Audit Implosion in European Affairs: How to Govern the Dimension and Development of the European Paying Agencies? The Argea Case: a Qualitative Research of Audit Loops and Restatement

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Abstract

Accounting information has a strong political meaning, and cases of accounting failure demonstrate that the regulation and standard are far from saving accountants from making mistake and auditors from failing to recognize the errors. European financial report SoA (Statement of Assurance) offer guidelines for the proper depiction of an entity, but, in the settlement of the accounting practice, there is still plenty of room for the personal professional opinions of the prepares. So this paper use after a quantitative (descriptive and mathematical approach) a qualitative research: "Argea Case", to discuss a modification of organization settings of an Italian paying agencies, it's reflexes in efficiency and effectiveness of public spending. As a result, a high risk of losing accounting credibility affects all the participants in the preparation, reviewer and approval of the accounting data that are published and then restated; above all, it reduces the credibility of the paying agency releasing the official financial report affected by mistakes. All these aspects describe the audit implosion in European affairs and how future payments from EU policy are conditioned by the inability to formalize agreements and contracts between auditors, consultants and the government of paying agency; fueling uncertainty, risks and unpredictability events about the quality of EU public spending .

Keywords: Argea, Audit Implosion, European Affairs, Paying Agencies, Audit Restatement and Severity.

Sommario

Le informazioni contabili hanno un forte significato politico e i casi di fallimento contabile dimostrano che la regolamentazione e lo standard sono ben lungi dal salvare i contabili dal commettere errori e i revisori dal non riconoscere gli errori. La

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relazione finanziaria europea SoA (Statement of Assurance) offre linee guida per la corretta rappresentazione di un organismo pagatore, ma, nella definizione della pratica contabile, c'è ancora ampio spazio per le personali opinioni professionali. Quindi questo articolo utilizza dopo un approccio quantitativo (descrittivo e matematico) una ricerca qualitativa: "Caso Argea", per discutere una modifica delle impostazioni organizzative di un organismo pagatore italiano, i suoi riflessi in termini di efficienza ed efficacia della spesa pubblica. Di conseguenza, un elevato rischio di perdita di credibilità contabile grava su tutti i partecipanti alla redazione, revisione e approvazione dei dati contabili che vengono pubblicati e poi riclassificati; soprattutto, riduce la credibilità dell'organismo pagatore che rilascia il rendiconto finanziario ufficiale inficiato da errori. Tutti questi aspetti descrivono l'implosione dell'audit negli affari europei e come i pagamenti futuri della politica dell'UE siano condizionati dall'incapacità di formalizzare accordi e contratti tra revisori, consulenti e governo dell'organismo pagatore; alimentando eventi di incertezza, rischi e imprevedibilità sulla qualità della spesa pubblica dell'UE.

Parole chiave: Affari Europei, Argea, Implosione dell'Audit, Organismi Pagatori, Rideterminazioni e severità delle verifiche.

1. Introduction

The reduction of public debt assumed primary significance in the European political and economic debate in the last decades, and only recently European Union member states agreed to sign the Fiscal Compact (part of the Stability and Growth Pact) to pursue progressive reduction of their public-sector debt. The audit implosion of the paying agencies represents the main strategy that the European Union is pursuing to introduce the principle of dynamical economical accounting as a guiding criterion in the political-administrative choices taken by the governors of the paying agencies and their governmental coordination. All this is aimed at eliminating the "masks of European accountability" to introduce new services for assessment and optimizing resources to obtain effective and efficient outcomes. This paper use a quantitative and qualitative research, to discuss a modification of organization settings of European paying agencies to make a positive contribution in pursuing the dynamical economic and financial performance of the European paying agencies and a clear cut in the structural expectations of public debt growth (spending review). What actuarial gains or losses from the perspective of the European spending review?

The qualitative research is the presentation of a case of economic and political-administrative reorganization of the Argea paying agency. Argea is the paying agency of the Italian island region in Sardinia, the case proposes an audit and advisory intervention aimed at optimizing economic and financial resources in compliance with the European austerity rules (Cepiku and Mussari, 2010).

The most innovative services concern the choice of the governor of the paying agency towards the methodological, technical and contractual formulas typical of Non Audit Assurance Engagements NAAEs (Plumlee and Yohn, 2015).

The audit implosion concerns a change of organization settings of a European paying agency inevitably leads to accounting restatements, this is a real test to check the independence of the governors from economic and political-administrative interests. How to measure the relevance of the error in audit restatement in European paying agencies?

In this logic an accounting restatement of Argea paying agency is the consequence of an error, that is, a material omission or misstatement in accountability and payments. It might be a source of public administration misconduct, undermining the reputation of the restating and its managers' and director's professional image (Dechow and Sloan, 1991). In the aftermath of restatement paying agency might accused of adopting a poor-quality financial reporting policy, thus communicating to authority a perception that the paying agency has behaved unethically. Relevant environmental features affect the probability that a paying agency will engage in public administration misconduct, including the accounting misconduct represented in the restatement (Saulpic and Zarlowski, 2014).

However, the attempts to reduce the debt have been accompanied by harsh austerity policies whose negative consequences seemed not compatible with European's ideals of social justice, equity and solidarity (Bracci *et al.*, 2015) with the born of European paying agencies. Italy and other member countries with huge debts have been and still are forced into a trade-off between observing European strict financial rules and carrying out investments, which often results to relinquish the latter (Van de Ven and Ferry, 1980).

This paper deals with the Italian case of Argea paying agency because, given its considerable high public sector debt, the autonomy of local level (strong but fragmented) has been reduced by the governance at national state level as a result of its and membership at European Union (OECD, 2017). Huge and complex political interests dominate the world of European accounting regulatory frameworks, and every additional regulatory step towards transparency is welcomed by the public, ensuring better disclosure in the SOA (Statement of Assurance) (De Nichilo, 2021a). Nevertheless, the portrait will not be as fair as expected until ethics dominate the accounting profession because the threshold between fair and unfair accounting evaluation is slim and pale and the regulatory process itself could be dominated by political and economic interests (Desai, Hogan and Wilkins, 2006).

This paper examines the theory and practice behind restatements, which are one of the most noticeable indicators of accounting malpractices (Beneish, 1999). Restatements occur when an error affects the reliability of one (or more) European financial reports, which has (have) already been published and used by authorities to make their economic and financial evaluation of the paying agencies. Regulators in European context are differently disposed towards to need to disclose information when an error affects previously released financial reports, as the case of Argea paying agency. This unpleasant occurrence undermines the reliability of accounting information provided by the restating paying agencies in the financial statements released in the past years; moreover, it casts doubt on the truthfulness of future financial and accounting handouts (Akhigbe and Mandura, 2008).

This research documents the findings of previous studies that have identified some systematic characteristics that could be the antecedents of paying agencies involvement in accounting mistakes and restatements (Abbot, Parkers, Peters and Raghunandan, 2003a). Moreover, a data-based analysis lays out the most likely characteristics of restating paying agencies by studying the industry and year trends of the accounting restatements occurring in European countries between 2006 and 2014. Finally the institutional governance antecedents improving the probability of incurring financial misstatements are discussed (Farber, 2005).

The research questions are:

RQ1: *How to govern the dimension and development of European paying agencies with Contingency Theory?*

RQ2: *What is the procedure for the implementation of system process for assurance services in European paying agencies by the "Audit implosion"?*

The paper is structured as follow: section two concerns institutional settings and literature review, section tree and four presented research design and results; finally section five are discussion, conclusion and limitation of research.

2. Institutional settings and literature review

Implosion is the process in which objects are destroyed by collapsing on themselves; the opposite of explosion, implosion concentrates matter and energy (Jensen, Winthereik, 2017).

In the introduction to Audit Society, Michael Power began envisaging a shift in auditing practice that he designated "Audit Implosion": In the context of external financial auditing... it may be more appropriate to speak here of an "Audit Implosion" whereby organizations have become more 'reflexive' and where company directors have been forced to require responsibility for internal control systems and risk management (Power, 1997, xviii).

In later work, Power continued to emphasize this transformation, arguing that: "the growth of interest in internal control systems in the last ten years has accompanied an Audit Implosion meaning that auditing and inspection are now part of what organizations do to themselves" (2007, 162).

In a working paper entitled "Audit Implosion" (Power, 2000), he proposed to view the implosion of audit as involving "an ongoing contraction in the significance of the external audit as a force in corporate governance, as compared to internal mechanisms and agencies of control" (Power, 2000, 2).

Of course, Power's identification of "Audit Implosion" understood as a 'reflexive' internalization of audit practices exemplifies one "new principle of social organization".

As we continue to discuss, this transformation centers on the emergence of increasingly complex auditing loops, a notion we use to index mutually shaping interactions between auditors and auditees that cross organizational barriers in multiple directions, both "downstream" and "upstream."

In this situation, implosion characterizes a situation where both the epistemology and the form of audit are put under pressure, as external and internal modes of monitoring begin to work in tandem through such loops.

Assuming that none of the policies is absolutely appropriate (or inappropriate), this work adopts the "fit for purpose" perspective, based on the contingency theory (Freeman, 1973; Hofer, 1975; Khandwalla, 1977; Dewar and Hage, 1978; Otley, 1980; Van de Ven and Ferry, 1980; Marsh and Mannari, 1981; Schoonhoven, 1981; Drazin and Van de Ven, 1984, 1985; Donaldson, 2001; Chenhall, 2003, 2007; Otley, 2016). This theory assumes that there is no a best way to come to a decisions, but rather the "performance is a function of the fit or match between two or more factors" (Van de Ven and Drazin, 1985, p. 537), and therefore the optimal choice is contingent upon the existence of several feasible options. Contingency-based research in the accounting literature has been thoroughly reviewed firstly by Otley (1980) and then by Chenhall (2003, 2007) who identified its pros and cons: arguments in favor lead to think of this as a theory that exhibits an appropriate matching of specific aspects with certain defined circumstances; arguments against are based on the assumption that these specific aspects are so subjective to not have general applicative value. Actually, as Chenhall (2007) observed, "the term contingency means that something is true only under specified conditions. As such there is no contingency theory, rather a variety of theories may be used to explain and predict the conditions under which particular MCS (management control system) will be found or whether they will be associated with enhanced performance." (p. 191). However, "a contingency-based approach attempts to map variables and demonstrate potential relationships between variables, which may include power and politics, and indicate potential links with outcomes" (p. 194).

In contingency theory accounting restatement is a indubitable sign of failure of accounting quality as it implies financial misconduct due to negligence or managerial opportunism (Brown, Preiato and Tarca, 2014). As recognized overwhelmingly in the literature, a high quality of corporate governance could help to reduce the incidence of financial misconduct, including a reduction of the occurrence and magnitude of accounting restatements (De Nichilo, 2020b).

Corporate governance tools provide control mechanism, which should help paying agencies to achieve their financial and non-financial goals while preventing undesirable conflicts, including the agency conflict between the top manager team and the stakeholders (Ng and Tan, 2007). Instead, in the agency theory, principals, should protect themselves from the opportunistic behaviors of the corporate managers, who manage the firm to take private short-term advantage of corporate policies, including accounting policies, which could damage the paying agencies in the long term (Keune and Johnstone, 2012).

Several corporate governance mechanisms have same impact on the feasible quality of the corporate accounting system (Hennes, Leone and Miller 2008). Similar to the situation with other accounting irregularities, like earnings management or fraudulent financial reporting, ever the probability of accounting restatements seems to be affected by the occurrence of some corporate governance provisions, like chief executive officer duality, audit committee composition and activity, and the size and composition of the board of directors (Dechow, Ge and Schrand, 2010). Research has studied the topic widely, examining the fees and compensation system, the consulting services provided and the composition of the committee (De Nichilo, 2022).

Contingency theory derives from the study of organizational behavior, and implies that the design and function of organizations are influenced by contingent factors such as technology, culture and the external environment (Drazin and Van de Ven, 1984, 1985): its underlying assumption is that there is not a role model of organizational structure, but different solutions are equally acceptable. Van de Ven and Drazin (1984) have developed the key concept of fit in contingency theory on the basis of the selection, interaction, and systems approaches (Van de Ven and Drazin, 1984, p. 14). However, as Otley (2016) pointed out, "whereas initially it developed from the idea that no universal solution to the problems of control was feasible

[...] research over the past four decades has come up with an extended list of possibly significant contingencies that are faced by organizations, many of which suggest conflicting recommendations" (p. 46).

On the other hand, despite contingency theory has not so much been applied in public management literature, Otley (2016) highlighted that the public sector is suffering from the failure of alignment of contrasting systems with each other suggesting that even in this sector the theory could be usefully applied, and therefore the fit for purpose perspective has been recently introduced in the academic debate (Gauld and Mays, 2006; Osborne, 2010; Radnor and Osborne, 2013; Osborne *et al*., 2013; Radnor *et al*., 2014; Osborne *et al*., 2015; Hiedemann *et al*., 2017).

A review of the literature revealed that there is no single answer to the question of how restatements begin (Peterson, 2012). The difficulties for researcher and practitioners in distinguishing international from unintentional accounting errors, mainly due to limited paying agency disclosure and the fact that companies may attribute intentional restatements to ambiguity or complexity in applying accounting principles to their benefit, exacerbate this issue (Islam and Hu, 2012).

In relation to aggressive restatements, prior research has documented diverse reasons: there is pressure to meet analyst earnings expectation, avoid bad covenant violations and improve paying agency performance (Plumlee and Yohn, 2015). In the case of unintentional accounting errors (Gerdin and Greve, 2004; Cadez and Guilding, 2008), the problems are often related to accounting personnel expertise, ordinary book and record deficiencies and a lack of clarity or complexity in applying the standard accounting principles, so it is not possible to anticipate them by adopting earnings management detection tools (Chenhall, 2007, p. 194). This implies that the management had failed to perform effective controls over financial reporting and the auditor had not detected and corrected the errors before the financial statement's publication (Myers, Scholz and Sharpe, 2013).

Notwithstanding the reporting of the main drivers evidenced in the literature, an examination of the determinants of accounting restatements still represents fertile ground for future accounting research (Kravet and Shevlin, 2010).

3. Methodology

This analysis is based on a single paying agency variable (Gillespie and Dietz, 2009). Accounting restatement scholars have employed numerous measures that captured different features of the restatement severity (Mautz, Shoulders and Smit, 1996). Two suitable measures utilizable in this analysis are: the magnitude of market reaction to error announcement that, however, could be effected by the potential presence of adverse effects of confounding events, and the direction of restatement, which is limited in the usage for this analysis by the fact that it is binary in nature (Libby and Kinney, 2000).

Consequently, the amount of the errors that restating paying agencies had to disclose was collected to capture the size of restatements (Moroney and Trotman, 2016). Severity equals the absolute value of the amount of the error divided by the total of European funds payment at the first year-end before the announcement of the restatement multiplied by 100. The error amount compared with the total of European funds payments represents a relevant benchmark to asses the quantitative misstatement materiality (Table 1). A larger error amount implies a higher probability of intentional misstatements, resulting in greater punishments by market participants, and it indicates the extent to which the representation of the non-restated numbers, compared with the actual numbers, was inaccurate (Gleason, Jenkins and Johnson, 2008).

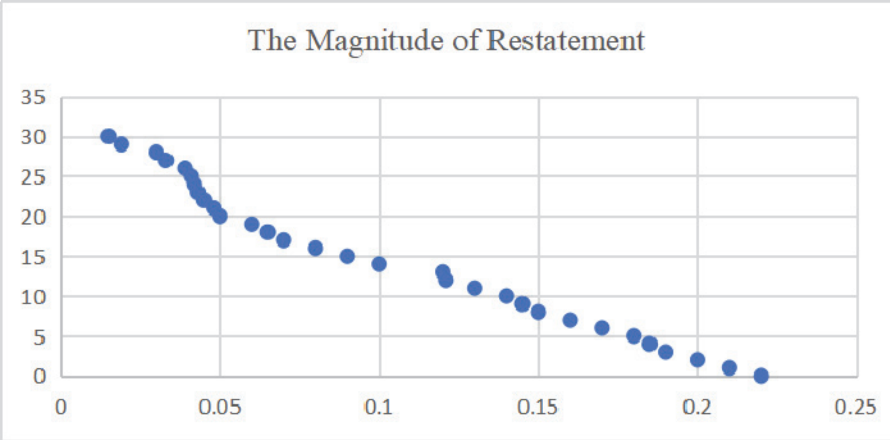
The histogram in figure 1 represent the distribution of the magnitude of accounting errors scaled by the lagged total payments.

Table 1 - *Magnitude of Restatement Template*

Observation Unit	The error amount compared with the total of European funds payments (independent variable). Frequency of misstatements (dependent variable).
Selection	Top 12 paying agencies according to the intensity of the error.
Time span	Observations between 2006 and 2014.
Audit Performance Materiality	Maximum 5% of annual payments
Tolerable misstatement	Minimum 0.5% of the annual expenditure
Number of Item performed	465

Source: Our elaboration with ACL

Figure 1 - *The Magnitude of Restatement*



Source: Our Elaboration ACL Data Sampling of European Paying Agencies

A relatively large amount of the restatements have a very small magnitude. The histogram is visibly skewed to the left, as the first bars are taller than the following bars, and it presents a growing number of gaps when approaching the maximum value of error magnitude. The data have been fitted by an exponential distribution (Libby and Brown, 2013). The parameter of the distribution has been estimated using the corresponding maximum likelihood estimator (the reciprocal of the mean of the accounting error's magnitude scaled by the lagged total payments), which has previously been adopted to study rare event (Li, Park and Wynn, 2018).

Data sampling methodology is Audit Command Language (ACL) (Ismanu, Putri and Haris, 2021). Effective decision-making depends on timely access to information. This information may be hidden within vast data files, scattered across multiple databases, or stored in a variety of data types on different platforms. Decision makers and data analysts need tools that can help them access various data types, process large files, and ask intelligent questions about the data.

Data analysis has long depended on statistical methods. (Pennington, Kelton, DeVries, 2006). While statistics allow us to make useful generalizations about data, they rely on sampling and analyze only a small percentage of the total records. The resulting conceptual and technological simplifications reduce not only the costs of auditing but the educational efforts required to train auditors as well. "Who audits the auditors?" is a frequently asked question.

ACL provides access to virtually any data source, in most cases without advance preparation or conversion. You can readily perform queries and data manipulation on files that would require extensive manual preparation and conversion with other analysis software (Table 2).

ACL also lets you combine data from dissimilar systems for conversion, reconciliation, and control. It can also be an integral component in systems integration. You can create a common view of data in different files and analyze it as though it existed in one file. In addition, ACL gives you powerful data cleansing and manipulation abilities and flexible reporting options. From the above data, it can be deduced that the mistake in question can be addressed by employing Audit Command Language (ACL) as a software tool for detecting fraud. In this case, if there is evidence of fraud, the auditor must report it. This research aims to learn more about the current condition of the information assurance system and the auditors' responsibilities in the context of fraud.

Table 2 - *ACL Audit Sampling Command*

Test of Operation	**Explanation**	**Commands**	**Appropriate Data Types**
Statistical Sampling	Draw samples from data populations and estimate the magnitude of errors.	Sample Size Evaluate	Record-based

Source: ACL Guidance

The analysis is based on three level of variables. First, we gathered information on the year(s) when the misstatement(s) occurred as restarting paying agencies could correct more than one previously published annual financial report. Second, we collected the amount of the error divided by the total payments at the first year-end before the announcement of the restatement multiplied by 100. Lastly, information relating to the source of the error was collected.

The table 3 presents the descriptive statistics for paying agencies observations between 2006 and 2014, including the minimum, mean, median, maximum, standard deviation, skewness and kurtosis of severity for European paying agencies. With regard to this analysis, data were not collected for restating paying agencies that:

a. reported accounting error(s) related to internal control weaknesses;
b. reported accounting error(s) related to European manipulation;
c. did not disclose the source of the accounting error(s);
d. corrected more than one accounting error.

Table 3 - *Severity of accounting misstatement by national paying agencies within European countries. Selection: top 12 paying agencies according to the intensity of the error*

Nations	Mean	Min	Medi-an	Max	Dev. St.	Skew.	Kurt.	Severity
BELGIUM	7.44	0.76	3.22	7.66	0.99	1.50	1.80	MEDI-UM
IRELAND	6.87	0.03	1.41	7.16	1.50	2.30	1.50	MEDI-UM
CZECH RE-PUBLIC	6.03	0.03	1.55	6.05	1.22	1.40	1.60	MEDI-UM
SWEDEN	5.94	0.30	1.22	6.00	0.88	1.22	1.55	LOW
DENMARK	5.91	0.03	0.84	6.41	0.93	1.22	1.64	LOW
NETHER-LANDS	5.36	0.20	1.36	6.62	3.26	1.33	1.45	MEDI-UM
HUNGARY	4.87	0.01	2.87	6.39	4.33	2.22	1.96	MEDI-UM
SPAIN	4.05	0.25	0.81	5.03	0.85	2.34	1.45	LOW
GREECE	3.99	0.02	0.65	4.61	1.45	1.96	4.06	HIGH
FRANCE	3.88	0.01	0.24	4.45	0.86	2.70	6.96	HIGH
GERMANY	3.78	0.01	0.91	46.32	7.90	4.51	21.25	HIGH
ITALY	3.25	0.01	1.15	30.17	8.15	3.28	11.23	HIGH

Source: Our Elaboration Data Sampling with ACL.

A key features of institutional settings that clarity influences the outcome is the institutional oversight system, namely the external auditing activities of financial statements and the degree of enforcement aimed at promoting compliance (Martinov and Roebuck, 1998).

Brown, Preiato and Tarca (2014) developed the audit and accounting enforcement indexes to assist empirical accounting researchers when studying the output of the financial reporting process.

Assessing the meaning of high or low average severity is challenging for researchers. On the one hand, paying agencies characterized by low restatement severity may have high-quality auditors and enforcements, which discourage from committing serious accounting mistakes, whereas a high mean restatement magnitude could indicate poor auditor quality and an inability to detect and correct accounting errors in the financial year in which they are committed. On the other hand, the interpretation of the phenomenon could be opposite and a low average severity mat signal that the auditors or enforcers rarely discover and force paying agencies to correct accounting error, evidencing poor auditor and enforcement quality.

Consequently, based on the results of this study and the scores proposed by Brown, Preiato and Tarca, the largest average severity that characterized the countries with higher total scores could be explained by the effective activities carried out by auditors and national enforcers, which, thanks to their effective inspections, discovered and force paying agencies to disclose serious accounting errors.

In conclusion, a country trend seems relevant, as the institutional features affect the auditing and enforcement effectiveness, thus mitigating or exacerbating the accounting attitudes, including the feasibility of restating financial reports by paying agencies operating in different institutional contexts.

4. Results: Argea Case a Qualitative Research

What is the audit restatement of a European paying agency in practice?

It is the expectation gap of a previous auditor which continues until it is impossible to express an opinion of a new auditor (De Nichilo, 2020a). All this results in the introduction in the institutional framework of a second auditor to ensure assurance, sustainability and independence of the audited public expenditure (De Nichilo, 2021b). An example is the ARGEA case.

ARGEA is recognized for the exercise of the functions of management, paying and control body in the field of financing of the Community agricultural policy. It performs functions delegated by the Region of Sardinia in the field of regional aid, inspection and control activities in the agricultural and fisheries fields and management activities delegated by the Management Authority in the field of common Agricultural Policy and other activities assigned by the Regional Council.

The mission of the Argea Agency is the disbursement of Community, national and regional funding, with the aim of bringing the important resources available to the agricultural sector. Argea also carries out inspection and control functions in agricultural matters.

It guarantees support to the regional administration in the field of agricultural, fishing, aquaculture policies and assigned functions. The strategic areas in which Argea operates are: the agricultural and livestock sector, the fishing and aquaculture sector, inspection and control activities, administrative and personnel activities, technical support and communication, other delegated activities.

With the directorial decree prot. n. 2803 of 14 May 2019, ARGEA was granted provisional recognition as a paying agency for the Sardinia Region starting from 16 October 2020. The activity carried out by ARGEA for compliance with the recognition criteria is was the subject of a specific supplementary pre-recognition review of referred to in art. 1, paragraph 3 of regulation (EU) no. 908/2014, whose assignment was entrusted to Mazars Italia S.p.A with directorate n. 9015316 of 21 July 2020 (Figure 2).

In consideration of the assessments expressed by the Mazars Italia S.p.A in the report on the supplementary pre-recognition review of 17 September 2020 and following a complex investigation and monitoring activity carried out with directorial decree no. 9242481 of 15 October 2020, the recognition of ARGEA - Regional Agency for Agricultural Support - as a paying body for the autonomous region of Sardinia was confirmed as a definitive title. The previous deed determines the voluntary liquidation of the previous Arsea paying agency (Table 4).

Figure 2 - *Audit Implosion Set Up After Restatement*

Source: Our Elaboration

Table 4 - *Explanation of Audit Implosion in ARGEA*

Paying Agencies	Pre-Restatement	Post-Restatement
Argea	Sardinia Agency for Agricultural Support for only environmental advisory	Sardinia Paying Agency for payment and environmental advisory
Ex Arsea	Sardinia Paying Agency for only payments	Voluntary liquidation

Source: Paying Agencies Audit Restatement Procedures.

The result of "Audit Implosion" of ARGEA are presented as follow (Table 5):

Table 5 - *Actuarial Gain of Audit Implosion to reduce Magnitude of Errors of annual payments*

Projected Misstatement Before Restatement		4.23%
Estimated Misstatement After Restatement		0.98%
Audit Loops (Shock)		3.25%
Actuarial Savings of ARGEA		75%
Actuarial Profit for Non-Audit Assurance Engagements NAAEs		25%
Detail of Actuarial Savings of ARGEA after restatement	Total Effect of Spending Review: Cutting Expenditu-	Increased Efficiency of Controls: Re-engineering

	res	
Administrative checks	25%	Optimization of Advances
On-the-spot checks	50%	Reporting of Control Statistics
Ex-post checks	25%	Debt Restructuring
Detail of Actuarial Profit: NAAEs after restatement	Total Effect of Spending Review: Increasing Quality of Expenditures	Increased Effectiveness of Controls: Elimination Audit Risks
Research Papers	15%	Management Underestimated the Quality of Research
Management Issue Letters	5%	Management Underestimated the Issues
Confornt Letters	5%	Management Underestimated the Deficiencies of the Controls
Management Purpose Special Letters	5%	Management Override Audit Opinions
News	5%	Management Override Media Pressure
Up Grade Procedure Services	15%	Management Override Cash on Hand
Agreed Up-On Procedures Services	50%	Management Override the Controls

The conventional concepts of "Audit Implosion" of Italian paying agencies effectiveness and efficiency can be summarized as follows (Yoon and Pearce, 2021).

Table 6 - *Conceptual Framework of Audit implosion: Adequacy of Internal Controls*

Pillar I Effectiveness	Effectiveness is an indicator of the company system and its subsystems to achieve the planned objectives for a specific period of time. It is identified by calculating the relationship between expected objectives and actual achievements / results.
Pillar II Efficiency	Efficiency is an indicator of the company's ability to operate economically. Its fundamental indicators are represented by physical-technical returns and costs. Physical-technical performance can be related to the various production factors and production processes.

Source: Our Elaboration

5. Conclusion and Discussion

The paper considers the "Audit Implosion" as strategy to reduce public debt (Arthaud-Day, Certo, Dalton and Dalton 2006). The "Audit Implosion" has evoked interest as a means to cut down the sovereign debt (Table 7), not only in national governments but also at the supranational level

(Monfardini & Von Maravic, 2019). The "Audit Implosion" at the subnational level have not been previously studied, but in 2015 some Italian regions have engaged in the public spending review (Argea Case). The "Audit Implosion" have previously been analyzed within a narrow economic and financial perspective, whereas this paper adopts a broader analytical framework that posits that the balance between the pros and cons of the "Audit Implosion" depends upon the opportunity cost of citizens, not just to the financial market (Van de Ven and Drazin, 1984). This paper suggests that there may be other reasons, unacknowledged by preceding literature for legitimate the "Audit Implosion" in public finance (Ettredge, Fuerherm and Li, 2014). Our results demonstrate how new EU fiscal rules may legitimize the "Audit Implosion" in its current austerity context, and how the "Audit Implosion" might have a beneficial overall impact contrary to the negative characterization (Formula 1).

Formula 1 - *Audit Check After Restatement of Argea*

$$\text{Surplus/Deficit}^{\text{ex post}} = AG - AL + |AG\ MDg - AL\ MDl|\Delta i + (AG\ MCg - AL\ MCl)\frac{1}{2}\Delta i^2$$

AG = *Actual Gain*

AL = *Actual Loss*

MDg = *Modified Duration of Gain*

MDl = *Modified Duration of Loss*

MCg = *Modified Convexity of Gain*

MCl = *Modified Convexity of Loss*

Δ_i = *Audit Loops (Shock)*

Source: Our Elaboration of Argea Audit Restatement Report.

In this context the restatements are a rare event; nevertheless, like bankruptcy or fraud, they do not occur randomly but systematically involve same specific types of paying agencies more often than others (Desai, Hogan and Wilkins, 2006).

Moreover, in some period, the probability of committing more serious accounting errors was greater (Gerdin and Greve, 2004).

Table 7 - *Overall conclusion of Argea Audit implosion Template*

Indicator of Audit Restatement	Last Recalculation
Surplus/Deficit before restatement	- € 288.75 k
Surplus/Deficit after restatement	€ 192.5 k
Actual Gain on Audit Misstatement Rate and total payments for year	+2.02%
Actual Loss on Audit Misstatement Rate and total payments for year	-0.75%
Modified Duration of Gain	2.45
Modified Duration of Loss	1.02
Modified Convexity of Gain	0.88
Modified Convexity of Loss	0.11
Approximation error^{+}	0.01%
Approximation error^{-}	0.01%

Source: Our Elaboration of Argea Audit Restatement Report

European governance profile of the paying agency is a relevant issue in determining the attitude towards restatement (Dechow, Sloan and Sweeney, 1996). First, the way in which the managerial compensation is arranged might have an impact on the feasibility and magnitude of the mistake (Drazin and Van de Ven, 1985). Then, the audit board composition and activity might monitor the incurrence of mistakes and reduce the probability of an error being waived (Hennes, Leone and Miller, 2014). Finally, pressure from analysts and the public is felt by paying agency, which avoid misstatements when those stakeholders attribute a higher reputation to them (Lin, Li and Yang, 2006).

This paper aimed to contribute to the literature on accounting complexity by identifying the accounting issues that lead to restatements in selected sample (Ettredge, Scholz, Smith, and Sun, 2010). This field of research has been expanded through an empirical study highlighting the number and origins of misstatements of previously published financial report (Knapp, 1987). Additionally, for each source of implementation error, the average severity of misstatements was show (Cao, Myers, and Omer, 2012). This research might have relevant contributions and managerial and public policy implications (Huang and Scholz, 2012).

Considering that European Funds Authority, together with European national enforcers, sets enforcement priorities annually, based mainly on frequently recurring errors and the related advantages connected with improvements in the oversight of compliance with European Funds Guidelines (Archambeault, Dezoort, and Hermanson, 2008). To foster the rigorous application of the European Funds Guidelines, an effective enforcement system has been considered in the literature to be instrumental in determining the quality of financial reporting outcomes (Cadez and Guilding, 2008). One limitation of this study is that relies on paying agencies' disclosure, in relation to the nature of prior period error (Callen, Livnat and Segal, 2006). Given that, for the overwhelming majority of errors, paying agencies do not distinguish intentional from unintentional misstatements in the financial reporting notes and it is impossible to observe managerial intent, a small number of restatements that involved irregularities in the sample analyzed could have been misclassified as unintentional errors (Abbot, Parker and Peters, 2004).

In conclusion, taking a better look at the portrait of the restatement issue depicted in this paper, the matter of reputation of institutions should be raised (Abbot, Parker and Peters, 2004). The dominance of accounting mistakes in same geographic areas and industries could be help to support the idea that the institutional and cultural environment dominating the area impedes accounting compliance (Dezoort and Saltiero, 2001). Considering that political lobbying activity has been widely documented to affect reporting standards' preparation, a better outcome in terms of reporting quality could be obtained by also attributing the errors to the complexity and difficult applicability of the standards, thus somehow also charging the standard setters and threatening them with a risky position in their reputation (Cao, Myers, and Omer, 2012).

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