136), the 1992 law (*Decreto legislativo* n. 88), the 1998 Draghi reform (*Decreto legislativo* n. 58) and the 2003 company law (*Decreto legislativo* n. 6). The Borsa Italiana (the Italian stock exchange) archive was consulted for the information related to the corporate governance codes of best practices (Preda code, 1999; 2002). These historical records on the series of legislative reforms provided evidence of the potential changes in BOSA's role and existence as well as of the conjunctural and organic crises faced. The archival records of the Parliamentary

⁵ Those for 1911, 1913, 1914, 1921, 1925, 1928, 1930, 1934, 1936, 1937, 1949, 1952, 1953, and 1960 survived.

minutes have also provided useful evidence on the role of MPs in the Gramscian system of alliances.

Historical professional bulletins as well as archival records of national professional and academic journals were also widely used. They not only helped to fill the gaps in the primary archival data with contemporary commentaries from professionals, academics and MPs from the time period (Radcliffe et al, 2017), but also provided useful data on the hegemonic control, the conjunctural crises as well as the system of alliances (especially the role of intellectuals). Most of the bulletin or journal articles used in the analysis were published by respected accounting or law professors or national leaders in the profession. Some of these were also statutory auditors or company's directors. In particular, we reviewed the main historical accounting professional journals and bulletins (*Bollettino del Collegio dei Ragionieri in Milano; Il ragioniere, Rivista di amministrazione e contabilità, Rivista Lombarda di Ragioneria*). We also conducted a systematic review of all the articles published in the main Italian national academic and professional journals since their foundation to search for relevant articles.⁶

4. AN HISTORICAL OVERVIEW OF THE SOCIAL, ECONOMIC AND POLITICAL ENVIRONMENT OF ITALY 1882-TODAY

In this section we look at whether and how the changes in the Italian social, economic and political environment since the BOSA's establishment in 1882 until today have influenced BOSA.

1882-1922 Monarchy

BOSA was established in 1882, but its origin lies in the Italian unification of 1861, when Italy became an independent unified country. The *Codice del Commercio del Regno D'Italia* (hereafter Commercial Code), the first 'modern' and systematic approach to the regulation of companies in

⁶ Specifically, we conducted a systematic search through *Rivista Italiana di Ragioneria ed Economia aziendale* (from 1901 onwards), *Rivista del Diritto Commerciale* (from 1903 onwards), *Bancaria* (from 1921 onwards), *Rivista di Diritto Civile* (from 1930 onwards), *Rivista dei Dottori Commercialisti* (from 1949 onwards), and *Le Società* (from 1956 onwards).

Italy (Padoa Schioppa, 1992), established BOSA by stating that either three or five statutory auditors should be appointed at the shareholders' meeting as the shareholders' agents (Commercial Code, 1882, art. 183; 185). Only individuals – not corporate entities in any form – could be appointed. BOSA's main functions were to audit the company's financial statements (and report the results to shareholders) and to monitor that company directors acted within the law and the corporate bylaws. Statutory auditors were expected to attend meetings of both the board of directors and shareholders. Shareholders could be appointed as statutory auditors, while spouses and relatives of company directors could not (Commercial Code, 1882, art 183; 184).

The 1882 basic terms and conditions of BOSA role and membership continued, with no substantive change, up to Fascism (Atti Parlamentari, 1936, December 16th: 3142). This occurred despite the evidence, albeit anecdotal, that BOSA was never 'particularly active' in this period (Bellavite Pellegrini, 2001: 90) and also the general awareness among contemporary scholars (e.g., Canonica, 1891; Pipia, 1905; Vivante, 1913) that BOSA was not particularly effective as an independent oversight institution. 'No corporate collapse, no bank's disaster has ever been prevented by the work of statutory auditors ... They have eyes and they do not see; they have ears and they do not hear' (Pipia, 1905: 444). Indeed, the 1907-1908 Fiat major accounting scandal provided significant evidence of BOSA's ineffective performance as independent monitor. Not only did Fiat's BOSA never report any irregularities (see FIAT's Board of statutory auditors' annual reports, 1907; 1908), but it also reassured shareholders about their company directors and the overall situation.

1923-1947 Fascism

This period extends from Mussolini and his totalitarian Fascist regime's rise to power in 1922, through to its demise in 1943, during the Second World War and continues until the new Republican Constitution in 1948. The origins of Fascism are linked to the serious economic and social difficulties Italy faced. These caused a period of social instability with almost all economic activities being government-controlled (Zamagni, 1997). Although Fascism changed many Italian

institutions, it did not change the underlying class relations in Italian society, where landowners and the corporate elite received the support of the lower middle class (Sylos Labini, 1974), nor the role of BOSA, which was absorbed into Fascist society (Moro, 1937).

The Fascist regulator tried to address the functional weaknesses of BOSA with ad-hoc targeted reforms. However, in 1926 a proposal aimed at allowing corporate entities to serve as statutory auditors was rejected by Parliament (Royal Decree, 1926, n. 2214, December 16th). Ten years later, another Royal Decree (1936, n. 1548, July 24th) confirmed that only individuals could serve as statutory auditors. The service period was extended from one to three years and an Official register for statutory auditors (*Registro dei Revisori Ufficiali dei Conti*, hereafter 1936 *Registro*) was set up. At least one member of BOSA was required to belong to the *Registro*. However, anyone who had already served as a statutory auditor (or as a company director) in the past could join (Royal Decree, 1936, art. 12).

Finally, the 1942 Civil code, which after two decades of debate was expected to revolutionise corporate law (e.g., Garrani, 1964; Ferrarini, 2005), simply clarified that the ‘audit of the financial statements’, as in the Commercial Code (1882, art. 184) was meant to be an audit of the company's activities. This would include not only the audit of the financial statements, but also the internal audit. In his report as Ministry of Justice attached to the 1942 Civil Code, the Chairman of the Chamber of Fasci and Corporations, Dino Grandi, clearly explained that in relation to BOSA ‘the Civil Code is in continuity with the 1936 Royal Decree’ (Grandi, 1942; para 983).

Fascist reforms introduced mandatory professional requirements to access BOSA, reflecting the accountants’ increased social status (Coronella et al, 2015) and absorption into the Italian professional elite (see section 5). However, BOSA’s existence, functions, and role were unaffected despite the major changes in the economy and society (Atti Parlamentari, 1936, December 16th: 3142), even though it was ‘well known that, in practice, this institution (was) not, generally, well effective’ (Macchioro, 1946: 468).

1948-1991 Socio-democratic Republic

During this period Italy changed from a constitutional Monarchy into a democratic Republic governed continually by the Christian Democrat party. A relatively poor industrialising country recovering from the ravages of the Second World War developed into one of the world's most prosperous countries (Zamagni, 1997). The industrial development of Italy and the diffusion of joint-stock companies highlighted the inadequacies of the 1942 Civil Code. After three decades of debate, this led to two important pieces of legislation (1974 and 1975 acts) (Ferrarini, 2005), which could have affected BOSA.

In 1974 the Italian Securities and Exchange Commission was established (Law n. 216, June 7th). Italian companies were also required to adopt accounting standards for the preparation and presentation of their annual reports. Then, importantly, in 1975, listed companies were required to have their financial statements audited by an external, independent auditing firm (*Decreto del Presidente della Repubblica*, 1975, March 31st, n. 136, art. 1). However, none of these reforms truly affected BOSA as BOSA continued to be expected to audit financial statements (see section 5, 'System of alliances' and 'Conjunctural and organic crises'). In 1978, after a six-month inspection of the Banca Ambrosiano Veneto's accounts, Padalino (1978), the chief inspector of the national supervisory agency, reported that: 'the monitoring function of the statutory auditors is superficial and lacks effectiveness ... they omitted to check whether the board of directors acts in compliance with laws, corporate bylaws and the principles of business administration'. However, the aftermath of this major accounting scandal, comparable to Parmalat 25 years later, did not impact BOSA. After 1975 there is a vacuum of almost two decades in which BOSA role and functions continued without facing any potential change.

1992-2017 Neo-liberal Republic

After the fall of the Berlin wall, the sudden end of the Cold War and the consequent collapse of Communism, Italy faced a major political and economic crisis. In 1992 the Italian Communist party

became social democrats, while the dominant Christian Democrat party then disintegrated under accusations of corruption (e.g., Deeg, 2005; Mammarella, 2012). The national economy was in recession, the State's finances were shambolic due to massive public debt and the Italian Lira fell out of the European Monetary System. A new 'transparency' coalition composed of neo-liberal state bureaucrats along with left-wing political parties, emerged, and implemented major social, economic and political reforms in the role of the State as well as important company law reforms, including the introduction of internationally recognised corporate governance best practices (Culpepper, 2007; Deeg 2005).

In 1992, the 1982 European Company Law directive was eventually implemented (Law n. 88, 1992, January 27th). All statutory auditors were chosen from a new official register (*Registro dei Revisori contabili*, hereafter 1992 *Registro*) (1992 Law, n. 88, art. 21). Importantly, for the first time, corporate entities (e.g., auditing firms) could technically register and were allowed to use their own assistants (Law n. 88, 1992, art. 25). Nevertheless, no material change occurred in practice (see 'Conjunctural and organic crises' in section 5).

In 1998 the work of the Draghi committee was quickly turned into law (*Decreto legislativo* February 24th n. 58). The reform partially reshaped the functions of BOSA in listed companies (Draghi reform, 1998, art. 148; 149, 150, 151, 152, 155). Importantly, it allocated the function of auditing financial statements to external auditing firms (Draghi reform, 1998, art. 155), but BOSA continued to monitor company directors (Draghi reform, 1998, art. 149). Then, in 1999 the first Italian Code of Good Corporate Governance (1999) recommended that listed companies should establish an audit committee. However, the audit committee was held accountable to BOSA (Enriques, 2009). Although the Draghi reform succeeded in partly changing the functional role of BOSA, it was not able to change its lack of effectiveness. BOSA's role in the scandals which occurred after 1998 (e.g., Cirio, Parmalat, Monte dei Paschi di Siena, etc.) was clearly ineffective (Enriques, 2009). BOSA continued to be 'a legitimating device rather than a substantive monitoring

mechanism' (Melis, 2004: 82; Enriques, 2009: 495). Its reports to shareholders remained formulaic (Consob, 2001). Enriques (2009: 494), a former Italian S.E.C. commissioner, noted that:

'their performance as champions of shareholders' interests has been dismal even after the Draghi Law tightened independence standards for the board's members, increased their powers and clarified their tasks and duties'.

The 2003 Parmalat scandal provides significant case evidence of BOSA's ineffective performance as an independent monitor. Our analysis of corporate documents reveals that, despite a surprisingly long-lasting fraud (1990-2003), neither the BOSA of Parmalat or its subsidiaries reported anything wrong in their reports (Parmalat Finanziaria board of statutory auditors' reports, 1991-2002) (see end of 'Hegemony' in section 5). In his Parliamentary testimony, Cardia (2004), the Chairman of the Italian Securities and Exchange Commission confirmed that Parmalat's BOSA did not report anything to the courts or to the Italian Securities and Exchange Commission. The main corporate actors in Parmalat (including the CEO/Chairman, some partners of the external auditing firm and the Chief Financial Officer) were found guilty. Importantly, the statutory auditors were not (Tribunale di Milano Sezione 1^a Penale, 2008).

The final and most recent company law in 2003 (*Decreto legislativo* January 17th n. 6 Section VI) allowed Italian listed companies to dismiss their BOSA. However, only a handful of companies dispensed with BOSA despite its substantial failure in the early 21st century scandals (Consob, 2003).

So overall, in the 21st century as in 1882 BOSA continues to play an important and unique role in Italian companies. As reported by Ferrarini and Giudici (2006: 186) a statutory auditor continues to be 'the controlling shareholder's personal professional accountant This professional is appointed ... and informally indicates the two other professionals to be appointed as members of the board.'

5. FINDINGS

We now discuss and analyse the evidence found in light of the theoretical framework adopted. The main Gramscian themes (system of alliances, hegemony, absorption of disaffected groups, conjunctural and organic crises) help us to interpret the evidence found on BOSA's history.

System of alliances

BOSA's continuity was allowed through the existence of a Gramscian system of alliances with company directors, members of the Parliament and academia.

Being a statutory auditor has always meant membership of the Italian system of alliances, to which both corporate elites (e.g., company directors and controlling shareholders) and professional elites (e.g., lawyers) belonged, together with MPs and elite members of academia. These individuals were often interconnected, serving different roles at the same time. Our analysis of the historical datasets (Credito Italiano, 1906-1925; ASIPA, 1928-1960; Mediobanca, 1962-2016) revealed that the same individuals served as statutory auditors in some companies and were corporate directors in others. Some were also members of Parliament or the academia. FIAT, the leading car manufacturer, is illustrative of this practice. From the company's establishment in 1889 until the first world war world seven (out of eight) statutory auditors were also directors in other firms, while 13 (out of 25) FIAT directors were statutory auditors elsewhere (Fiat board of directors' minutes, 1889-1915). Two directors were also members of academia, while another two were (or became subsequently) members of Parliament (Fiat board of directors' minutes, 1889-1915). In this Gramscian system of alliances, cooperative behaviour was rewarded (Vivante, 1913). Cirpriani (1939: 172), in an article in the *Rivista Italiana di Ragioneria* (Italian Accounting Review), reported that 'statutory auditors are often mostly eager to please company directors' and 'only interested to know their pay when they accept the position'.

Indeed, since BOSA's establishment, company directors and statutory auditors were always appointed by the company's controlling shareholder and were closely related (*'sunt due in carne*

una', Sacerdoti, 1914: 659). Statutory auditors were, indeed, used to 'sing the praise' of company directors (see, e.g., Banca D'Italia board of statutory auditors' report, 1899: 65-66; 1900: 88; 1901: 50; Fiat board of statutory auditors' report, 1903: 1; 1904: 1, 1905: 1; 1906: 17; 1907: 15). Acts of independence could lead to social exclusion. Vivante (1913: 152), in an article in *Rivista Diritto Commerciale* (Business Law review) reported that 'a statutory auditor that criticised a company director would be penalised at the next shareholder's meeting and be replaced by another, more lenient, statutory auditor'. The importance of maintaining good cooperation between company directors and statutory auditors was reiterated by influential members of Parliament (e.g., Rossi, 1893; Belotti, 1915; Grandi, 1942) and elite members of academia (e.g., Greco, 1913; Scialoja, 1931; Arcangeli, Ascarelli, 1932). Senator Rossi (1893: 50-52) stated that he considered statutory auditors as 'collaborators with company directors' and that BOSA 'would be good only if it was inactive and would even be harmful if it really monitored directors'. Belotti (1915: 263), an important MP, publicly argued that 'a warm and friendly relationship between company directors and statutory auditors' could improve the role of the statutory auditors much more than 'scepticism' and 'lack of trust'. A law academic argued that statutory auditors should be 'individuals of trust for company directors and faithful to them' and that the term 'statutory auditor' was potentially misleading as auditing and monitoring 'are not the functions that statutory auditors have or should have' (Scialoja, 1931: 405 and 409). Indeed, Revere (1936: 240), in an article in the *Rivista Italiana di Ragioneria* (Italian Accounting Review), reported that 'statutory auditors are often servants of the boards of directors. Without any autonomy, they tend to be passive ... If a statutory auditor proves to be independent, then he usually pays for his act of arrogance with social exclusion'.

Gramsci's organic intellectuals, who held either board appointments or positions in BOSA, have also offered their ideological support to BOSA's continuity by downplaying BOSA's responsibilities in cases of failure. Elite members of the academia, such as Greco (1915: 172), professor of accounting at Bocconi University in Milan and an important statutory auditor, argued

against the responsibility of BOSA for detecting irregularities, otherwise ‘honest people will not serve as statutory auditors’. ‘The statutory auditor should live in the company night and day, on the side of the CEO. If the CEO is dishonest, even worse if the CFO is either incompetent, or a party to the CEO’ ... ‘there is no chance that the best statutory auditor discovers all the artificial practices’ (Greco, 1933: 171-172).

Statutory auditors were able to maintain exclusionary closure and BOSA’s continuity based on their relationship and support by Members of Parliament (Cerverella, 1981). In 1926, Parliament rejected the so-called Bianchini proposal (*Consiglio Superiore dell’Economia Nazionale*, 1926) to allow corporate entities (i.e., auditing firms) to become BOSA’s members (Royal Decree 1926, n. 2214, December 16th). MPs were aware of the problems that BOSA had. Senator Pavia (1926: 101), *inter alia*, publicly admitted that ‘A statutory auditor should be independent by definition; however, in the great majority of the companies he is chosen and appointed by the major shareholder, hence, despite how much he is honest and distinguished, he does not always feel obliged to conduct in-depth investigations on the activities of the board of directors which represents the same major shareholder’. Nevertheless, the minutes of the discussion at the Senate of the Kingdom clearly report that:

‘...the membership at the board of statutory auditors should be reserved to individuals. Such assignments could not be appropriately exercised by corporate entities ... this is the right wish of the professionals’ (Atti Parlamentari, 1926, June 4th: 10692).

The argument that only individuals could be statutory auditors and not corporate entities also received ideological support from contemporary Italian elite academics who helped to maintain hegemonic control. They generally acted as Gramscian ‘traditional’ intellectuals, seemingly autonomous and independent of the ruling class while their arguments were not neutral and helped to perpetuate hegemony. The arguments of De Gobbis (1931: 486), an influential accounting

professor, in his book on ‘The financial statements of companies’, are illustrative of this ideological support:

‘If corporate entities were appointed as statutory auditors ... this would be against, I believe, the nature of the role of statutory auditor; a role which assumes full trust in the personal qualities of the statutory auditor: expertise, independence of mind, attitude to resistance, and ethics; this excludes delegation of this role’.

The Gramscian concept of system of alliances also assists us in interpreting how the norms of the 1936 Royal decree, which introduced the *Registro*, safeguarded statutory auditors. The Royal decree (1936, art. 12) allowed the existing statutory auditors to continue in office and to join the *Registro* even when they did not have the professional skills required. As noted by Cervellera (1981: 882): ‘The *Registro dei Revisori Ufficiali dei Conti* ... is in practice a new structure which fully incorporates existing statutory auditors, above all it satisfies professionals who have a strong political influence’. Indeed, our analysis of the Asipa (1937) dataset revealed that the existing corporate and professional elite, mainly consisting of lawyers and engineers, continued to access BOSA, regardless of their expertise. This lack of change was due to the existing system of alliances. During a Parliamentary discussion, Boidi, an MP and accountant, noted that ‘the same reasons and considerations which kept reforms away from this oversight institution for over half a century have suggested conservatism’. ‘This reform has been conservative so that it would not shake the interests of the professional class’, as explained by the Ministry of Justice, Arrigo Solmi (*Atti Parlamentari*, 1936: December 16th, 3149).

Assonime, the national Association of joint-stock companies, which was worried that a ‘strong monitoring institution’ would ‘interfere and disturb company directors’ activities’ (Assonime, 1935: 70), maintained that the 1936 regulation should be framed within ‘constant cooperation between company directors and statutory auditors’ (Assonime, 1936: 133). Overall, the Gramscian system of alliances supported BOSA’s continuity.

A few years later, in 1939, the proposal to allow auditing firms to become BOSA's members was put forward again and discussed by the Commission of Justice of the Chamber of Fasci and Corporations. During a Parliamentary meeting (see *Atti Parlamentari*, 1939: May 26th: 8-9), Gray, MP, was clearly against it as 'the tasks of the statutory auditors cannot be exercised by corporate entities, but only by individuals'. Pavolini, Minister of the Mussolini government, clarified why the proposal should be rejected: 'we should avoid that tasks in the remit of the professional class are invaded by others'. Therefore, the 1939 law (art. 1) explicitly excluded the possibility of auditing firms accessing BOSA. The importance of the system of alliances in defending access to BOSA is also explicit in other statements, such as that by Asquini, lawyer, academic and Member of the Chamber of Fasci and Corporations:

'Representatives of the professions should appreciate this regulation, which constitutes a precise defence of their class in the access to the board of statutory auditors' (*Atti Parlamentari*, 1939, May 26th: 9).

A few years later, the 1942 Civil Code, which represented a major reform for corporate law (e.g., Garrani, 1964; Ferrarini, 2005), did not affect BOSA's continuity and functions (see section 4). The nobleman Dino Grandi, Chairman of the Chamber of Fasci and Corporation, clearly explained, in his report as Ministry of Justice attached to the 1942 Civil Code, that the statutory auditors' function 'is and should be of cooperation'. 'Continuity with the 1936 regulation' was needed 'to avoid the danger that their function was regulated in a way that created an antithesis between company directors and statutory auditors' (Grandi, 1942, para 983).

After three decades of 'fruitless' debate (Poli, 2010: 52), the 1975 reform was enacted to conform to the audit practices that were hegemonic in the European community due to the entry of the United Kingdom in 1973 (Pontani, 2015). It stated that 'the external auditing firm shall deal with the audit of the financial statements... The other tasks shall remain in charge of the board of statutory auditors' (*Decreto del Presidente della Repubblica*, 1975, March 31st, n. 136, art. 1). The rapporteur of the law was clear about it:

‘The evidence of the frequent ineffectiveness of the board of statutory auditors in its functions have led to an opinion that a rigorous audit of the financial statements can only be the outcome of the work of a group ...The board of statutory auditors could continue to have other functions...this cannot be delayed to comply with the practices of other countries in the European community’ (*Atti Parlamentari*, 1974, April 9th: 17-18).

However, accounting and law intellectuals supported the continuity of BOSA and argued against regulatory change. The mainstream interpretation of the law was, therefore, that the role of BOSA was not subject to any changes (e.g., Cassandro, 1976; 1978; Colombo, 1977; Dell’Atti, 1977; D’Ambrosio, 1985; Superti Furga, 1988). As predicted by Gramsci, their arguments as intellectuals reflected the existing political-economic structure and social relations contributing to preserve hegemony. The arguments of Superti Furga (1988), an influential accounting professor who also served as statutory auditor in several major companies, are illustrative of how intellectuals supported BOSA’s continuity. In an article on *Rivista dei Dottori Commercialisti* (Chartered Accountants Journal), he argued that the external audit and BOSA’s audit were intrinsically different and that ‘the complex monitoring task over the value in use of corporate assets can only be exercised by the board of statutory auditors’ (1988: 643). As a result, BOSA continued to audit financial statements.⁷

In this Gramscian system of alliances, acts of independence by individual statutory auditors could work against that statutory auditor’s reputation and be considered as arrogance. The 1990-2003 Parmalat scandal illustrated this. In the fraud trial, Martellini, the statutory auditor appointed by shareholders’ minorities in 1999, testified that statutory auditors’ ‘questions were considered as signs of disrespect, almost insubordinate behaviour’ (Martellini, 2009).

The close relationship between company directors and statutory auditors continued into the 21st century (Ferrarini, Giudici, 2006; Enriques, 2009). The typical statutory auditor continued to lack

⁷ We have checked thirty BOSA’s annual reports out of the largest companies listed at the Milan stock exchange in 1976 and 1977. In all the cases analysed the BOSA’s annual report to shareholders clearly stated that BOSA had audited the company’s financial statements.

the *état d'esprit* of a gatekeeper because 'appointed ... on the basis of friendship ... or professional ties ...and builds up his own reputation among a small social circle that appreciates professional skills and cooperative behaviour more than the inquisitive side of an independent and effective gatekeeper' (Ferrarini and Giudici, 2006: 186).

Hegemony

In the Gramscian theoretical lens, hegemonic control can be exercised ideologically through the development of a hegemonic culture where the ideas, values, institutions, and assumptions that support the interests of the 'dominant group' become 'common sense' (Gramsci, 1971). Gramscian 'common sense' ideas were used to portray the importance of BOSA as an independent oversight institution and the need to restrict access to professionals. Based on this taken-for-granted understanding, ideological control was either aimed at supporting BOSA's continuity (e.g., Moro, 1937; Tanini, Galeotti Fiori; 1963; D'Ambrosio, 1985) or to restricting access to BOSA (e.g., Marchi, 1984; Bandettini, 1987) and generally lacked any evidence to support these beliefs (e.g., Tanini, 1963; Caratozzolo, 1993). However, the ruling class employed a dual strategy, and, together with the persuasive use of 'common sense', in the background, there was potential State coercion (e.g., during Fascism).

From a hegemonic perspective, the 1882 institutionalisation of BOSA made sense as it seemed to provide a wide societal benefit, while possibly only benefiting the existing ruling class. BOSA was expected to be an important independent monitor for company's directors and an independent auditor for company's financial statements (Commercial Code, 1882). However, statutory auditors were not required to have any accounting expertise, in fact only Italy's social elite accessed BOSA (see section 'The absorption of disaffected groups in the BOSA membership'). Rather than monitoring corporate directors, statutory auditors were expected to play a reassuring and legitimating role (Rossi; 1893; Colla, 1911). Colla (1911: 421-422), in his article in the journal *Riforma sociale* (Social Reform), reported that shareholders typically appointed statutory auditors

who were trusted by company's directors. These statutory auditors were more interested in preserving their 'lucrative position' than in improving the company. For this reason, BOSA's annual report to shareholders was generally reassuring because it always claimed that 'the amount presented in the financial statements conforms to accounting books and records and everything was found to be fully in compliance with law and company's by-laws' (Colla, 1911: 420).

Our analysis of Fiat BOSA's annual reports shows, indeed, that the report generally contained reassuring statements (e.g., Fiat board of statutory auditors' report, 1902: 1; 1903: 1; 1904: 1; 1905: 17; 1906: 17; 1907: 15; 1908: 15; 1909: 15; 1910: 1). Importantly, when in 1907-1908 Fiat was involved in a major financial scandal which forced the key executive directors to step down and be under trial (Castronovo, 1999: 37-46), not only did its BOSA not report any irregularities (Fiat board of statutory auditors' report, 1907; 1908), but also praised 'the CEO, the Chairman and other executives' for their 'honest, clever activity solely aimed to safeguard the company' (Fiat board of statutory auditors' report, 1907: 15). Fiat's BOSA also reassured shareholders that everything was 'as good as they could wish' and recommended them to approve the company's financial statements (Fiat board of statutory auditors' report, 1907: 15; 1908: 15). BOSA reassured shareholders that company directors were accountable and acting in their interest (e.g., Fiat board of statutory auditors' report, 1918: 1; 1927: 1; 1928: 1), including matters (e.g., mergers and acquisitions) that were beyond the technical functions of BOSA (e.g, Fiat board of statutory auditors' report, 1917: 1). It also explicitly reassured them that company directors were complying with the law and societal expectations (e.g, Fiat board of statutory auditors' report, 1921: 1; 1923: 1; 1924: 1; 1925: 1; 1926: 1; 1928: 1; 1929: 1). Overall, the Fiat case shows how BOSA provided a legitimating, rather than a substantive monitoring role. BOSA was, in Gramscian terms, an important 'structure' (i.e. institution) of civil society and a useful source of stability for the State (Moro, 1937). As expected by Gramsci (1971), civil institutions help to maintain social stability. In the BOSA's case,

this argument was explicitly made by Moro (1937: 65-66), an organic intellectual member of the Fascist party, who, in his book on ‘The Statutory Auditors in Companies’, wrote:

‘The best device that today the State can use to exercise its monitoring activity over companies, via professionals, without taking any risk, is the board of statutory auditors ...’

After five decades of continuity in the terms and conditions of BOSA role and membership, the introduction of the 1936 *Registro* appeared to benefit the entire society. The Parliamentary discussion illustrates how the introduction of the *Registro* was based on the belief that the actions of company directors seemed to be subject to a more effective oversight given the mandatory appointment of an accounting professional (*Atti Parlamentari*, 1936, December 16th: 3140-3141). At the same time, the introduction of the 1936 *Registro* helped the ruling class. It benefited not only the emerging class of accountants (see, e.g., the Parliamentary discussion which led to the 1936 *Registro*, *Atti Parlamentari*, 1936, December 16th: 3140-3149), but also the rest of corporate and professional elites, as anyone who had already served as a statutory auditor (or as a company director) could join the *Registro*, regardless of their expertise (Royal Decree, 1936, art. 12).

Although the concept of hegemony generally draws attention to the consent of subordinate groups to particular political and social structures, State coercion is always possible as it is part of the hegemonic equilibrium (Gramsci, 1971). During Fascism, hegemony was exercised with the consensual legitimacy of civil society, but also through the coercive authority of the State. Mussolini’s principle ‘Everything in the State, nothing outside the State, nothing against the State’ was applied to BOSA (Moro, 1937). In the Parliamentary discussion which led to the 1936 *Registro*, Besozzi di Carnisio, a nobleman and leading MP, made it clear that a statutory auditor ‘must consider himself as a fascist on duty’ (*Atti Parlamentari*, 1936, December 16th: 3140). Moro (1937: 160), an intellectual organic of the Fascist party, argued that the statutory auditor was ‘one of the noblest professions’ in Italy, but should ‘no longer be loyal to old ideologies’, BOSA’s role should be exercised by statutory auditors who ‘fully understand the Fascist corporative spirit’. The

Fascist regime dictated that a National Fascist Party's representative sat on the appointment commission for the 1936 *Registro* (Royal decree, 1936, art. 11). Where a statutory auditor was appointed by the State, this individual should chair BOSA (Carena, 1942).

Those who, for political reasons, could not be absorbed, were excluded. The 1938 Royal decree regulated that only members of the National Fascist party could become statutory auditors (Regio decreto, 1938, 2nd May, n. 743; Legge 1939, 3rd January, n. 21). Carena (1942) reported, in an article in *Rivista Italiana di Ragioneria* (Italian Accounting Review), that existing statutory auditors generally joined the National Fascist party. In 1939 Jews were not allowed to join the 1936 *Registro*. Existing Jew members were cancelled (Legge 1939, n. 1054, art. 23). These decisions were congruent with the Fascist 'corporativisation' of Italian society, with BOSA being functional to this social and political agenda (Moro, 1937). The cases of the largest State-owned conglomerate and an old building company illustrate this. From the IRI's establishment in 1933 until the demise of Fascism, Knight Ugo Sirovich, Fascist Senator (Unione Nazionale Fascista del Senato, 1932; Senato del Regno, 1939, 26th May: 1), was the Chairman of BOSA, appointed by the Ministries of Finance and 'Corporations' (IRI annual reports, 1933-1942). Meanwhile, Italcementi's BOSA included a Commander of the Fascist Army (Giacinto Masino) (Asipa, 1930, 1936, 1937).

Overall, therefore, through Fascism's consensual legitimacy and coercive authority, statutory auditors, as professional elite, were 'absorbed' into the Fascist historical bloc. Despite the criticism and the requests to reform BOSA by contemporary socialist academics (e.g., Vivante, 1929; Sraffa, 1930), Moro (1937: 65-66), member of the Fascist party, summarised the situation as follows:

'The board of statutory auditors is not abolished, as it is not in contrast with the Fascist principles, rather it is necessary, therefore it has been reinforced and put into the framework of the corporativist order'.

BOSA as an independent accounting institution continued to be a way of persuading the rest of society (i.e. 'the led', Gramsci, 1971) that the actions of company's directors were subject to

oversight. In his testimony in front of the Ministry of Justice, on behalf of the council of accountants (*Collegio dei Ragioneri*) in Lazio, Nostini (1945: 95) provided ideological support for BOSA by arguing that: ‘The regulator has decided to make the function of the board of statutory auditors of public interest, essential to safeguard investors in the national economy and to prevent and punish irregularities and lack of responsibility by company directors’. His arguments can be interpreted as Gramscian ‘common sense’ as they were presented as ‘self-evident truths’, while, in fact, they lacked any evidence. No change in BOSA’s functions and role was brought, in fact, by the regulator with the 1942 Civil code (see section 4).

BOSA’s oversight provided an important reassurance to society (Nostini, 1945). In 1946, Banca D’Italia’s BOSA annual report (1946: 164-165) reassured shareholders and society that ‘despite the war events’, which delayed the preparation of the financial statements for over one year ‘the financial statements presented conformed to the accounting records’. Importantly, the company directors were ‘harmonising the interest of the company with the higher interest of the whole country’. BOSA’s annual report generally provided a reassurance role also for employees. The BOSA’s annual report of Alfa Romeo (1975: 35) stated that ‘we can reassure you that assets were estimated in accordance with the law and that the employee pension fund conforms to what the employees were entitled to’. A similar reassurance was included in other cases, e.g., Cartiere Burgo’s BOSA’s report (1953: 20) and Gancia’s (1964: 20). BOSA thus served as a reassurance institution for the different classes of Italian society, legitimating the dominant elite that comprised company directors and statutory auditors.

Hegemonic control has often been exercised ideologically with the support of accounting and law ‘intellectuals’, whose knowledge and arguments, as explained by Gramsci (1971), reflected the existing political, economic and social structure. Gramscian ‘common sense’ was used to support BOSA’s continuing existence, role and functions. Rhetorical assertions, which appeared taken-for-granted and self-evident, were widely used. In fact, they lacked evidence and were self-serving as

they came from Gramscian ‘intellectuals’ who were also statutory auditors (e.g., Tanini, Galeotti Fiori, 1963; Marchi, 1984; Bernoni et al.; 1986; Caratozzolo, 1993).

In the early 1960s, accountants began to provide ideological support for BOSA’s existence and role as they were ‘absorbed’ into the hegemonic coalition and BOSA membership (see section on ‘The absorption of disaffected groups in the BOSA membership’). During the 1962 national congress of chartered accountants, Tanini and Galeotti Fiori (1963: 56), chartered accountants and statutory auditors, supported BOSA as its ‘functions provide reassurance and prestige for the company’. Tanini (1963: 445) also asserted, without providing any evidence to support his claim, that ‘the BOSA’s annual report ... makes access to new capital easier thanks to the assurance provided by BOSA’.

In 1975, after four decades of regulatory continuity, when a law tried to reform the functions of BOSA (see section 4), accounting and law intellectuals disregarded a literal interpretation of the law. They interpreted it differently arguing that BOSA should continue auditing company’s financial statements without any change (e.g., Cassandro, 1976; 1978; Colombo, 1977; Dell’Atti, 1977; D’Ambrosio, 1985, Bandettini, 1987; Superti Furga, 1988). Their interpretation was mainstream and can be interpreted as Gramscian ‘common sense’, rather than ‘good sense’, as it led to an acritical consent of the ruling class’ ideology, instead of a critical appraisal. Indeed, in practice, BOSA continued auditing company’s financial statements despite the fact the external auditing firms were also doing this. Alfa Romeo’s and Fiat’s BOSA’s annual reports are illustrative of this. Both BOSAs in their annual reports (1973-1976) clearly reported that their activities included an audit of financial statements, despite the external auditor’s audit (see also footnote 8).

During the 1980s, the debate that followed the 1975 law can also be interpreted in accordance with the Gramscian ‘common sense’ concept. At the verge of this debate, D’Ambrosio (1985: 400; 405), an influential chartered accountant and statutory auditor, in an article in the *Rivista dei Dottori Commercialisti* (Chartered Accountants Journal), claimed that ‘the board of statutory auditors

demonstrated it serves, even today, positive functions ... that auditing firms can never fulfil'. Similar discourses were found in Marchi (1984) and Bernoni (1987). The 'ideological' support for BOSA can be interpreted as Gramscian 'common sense' as no evidence is provided of the importance of BOSA's role, which is taken for granted and presented as a self-evident truth. In the same year, the national association of chartered accountants issued the BOSA's first code of best practices (Consiglio Nazionale dei Dottori Commercialisti e Consiglio Nazionale dei Ragionieri e Periti commerciali, 1987). This stressed that BOSA's monitoring role was a way of reassuring shareholders and creditors and the idea that BOSA benefited the whole society. More specifically, the code of best practices emphasised the importance of the BOSA's annual report. This was assumed to have 'an important informative value for shareholders and creditors'. The code also, stated that, for this reason, statutory auditors should 'attest the regularity and compliance with laws and regulations' (Consiglio Nazionale dei Dottori Commercialisti e Consiglio Nazionale dei Ragionieri e Periti commerciali, 1987: para 3.7).

In the same decade another Gramscian 'common sense' idea was that BOSA needed more 'professionalism'. The need to restrict access to BOSA was widespread among professional elites, in particular lawyers and accountants. Marchi (1984: 638), an influential chartered accountant, asserted, in the *Rivista dei Dottori Commercialisti* (Chartered Accountants Journal), again without providing any evidence, that:

'The Italian regulator is less strict than other European regulators on what concerns the professional qualification required to access the board of statutory auditors in Italy ... the choice from those professionals enrolled in the *Registro* is only mandatory for one of the members of the board of statutory auditors'.

D'Ambrosio (1985: 409), a chartered accountant, emphasised, in an article in the *Rivista dei Dottori Commercialisti* (Chartered Accountants Journal), the 'need' that 'the entire board of statutory auditors' should be 'composed of professionals'. Bernoni et al. (1986: 35-36), members of the same professional elite, criticised, in an article in the *Rivista dei Dottori Commercialisti* (Chartered

Accountants Journal), the fact that accountants, lawyers and professors did not comprise the entire BOSA membership in the local saving banks they examined: ‘this composition does not take into account the fundamental need of professionalism’. Bandettini (1987: 57 and 68), accounting professor, chartered accountant and statutory auditor, supported further closure noting, in an article in the *Rivista Italiana di Ragioneria* (Italian Accounting Review), that the existing *Registro* ‘even today does not provide a clear and full guarantee of professionalism’. This was because the existing regulation did not restrict the access to professionals only.

A few years later, the 1992 regulation was issued. The Gramscian concept of hegemony helps us to interpret it. The law claimed to reassure Italian society that they were benefiting as the actions of company directors were subject to better oversight. It required all statutory auditors to be chosen from the members of the new *Registro* (Legge 1992, n. 88, art. 21). At the same time, it benefited the professional elite, giving it more exclusionary social closure based on credentialism, ‘without addressing the determinants of ineffectiveness of the board of statutory auditors’ (Poli, 2010). ‘The role of statutory auditor became a “protected professional activity”, with a legal protection in favour of those enrolled in the *Registro*’ (Poli, 1997: 36). Indeed, at the 28th national conference of chartered accountants, Caratozzolo (1993: 6), their national President welcomed with great appreciation that all - rather than only one - statutory auditors must be chosen from the 1992 *Registro* and asserted, with great rhetorical emphasis but providing no supporting evidence, that:

‘I have never agreed with the opinion of ineffectiveness and uselessness of the board of statutory auditors ... there are boards of statutory auditors that do not work, or work little and poorly, but there are also boards of statutory auditors that work properly ... Those boards which do not work properly are usually not composed of professionals’.

A few years later, in 1996, the national association of chartered accountants issued the second version of BOSA’s code of best practices (Consiglio Nazionale dei Dottori Commercialisti e Consiglio Nazionale dei Ragionieri e Periti commerciali, 1996). In its preface the national President

claimed that ‘through the compliance and application of these Principles ... the accounting profession will provide an important contribution to the transparency of the accounting information and, at the end, to the progress of our country’ (Caratozzolo, 1996: 1). Again, the benefits to the entire society provided by BOSA’s reassurance were emphasised (Consiglio Nazionale dei Dottori Commercialisti e Consiglio Nazionale dei Ragionieri e Periti commerciali, 1996).

BOSA’s reassurance role continued to be stressed in individual BOSA annual reports to shareholders (e.g., ENEL’s BOSA’s annual report, 1998; Telecom Italia, BOSA annual report, 1999). Even at Parmalat, in the period when the accounting fraud occurred, BOSA’s reports always reassured shareholders that company directors were acting in accordance with the law and regulations (Parmalat Finanziaria, 1991-2002). Importantly, in December 2002, one year before the fraud became public, when a Parmalat’s foreign shareholder (Hermes Focus Asset Management Europe) filed a claim on accounting irregularities, BOSA publicly reassured shareholders that company directors were behaving correctly and that ‘there was no irregularity either de facto or de jure’ (Tribunale di Milano Sezione 1^a Penale, 2008, Judgement of the Court, December 18th).

The absorption of disaffected groups in the BOSA membership

As predicted by Gramsci, hegemony was also perpetuated with the gradual ‘absorption’ of disaffected important social groups into social institutions, such as, in BOSA’s case, the accountants. Ferri and Trento (1997: 407-408) reported that statutory auditors have always been part of the elite of Italian society. As discussed below, as the composition of the Italian elite changed over time, BOSA membership has adapted to these societal changes.

At the end of the 19th century, when BOSA was established, Italian society included an elite arising from the upper ranks of landowners, company directors and professionals (lawyers and engineers) (Sylos Labini, 1974). As BOSA’s members were not required to have any accounting background

(Commercial Code, 1882), nobles, lawyers and engineers comprised BOSA's membership. Our analysis of FIAT's board of directors' minutes from 1899 to 1915 showed that FIAT's BOSA continued to comprise knights and engineers, with one professor/lawyer, and no accountants until 1915, despite a 1907-8 major accounting scandal (see section 4). This is in line with the evidence that accountants were not yet part of the Italian elite (Coronella et al, 2015).

The need for accounting expertise and a Charter was promoted, since the establishment of BOSA, by accountants in their national conferences (e.g., Collegio dei Ragionieri in Milan, 1891-1892: 170) and in professional journals or bulletins (e.g., *Bollettino del Collegio dei Ragionieri di Milano*, 1889). D'Alvise (1889: 132), an influential accounting professor, in an article in the *Bollettino del Collegio dei Ragionieri* (Professional Accountants Bulletin) in Milan, summarised this view:

'Lawyers, engineers ... we count among statutory auditors that we know of. ... What would we say if a sick person would consult an architect, rather than a doctor, to heal? ... Don't we call an engineer to test the work of other engineers? ... Hence, who is better than an accountant to check the accounting records and the financial statements prepared by the accountants employed in a company? ... Accountants are naturally suited for the role of statutory auditor, like a doctor is for ill people and an engineer for bridges and roads'

However, given the relatively lower social status of accountants in the 19th century, when compared to engineers and lawyers (Sylos Labini, 1974), accountants were unable to achieve closure. Coronella et al (2015: 173-174) point out that in post-unification Italy:

'Accountants found themselves in competition...with the dominant profession of the day – the lawyers ... In consequence of the failure of the State to regulate in their favour, many of the appointments which 'expert accountants' perceived to be within their orbit continued to be won by lawyers and others who had not received a diploma in accounting'.

The beginning of the 20th century witnessed the legal recognition of the accounting profession and the ‘affirmation of the class of accountants’ (Coronella et al, 2015: 191). Accountants had demanded a role in BOSA since its establishment (e.g., Collegio dei Ragionieri in Milan, 1891-1892; Acts of the sixth national congress of accountants, 1910; D’Alvise, 1913). More specifically, Santanera (1911) reported that the 1910 national congress of accountants voted that ‘at least one of the statutory auditors should be an accountant’. However, this did not fully occur until the 1930s. Our analysis of the Credito Italiano historical dataset (Credito Italiano, 1911, 1913, 1914, 1917, 1921, 1923, 1925, 1926) revealed that there was a gradual access of this social group into BOSA. This came along with the increasing social importance of the accounting profession in Italy from the end of the 19th century through to the Fascist period (Coronella et al, 2015). Banca D’Italia, the most important bank in Italy, is illustrative. Our systematic analysis of this bank’s annual reports reveals that, since the bank’s establishment in 1895, its BOSA consistently comprised one lawyer, one or two engineers, and two or three noblemen until 1920. The first accountant was appointed only in 1920, the second in 1926. Accountants comprised the majority of BOSA only in 1931 (Banca D’Italia annual reports, 1895-1931). In the meantime, in 1929 the chartered accountant profession was formally established. The 1929 Royal decree explicitly stated the role of statutory auditor was within the remit of the accounting profession (Royal decree, 28th March 1929, n. 588, art. 3).

A few years later, in 1935, the National Fascist Union of Accountants (Sindacato Nazionale Fascista Dottori in Scienze Economiche e Commerciali, 1935) publicly demanded that accountants should have a ‘reserved’ position in BOSA. One year later, in 1936, the establishment of the *Registro dei Revisori Ufficiali dei Conti*, required that at least one professional with ‘adequate’ skills (i.e. an accountant) should be on a BOSA (Royal decree, 1936, art. 1). This, albeit minor, change was in line with the increased social role of the accountants in Italian society. They were beginning to acquire status and, along with engineers and lawyers, were gradually ‘absorbed’ into

the Italian professional elite (Banca D'Italia annual reports, 1895-1936). In his statement at the Senate of the Kingdom, Broglia (1937: 189-190) publicly praised the introduction of the *Registro* and, 'as a Professor and Scholar in accounting', thanked the Minister of Justice for institutionalising the 'professional classes' of accountants (*Dottori commercialisti* and *Ragioneri*) '...who, given their educational background and professional experience, are the most adequate, with unquestionable expertise, for being statutory auditors'.

Assicurazioni generali and Colorificio Italiano Max Meyer, national leaders in the insurance and paint industries respectively, provide some interesting evidence of the gradual 'absorption' of accountants into BOSA. Both BOSAs comprised lawyers, engineers, nobles and members of Parliament before 1936. One accountant was then appointed to their BOSAs in 1936 and this continued until after the second war world, when accountants became a majority in their BOSAs (Credito Italiano, 1921, 1925; Asipa, 1927-1964).

The 1936 Royal decree, however, did not take into account, in the short term, the real competence and expertise of the candidates for access to the *Registro*. Anyone who had already served as a statutory auditor (or as a company director) in the past could join (Royal decree, 1936, art. 12). Therefore, as our analysis of the Asipa historical dataset (1936, 1937) revealed, the existing corporate and professional elite, still comprising lawyers and engineers (Sylos Labini, 1974), continued to access BOSA membership despite their potential lack of expertise. The cases of three leading manufacturers illustrate this: in 1937 their BOSA comprised one accountant, one lawyer and one engineer (Ducati, Annual report, 1937; Olivetti, Annual report, 1937; Piaggio, Annual report, 1937).

The systematic analysis of the composition of BOSAs of Banca D'Italia and FIAT contributes to our understanding on the BOSA's membership over time and the gradual 'absorption' of accountants. From 1895 to 2016 only 50 individuals accessed the five-member BOSA of Banca D'Italia: 13 noblemen, 12 accountants, 9 lawyers, 4 engineers, and 12 elite members of academia,

the army or bankers. Until 1954 engineers and noblemen dominated the board of this bank. Accountants became the majority only from 1995 onwards. This reflects the fact that nobles began to lose their social role with the advent of the Republic, elite landowners declined at the same time given the industrialisation of the country (Zamagni, 1997), while accountants became part of the Italian elite in the first part of the 20th century (Coronella et al, 2015).

At FIAT, BOSA membership in the period 1899-2016 comprised only 26 individuals (9 accountants, 6 lawyers, 6 noblemen, and 5 engineers). Until the 1930s engineers and noblemen dominated Fiat's BOSA. Then, noblemen began to be replaced by accountants and engineers (1930-1959) in line with the modifications in the Italian social classes (Sylos Labini, 1974).

Over time BOSA membership has adapted to the societal changes. Importantly, Gramsci's theoretical lens assists us in understanding the gradual access of accountants to BOSA. Despite their functional expertise, accountants found it difficult to access BOSA as, due to their lower social status, they were outside the Gramscian system of alliances. Their access came with their increased role in Italian society and their gradual absorption into hegemony. As explained by Gramsci (1971), the maintenance of hegemony is perpetuated by the ruling class with the consensual legitimacy of civil society and it involves the absorption of disaffected important groups, in this case accountants, into the hegemonic coalition. Indeed, once they were 'absorbed', accountants provided ideological support for BOSA's existence and role (see 'Hegemony' section). At the same time, the absorption of accountants appeared to benefit the entire society as, given the accountant's functional expertise, the actions of company's directors seemed to be subject to a more effective oversight and company's financial statements appeared to be better audited. Overall, therefore, it helped to preserve hegemony and BOSA's continuity.

Conjunctural and organic crises

Gramsci's theoretical lens helps us to understand how potential sources of change for BOSA could be mitigated and had no historical impact. It helps to explain BOSA's continuity over a period

longer than 135 years: for change to occur there needs to be an organic crisis. Throughout its history, BOSA faced a series of potential sources of major change, which appeared to be ‘radical’ at first sight. However, hegemony remained unchanged, hence these crises had no far-reaching historical significance as they were turned into conjunctural crises.

The major sources of potential change for BOSA came from regulatory interventions, which either threatened BOSA’s existence, or its role at the very least. However, most of them were either rejected in Parliament (e.g., the 1926 Bianchini proposal, the 1939 law), delayed and then assimilated (e.g., the 1982 European directive) or not implemented in practice (e.g., the 1975 and 2003 laws). The pattern in each case was similar: a potential threat was mitigated and generally eliminated with the support of members of the Gramscian system of alliances. As explained below, the potential sources of change concerned the access of outsiders to BOSA (corporate entities and minority shareholders), BOSA’s oversight function and the alternative institutions to BOSA. They represented Gramscian ‘conjunctural crises’ of BOSA. Despite appearing ‘dramatic’ in the short term, they were assimilated into the prevailing hegemony, without any material, far-reaching, historical significance. The only material change occurred in 1998, when Italy’s social, political and economic scenario faced an organic crisis, hegemony was affected, and the Draghi reform (1998, art. 155) replaced BOSA’s auditing role with the external auditing firm.

The access of outsiders to the board of statutory auditors

The potential access to BOSA by outsiders (e.g., auditing firms and/or individuals outside the Gramscian system of alliances) has constantly represented an important threat to existing statutory auditors and a source of potential major change for BOSA. During BOSA’s history four major threats occurred: two important Parliamentary proposals (1926 and 1939), then in 1982, the 8th European Company Law directive (enacted by Italian Parliament only in 1992), and, last but not least, the 1998 Draghi reform.

In 1926, the proponents (e.g., Bianchini, 1926; Maliverni, 1927) argued about the advantages, in terms of expertise and independence, of having corporate entities, rather than individuals, as statutory auditors. They supported their argument with international practice where auditing firms were already common (e.g., the US and UK). However, despite the support of the National Council for the Economy (*Consiglio Superiore dell'Economia Nazionale*, 1926) in May, the proposal was rejected in Parliament (*Regio decreto legge* 1926, December 16th, n. 2214). In 1939, the proposal to allow auditing firms to become BOSA's members was reintroduced. However, Parliament rejected it again stating: 'auditing firms...are excluded from the exercise of the profession of statutory auditor' (1939 law, art. 1). In both scenarios the Gramscian system of alliances allowed BOSA's continuity (see section 'System of alliances').

After over four decades of continuity, in 1982, the 8th European Company Law directive allowed the potential access of corporate entities to BOSA. This represented an important potential threat for hegemony. Italian members of Parliament had no control over the content of the European Directive, which was not designed by the Italian ruling class. The Directive was not implemented by the Italian Parliament for a decade, until 1992 when Italy was on the verge of an organic crisis (*Decreto legislativo*, 1992, n. 88). Poli (1997: 9), a contemporary law professor, in his treatise on 'The new regulation on the board of statutory auditors', noted that:

'It took fifty years, and the necessity to fulfill its obligations towards the European community, to persuade the [Italian] regulator to draft a reform of the board of statutory auditors'.

The 1992 legislative act represented a major potential source of change. Not only did this regulation require all statutory auditors to be chosen from the members of the 1992 *Registro* (*Decreto legislativo*, 1992, n. 88, art. 21), but it also allowed corporate entities (i.e. auditing firms) to enrol into the *Registro*. Statutory auditors were also allowed to use their own assistants (e.g., junior auditors) to evaluate the adequacy of the administrative and accounting system (*Decreto legislativo*,

1992, January 27th n. 88, art. 25). Campobasso (1995: 367), a leading business law professor, in his treatise on business law, commented:

‘The enactment of these norms should remove, at least partially, the causes of ineffectiveness in the monitoring role of the board of statutory auditors’.

However, companies maintained the right to deny assistants access to ‘confidential’ information (*Decreto legislativo*, 1992, January 27th n. 88, art. 25). This effectively made it impractical for auditing firms to become statutory auditors. In practice, therefore, only individuals continued to serve as BOSA’s members, as our analysis of the BOSA membership, using the *Calepino dell’Azionista* dataset (1992-2016), revealed. Overall, these potential sources of change were turned into conjunctural crises and individuals continued to have exclusive access to BOSA.

In 1998, the Draghi reform (1998, art. 148) for the first time allowed minority shareholders to appoint statutory auditors. At first sight this appeared dramatic for BOSA, as it could have changed its nature. Draghi himself (1997: 10), in his presentation during a meeting with the VI Committee of Parliament on the 10th of December, clarified that this was potentially an ‘incisive reform’ for BOSA. Minority shareholders (e.g., small shareholders and foreign institutional investors) were generally outside the Gramscian system of alliances (Melis, 2000). The Draghi reform change was in line with the emerging political scenario where the ‘transparency’ political coalition wanted to ‘signal’ its intention to import best practices from abroad (e.g., protecting minority shareholders) (Enriques, 2009). The threat for existing statutory auditors was that minority shareholders would appoint individuals outside the system of alliances. The Italian corporate and professional elites were afraid that this would threaten hegemony. Ferrarini, Giudici (2006: 187) reported that the corporate elite complained that a minority shareholder could appoint ‘an inexperienced or malevolent statutory auditor’, thus ‘creating an atmosphere of distrust and conflict in the board room’. This sentiment was shared by the professional elite. The article of Superti Furga (1999: 165),

an influential accounting professor and statutory auditor, in the national Chartered Accountants Journal (*Rivista dei Dottori Commercialisti*), is illustrative of this sentiment:

‘By giving minority shareholders the right to appoint a statutory auditor the regulator casts doubts on the ability of the board of statutory auditors to perform its functions’.

Despite the great emphasis given to this part of the Draghi reform (1998), as our analysis of the Italian S.E.C. corporate boards’ database (from 1998 until 2016) revealed, in practice minority shareholders have rarely appointed statutory auditors. Even when appointed, their presence did not change BOSA’s nature as they were selected from the same traditional professional elite (accountants, lawyers or leading academics) upon which statutory auditors were generally selected. Nor did they change BOSA’s limited effectiveness. The fraud cases of the Parmalat and the Banca Monte dei Paschi di Siena assist us in understanding this. Our detailed analysis of corporate documents from 1999 to 2002 (e.g., annual reports, minutes of the boards, etc.) found no evidence that the statutory auditors appointed by minority shareholders behaved differently from those appointed by major shareholders. Overall, once again, a potential source of major change to BOSA’s nature and existing statutory auditors had no material impact and became a conjunctural crisis, with no historical significance.

The oversight function of the board of statutory auditors

The audit of a company’s financial statements has been a BOSA key function as well as one of its major functional weaknesses (see section 4). For this reason, in 1975, after a thirty-year long debate, due to the pressure to conform to the audit practices that were hegemonic in the European community (Pontani, 2015), the regulator tried to reform BOSA’s functions. The regulator literally stated that the audit of corporate financial statements should be given to external auditing firms (*Decreto del Presidente della Repubblica, 1975, March 31st, n. 136, art. 1*). This potential change would have significantly reduced BOSA’s functional role. However, a potential important source of

change was turned into a ‘conjunctural crisis’. The existing ruling class was able to assimilate it into the prevailing hegemony thanks to a conservative interpretation of the law by accounting and law intellectuals. Despite the letter of the law and the evident overlap of functions between BOSA and the external auditing firm, the mainstream interpretation of the law by elite members of the academia was that BOSA’s role should not change (e.g., Cassandro, 1976; 1978; Dell’Atti, 1977; Bandettini, 1987; Superti Furga, 1988). Continuity in the daily practice was the consequence (see footnote 8 and Hegemony section).

The only material change in the functional role of BOSA occurred two decades later, when, after the collapse of communism and the Christian democrats, Italy’s social, political and economic scenario faced an organic crisis. In 1996, Parliament instructed the government to comply with the EU directive on financial intermediation (Legge 6th February 1996 n. 52, art. 8 and 21). The government, then, delegated a committee of experts chaired by Mario Draghi. Italy had become more neo-liberal and its economy more integrated, both within the European Union and worldwide. The ruling class was, therefore, more subject to international capital market discipline that would no longer tolerate the weak oversight of corporate elites by professional elites. Draghi himself clarified this during a Parliamentary meeting, when he argued that this reform was necessary to keep Italian regulation ‘in line with those of the countries Italy’s financial systems is competing with’ (*Atti Parlamentari*, 1997: 7). Draghi’s proposal surprised MPs because the draft had not been previously sent to the Parliamentary committee. More details were requested as ‘the change in the role of BOSA is substantial’. Draghi replied that his committee would conduct only informal meetings, not formal consultations (*Atti Parlamentari*, 1997: 12, 18 and 26). Only one MP, a former B4 audit senior manager, tried to push for the abolition of BOSA: ‘it is necessary to have only one oversight institution, one that substitutes the board of statutory auditors’. Immediately the head of the Confederation of Italian Industry firmly replied that ‘such an idea is a wishful thinking, as the professional class is extremely strong’ (*Atti Parlamentari*, 1997: 18; 1998: 94-95).

Given the existing social, political and economic scenario, however, the professional class had to concede something. Maimeni (1997: 49-50), a representative of the Italian Confederation of Banks, publicly conceded that BOSA was unable to effectively exercise its external auditing function in large companies due to the lack of an 'adequate organisation to support'. In February 1998, the draft of the proposal was put forward very quickly. This surprised the MPs who were generally against change (*Atti Parlamentari*, 1998). Some MPs publicly complained that 'Parliament has been expropriated of its powers', arguing that it had taken '30 years of debate to reach the 1975 reform and ... that a key task, strategic for the country, has then been fully delegated to the Draghi committee, with the Parliament only being informed when the draft had been finalized' (*Atti Parlamentari*, 1998: 89). Despite this, the Draghi reform was successfully enacted two weeks later by a government act, rather than a Parliamentary decision (*Decreto legislativo* February 24th, n. 58). This made it difficult for MPs to influence it. The 1998 Draghi reform (art. 155) finally effectively replaced BOSA's auditing role with an external auditing firm. After 116 years, BOSA lost responsibility for the actual audit of company's financial statements in listed companies. Importantly, this time, in contrast with what occurred in 1975, professionals accepted this change (Consiglio Nazionale dei Dottori Commercialisti e Consiglio Nazionale dei Ragionieri e Periti commerciali, 2000: 4).

Nonetheless, Draghi himself clarified that, to take into account MPs' concerns, BOSA would oversee the appointment of the external auditing firm (*Atti Parlamentari*, December 16th, 1997: 25; Draghi reform, 1998, art. 149) and its work. External auditors were required to have joint meetings with BOSA to discuss potential audit concerns and, importantly, to report any irregularities to BOSA (Draghi reform, 1998, art. 150 and 155). Therefore, overall, while Italy's organic crisis allowed a major change in BOSA's external auditing role, BOSA continued to have important oversight responsibilities.

Draghi himself argued that BOSA's oversight function had, in fact, been 'reinforced' as BOSA has become the 'hub' between the board of directors, the internal auditing staff, the external auditing

firm and the shareholders' meeting (*Atti Parlamentari*, 1997, December 10th: 10 and 26). Indeed, not only did the Draghi reform preserve BOSA's role in monitoring company's directors, it also gave BOSA the additional function of overseeing the adequacy and reliability of the company's internal control, administrative and accounting systems (Draghi reform, 1998, art. 149). It also empowered BOSA to convene a meeting of shareholders or the board of directors, and report to the court (or to the Italian Securities and Exchange commission) any directors' decision that BOSA believed to be against corporate interest and 'principles of business administration'. The costs of the investigation would be borne by the company (Draghi reform, 1998, art. 152). Although the organic crisis affected BOSA's functional role and made possible the removal of its auditing of financial statements' function, the reinforcement of BOSA's internal monitoring function counterbalanced this loss and helped to maintain the hegemonic equilibrium.

Alternatives to the board of statutory auditors

One year later the Draghi reform, in 1999, the first Italian Code of Good Corporate Governance recommended, in line with the international generally accepted best practices (e.g., Cadbury report, 1992), that listed companies should establish an audit committee (Preda Code, 1999, para. 10.1). This recommendation seemed to conflict with BOSA as the audit committee was expected to oversee the adequacy and reliability of the company's internal control, administrative and accounting systems (Preda Code, 1999, para. 10.2). However, a few years later it became an official generally accepted best practice that the audit committee reported its activities to BOSA (Preda Code, 2002, para. 9). Moreover, it was also recommended that BOSA's chair attended the audit committee's meetings (Preda Code, 2002, para. 9.4). Hence, in practice, the outcome was that the role of BOSA was further enhanced.

In 2003 BOSA faced another potential crisis, one that could have threatened its own existence. Prime Minister Berlusconi was strongly against the 'hegemonic apparatus' comprising the left-wing party, corporate elite and professional elite as he was trying to develop his own alternative

hegemony (e.g., Tarchi, 2008; Bobba, McDonnell, 2015). The 2003 company law (*Decreto legislativo* January 17th, n. 6, Section VI-bis) allowed Italian listed companies to dismiss BOSA by letting listed companies choose their boards' structure. As an alternative to the 'traditional' board structure with BOSA, companies could opt for a 'one tier' board structure (with a board of directors and an audit committee, within the board), or a 'two-tier' board structure (with an executive board and a supervisory board) (2003 company law, Section VI-bis). This freedom of choice could, thus, have determined the demise of BOSA.

However, the 2003 act had little effect in practice. Melis and Zattoni (2017: 104) reported that 'despite the potential innovation in regulation, corporate practice has not changed'. Our analysis on the Italian Securities and Exchange Commission board database has revealed that only five companies dismissed their BOSA in the period from 2003 until 2017. Gramsci's theoretical lens helps us to interpret this evidence. A potential major change was turned into a 'conjunctural' crisis as hegemony remained unaffected. The Berlusconi's government was dismissed in May 2nd 2006 and the new Prodi's centre-left wing government included the existing hegemonic apparatus (e.g., Mammarella, 2012). Interestingly, two of the five companies which dispensed with their BOSA, Mediobanca (a major Italian bank) and A2A (a public utility company), reinstated it few years later (Mediobanca annual report, 2007, 2009; A2A annual report, 2009, 2014). At an annual shareholders' meeting held on 28th October 2008, the shareholders of Mediobanca approved a resolution to re-adopt a traditional model based on the presence of BOSA. BOSA was considered 'to be better suited to combining maximum efficiency in terms of operations with effective control, at the same time satisfying shareholders' interests and leveraging fully on the Bank's management' (Mediobanca, 2009: 461). BOSA appeared to be able to safeguard the hegemonic equilibrium between the different Gramscian 'forces' and interests (e.g., company directors, shareholders) in this company and represented a source of stability.

Overall, therefore, multiple potential changes have occurred throughout BOSA's history. However, Gramsci's theory helps us to understand why almost all of them had no far-reaching historical impact on BOSA's role and existence. They were turned into conjunctural crises as long as hegemony remained unaffected.

6. DISCUSSION AND CONCLUSIONS

This paper has responded to calls for the extension of research on the history of accounting institutions to relatively unexplored settings (e.g., Parker, 1993; Carmona, 2004). In particular, it has examined how and why the board of statutory auditors - an important Italian accounting institution established in 1882 and still thriving - has continued to operate with little change in its nature and role despite the fundamental changes that have occurred in Italy's social, economic and political environment over 135 years. Gramsci's theory of hegemony has been identified as a particularly appropriate conceptual framework. It explains how and why institutions of civil society, such as the board of statutory auditors, which play a role in establishing and maintaining social stability and reflect the economic and social systems where they are embedded, are maintained or changed.

Our study finds that continuity, rather than change, explains the board of statutory auditors' history. Particularly surprising, at least at first sight, is that the board of statutory auditors has been one of the most successful accounting institutions in the Western world in terms of its continuity from 1882 to today despite constant criticism of its ineffective role as an independent oversight institution and requests for change or even abolition since its establishment (e.g., Canonica, 1891; Pipia, 1905; Vivante, 1913; Sraffa, 1930, Lanza, 1957; Rossi, 1985; Melis, 2004, Enriques, 2009). The limited effectiveness of BOSA as an oversight independent institution persisted over time: '[in]efficient in discovering mismanagement and fraud', and 'complacent', rather than 'investigative', concerning corporate insiders' behaviour (Ferrarini, Giudici, 2006: 186; 188).

Gramsci's theory explains how and why a series of potentially significant sources of change, which appeared 'dramatic' at first sight, had no far-reaching historical significance. Hegemony remained unaffected and potential organic crises were turned into conjunctural ones. BOSA's main role has remained that of an independent oversight body that is expected to monitor the activities of company directors, a role which is perceived to benefit all society. However, in practice, this role has generally been symbolic and rhetorical. In line with Melis (2004), our study finds that the board of statutory auditors seems to provide a legitimating device, rather than a substantive monitoring mechanism. From an accounting history perspective, this continuity is of particular interest, given that recent literature (e.g., Radcliffe et al, 2017) has argued that accounting institutions often change and morph over time, while societal institutions stay the same. Our study shows that despite important changes in the social, economic and political institutional environment, accounting institutions can continue to exist by remaining relatively constant.

So why then has the board of statutory auditors been so successful as an accounting institution in terms of its continuity? Domenichini (1985: 535) summarised its history as follows:

'the history of the board of statutory auditors ... is reminiscent of the stories of those strange amoebas you read in natural history or literature books; they were born misshapen, crooked, almost incapable and useless, nevertheless they seem to have an incredible vitality and resistance; neglect, abhorred and scorned by the most, loved by the few, but blindly and acritically (and in both cases, often, for reasons that a deeper analysis might reveal to be unflattering)'.

Our study reveals that its social role seems to be much more important than its functional role. As Gramsci's theory suggests, even though the major functional weaknesses of the board of statutory auditors (independence and lack of effectiveness) were never successfully overcome, the board of statutory auditors has continued given its important social role. In Italian society, this accounting institution has provided a reassurance role (company directors were monitored, and thus believed to be complying with societal rules, regulations and expectations). It has also helped to exercise a hegemonic control for the ruling class, whose power was diffused across society, through civil

institutions. Despite important pitfalls in its functional role and societal changes, continuity was allowed by the existing social ‘structures’ (i.e. a Gramscian ‘system of alliances’ of societal groups). Our study shows that the membership of the board of statutory auditors has always represented an important part of Italian society and its membership adapted to the social changes. In 1882, when the board of statutory auditors was established, its membership mainly consisted of lawyers, nobles, and engineers, who comprised the social elite of Italian society at that time. Today, this membership consists of qualified professionals, such as accountants, lawyers and leading academics. This system of alliances has included not only the corporate (major shareholders, company directors, and statutory auditors) and social elites (e.g., lawyers, nobles), but also elite members of the academia, who as intellectuals provided ideological support, and members of Parliament, who influenced regulation. Hegemonic power occurred with the consensual legitimacy of civil society, with the gradual ‘absorption’ of disaffected emerging social groups (e.g. the inclusion of accountants at the beginning of the 20th century), and the use of ‘common sense’ to persuade the general public of the importance of BOSA’s existence and its societal role.

The board of statutory auditors has been part of the Gramscian ‘integral State’, which constitutes a hegemonic equilibrium characterised by a combination of force and consent, in the interest of the ruling class (Gramsci, 1971). In line with prior literature on accounting profession (e.g., Chua, Poullaos, 1993; Dedoulis, Caramanis, 2007; Walker, Shackleton, 1995; Yee, 2012), our study finds that the board of statutory auditors was a useful source of support for the State. Not only, as argued by an intellectual organic of the Fascist party (Moro, 1937: 65), did it allow the State to monitor companies ‘without taking any risk’, but it has also played a reassurance role and a source of stability for the whole society. At the same time, similar to professionals in other institutional settings (e.g., Chua, Poullaos, 1993, Richardson, 2017), statutory auditors approached the State as a source of power to maintain their position in society through registration. Registration was an important strategy to achieve ‘closure’. Hegemony was, from time to time, also protected by ‘the

armour of coercion' (Gramsci 1971: 259). Under Fascism, for example, State influence was coercive when the State appointed the chairman of the board of statutory auditors in many companies or when it restricted access to Jews. However, hegemonic control was also exercised ideologically, with the support of intellectuals. The mere existence of the board of statutory auditors appeared to give some comfort to the rest of Italian society, 'the led' in Gramscian terms, that this accounting institution benefited all of society by providing an 'independent' and 'professional' monitoring of company directors.

During the over 135 years of BOSA existence, there has been some change, but more in terms of clarification of board of statutory auditors' functions and membership, rather than a fundamental re-evaluation of its purpose. Over the decades, the board of statutory auditors has been constantly subject of criticism and requests for reform. However, as expected by Gramsci, potential changes were either discarded (e.g., the request of corporate entities to become statutory auditors) or assimilated into the prevailing hegemony (e.g., the access of accountants to the board). Accounting change in Italy has often been 'an apparent revolution dealing merely with the formal aspects of accounting rather than its inner socio-economic substance, so that everything remains the same' (Zambon, Saccon, 1993: 246).

The board of statutory auditors' history provides further evidence for this view. These changes have not affected the fundamental existence and nature of the board of statutory auditors as an institution; rather they have contributed to its continuity. 'Crises' which appeared dramatic in the short term (e.g., the 2003 reform which allowed listed companies to dismiss the board of statutory auditors) were, in fact, conjunctural as they had no significant far-reaching historical impact. For change to occur there needs to be an organic crisis. Indeed, in the whole history of the board of statutory auditors, the only material change occurred in 1998, when Italy's social, political and economic scenario faced an organic crisis and external auditors took over the board of statutory auditors in

auditing financial statements. However, even then, BOSA continued to oversee the external auditors and internal audit.

This study has focused on one long lasting Italian accounting institution. It contributes to our understanding of the history of accounting institutions outside Anglo-American institutional settings and beyond other generally studied accounting institutions (e.g., local and national professional bodies, accounting firms, regulatory bodies) by studying a firm-level internal oversight institution. Future studies could examine other firm-level accounting oversight institutions (e.g., independent directors) to understand to what extent our findings are generalisable to other accounting institutions operating in different institutional settings.

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