

UNIVERSITY OF ECONOMICS - VARNA

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**INTERNAL FINANCIAL CONTROL
IN ECONOMIC GROUPS**

ABSTRACT

of a dissertation thesis

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The dissertation paper consists of an introduction, a main body structured into three chapters, a conclusion, and a list of references, with a total length of 298 pages. In support of the exposition, 25 tables, 6 figures, and 2 appendices are presented.

The author is a part-time doctoral candidate at the Department of Accounting at the University of Economics – Varna and is employed as an accountant at Albena AD and as a chief accountant at a subsidiary of the Albena Group – Perpetuum Mobile BG AD.

The dissertation paper was discussed and approved for public defence at a meeting of the Department of Accounting at the University of Economics – Varna on 19.01.2026.

The public defence of the dissertation will take place on 2026, at hours, in hall, at the University of Economics – Varna, at a meeting of a Scientific Jury appointed by Order No. dated/..... 2026, issued by the Rector of the University of Economics – Varna.

Defence materials are available to those interested on the website of the University of Economics – Varna, www.ue-varna.bg.

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The dissertation thesis is written in Bulgarian.

The dissertation paper consists of 298 pages in standard A4 format, including:

Theoretical and analytical part – 255 pages

References – 230 sources

Appendices – 23 pages

I. GENERAL CHARACTERISTICS OF THE DISSERTATION THESIS

1. Relevance of the research topic

The dissertation thesis is dedicated to the issues of internal financial control within economic groups – complex organisational structures whose effective management and risk mitigation are of pivotal importance for the sustainability of the market economy. In the context of a heightened regulatory framework and increased complexity of business processes, integrated and effective internal control is established itself as a key mechanism for asset protection, ensuring the reliability of financial information and compliance with current legislation.

A review of the Bulgarian specialised literature on the subject reveals a clear trend toward focusing on internal financial control and internal audit systems within the public sector. This emphasis is primarily driven by the regulatory requirements established by the Public Sector Internal Audit Act. Consequently, the issues surrounding internal control in the corporate sector—and specifically the unique challenges related to a parent company in exercising control over its subsidiaries within an economic group—remain relatively under-researched and lack sufficient theoretical grounding. In Bulgarian business practice, structured internal financial control units are observed almost exclusively within large enterprises listed on the Bulgarian Stock Exchange, entities in the banking and insurance sectors, and major economic groups.

This identified gap in theoretical and empirical knowledge, combined with the necessity to adapt leading international practices (such as the COSO model) to the Bulgarian corporate environment, predetermines the relevance and scientific significance of the present research. The doctoral candidate's practical experience within the finance and accounting department of such an economic group serves as the primary impetus for developing measurable indices of for quality and transparency, as well as analysing the relationship between internal financial control and financial performance.

2. Object and subject of the research

The object of the research is internal financial control, viewed as a set of policies and procedures within economic groups operating in the corporate sector, with a specific focus on the tourism sector. The subject of the research includes: the approaches, mechanisms, and tools through which internal financial control is designed and implemented at the group level; the measurement of the quality and transparency of internal financial control through developed

indices; and the relationship between the quality of internal financial control and the financial performance of the economic group of Albena AD.

3. Scope of the research

The scope of the research includes the enterprises within Albena Holding AD, and more specifically its subsidiary Albena AD, which serves as the parent company of the Albena economic group. To compare the level of disclosures using the developed Internal Financial Control and Risk Management Disclosure Index, the study examines both national and international economic groups operating in the tourism sector.

4. Objective and tasks of the study

The objective of the dissertation paper is to examine the organisation and methodology of internal financial control within economic groups operating in the tourism sector, both from a theoretical and a practical-applied perspective, by analysing its role in ensuring the reliability of financial reporting and risk management, through the development of methodological approaches for measurement and empirical testing the relationship between the quality of control and the financial performance of economic groups.

In order to achieve this aim, the following main tasks are formulated:

1. To examine the essence of internal financial control, the conceptual models for its implementation, and its role in managing environmental, social and governance (ESG) risks, as well as its importance for transparency and reliability of financial reporting.

2. To identify the key elements of internal financial control within economic groups and to develop quantitatively measurable indicators and indices for assessing the quality and disclosure level of the control system, intended for group-level application and comparative analysis between different economic groups in the tourism sector.

3. To apply the developed indices to the economic group of Albena AD and to empirically test the relationship between the quality of internal financial control and the group's financial performance by analysing data for each of its subsidiaries.

4. To determine key control indicators for effective monitoring of internal financial control within the economic group of Albena AD, ensuring consistency and integration between the group and its subsidiaries.

5. Research thesis and hypotheses

The dissertation thesis defends the argument that within economic groups, the quality of internal financial control is a systemic factor that determines the reliability of consolidated financial reporting and is directly related to the financial performance and the level of disclosure of the group's control mechanisms.

Within the framework of the research, the following working hypotheses are formulated:

Hypothesis 1: The level of public Internal Financial Control and Risk Management Disclosure Index (author-developed index) serves as an indicator of corporate transparency, but it is not sufficient evidence of the effectiveness of the internal control system.

Hypothesis 2: There is a relationship between the quality of internal financial control (measured by an author-developed index) and financial performance indicators (Return on Assets and Profit Margin) of the economic group.

6. Research methodology

The study utilises scientific-theoretical and empirical methods. The scientific-theoretical methods include: theoretical analysis of specialised literature and regulatory frameworks; scientific analysis and synthesis; comparative, systemic and logical analysis; deductive and inductive approaches; normative analysis and evaluation of dependencies. The empirical methods include: examination of information sources relevant to the research field, opinions and attitudes; interviews with key employees of the enterprises; the tabular method for data visualisation; description of results and examination of practical experience; and an embedded case study for the development of a sample risk register and a financial management and control system for Albena AD.

A mixed methodological approach is applied in the present research through the combination of quantitative and qualitative methods. The quantitative methods include: the development and application of an Internal Financial Control Quality Index within the Albena AD economic group; statistical processing and regression analysis to test the relationship between the Internal Financial Control Quality Index and financial performance indicators; as well as the application of a public Internal Financial Control and Risk Management Disclosure Index through content analysis of information from consolidated financial statements and annual reports of economic groups operating in the tourism sector. The qualitative methods include: documentary analysis of internal and publicly available documents; interviews with management personnel and employees from the financial departments of the parent company

and its subsidiaries; and comparison of interview results with information contained in accounting and other documents, aimed at confirming and validating the collected data.

7. Information sources

In the preparation of the doctoral dissertation, a wide range of information sources are analysed, including regulatory acts, scientific publications by Bulgarian and foreign authors, research findings, publications in specialised journals, and up-to-date online sources. The examination of internal financial control within the specific enterprise and its related subsidiaries in the relevant sector is conducted through direct observation of the control process, with a focus on risk management, non-financial reporting, and centralised control mechanisms exercised by the parent company.

8. Perceived limitations in the scope of the dissertation thesis

The research presented in the doctoral dissertation is conducted under the following limitations:

- The empirical analysis is constrained by access to primary data, as part of the internal documents contains sensitive information and is not subject to public disclosure.
- The proposed indices do not claim to provide an exhaustive measurement of all aspects of internal control; they measure the degree of existence of control mechanisms and the level of public transparency.
- The present research does not claim absolute representativeness; the results reflect the specific characteristics of economic groups with pronounced seasonal activity and specific liquidity cycles.
- The subjectivity inherent in the assessment of the indices includes an unavoidable element of expert judgement, which is minimised through clearly defined criteria and documentary verification.
- The analysed time horizon is determined by the availability of accessible empirical data, which limits the possibility of deriving universal long-term trends and generalising the conclusions beyond the covered period.
- The territorial scope of the analysed enterprises is focused primarily on Bulgarian economic groups, although examples from international practice are also included.
- The theoretical and empirical analysis of internal financial control in economic groups does not include the specific characteristics of consolidated control in sectors subject to specialized regulation, such as banking, insurance and pension insurance.

- For the purposes of the present dissertation thesis, the specific features of financial management and control systems in public-sector organisations are not examined.
- The regulatory framework applied in the study is current as of 01.11.2025.

9. Approbation

Despite the stated limitations, the present dissertation aims to contribute to a more in-depth understanding of processes related to internal financial control and risk management within an economic group of related enterprises.

Parts of the dissertation have been presented at scientific and practical conferences and published in specialised academic journals. Some of the author's ideas, following appropriate adaptation, may find application in real-world business practice.

II. STRUCTURE OF THE DISSERTATION THESIS

The dissertation paper's structure consists of an introduction, three chapters, and a conclusion, with a total volume of 298 pages. There are 1 title page, 3 pages of a content, 5 pages of an introduction, 244 pages of a main text, 6 pages of a conclusion, 16 pages of references, and 23 pages of appendices.

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III. BRIEF STATEMENT OF THE DISSERTATION PAPER

The introduction presents the relevance of the selected topic, the subject, object and scope of the research, the aim, tasks, the thesis, the hypotheses, the methodology, the information support, and the accepted limitations of the dissertation research.

Chapter I: Theoretical and methodological aspects of internal financial control and risk management

The dissertation substantiates internal financial control as a strategic managerial mechanism that affects the reliability of reporting, financial performance, and investor confidence. The thesis is advanced that control quality is a dynamic variable dependent on risk, regulations, organisational structure and technological progress, and that the development of control at group level is a key prerequisite for reducing information risk and strengthening capital markets.

The first section of this chapter, **1.1.** is devoted to **Regulatory framework, conceptual and methodological foundations of internal control.**

In Section **1.1.1. Genesis and evolution of control**, a sequential clarification of the origin and evolution of control as a management function is conducted. Control is examined both historically and through the lens of contemporary management approaches. The analysis outlines a transition from traditional forms of control, oriented towards ex post verification and correction, to systems focused on prevention, risk management and continuous monitoring.

In summary, the historical development of control demonstrates a clear trend in defining its essence: from an instrument of verification and sanctioning, it has gradually transformed into a systemic management mechanism oriented towards risk prevention, resource optimisation and building trust. This transformation necessitates viewing internal financial control not merely as an isolated function limited to financial reporting, but as a key element of ongoing financial management, risk management and sustainable organisational development. These historical transformations of control are particularly relevant in the context of contemporary economic groups, where the complexity of financial flows and intra-group relationships requires sophisticated systems of internal financial control.

In Subsection **1.1.2. Conceptual foundations, elements and managerial approaches to internal control** the conceptual underpinnings and core components of internal control are systematised. Managerial approaches are reviewed in which internal control is viewed as a continuous process aimed at achieving organisational objectives by ensuring reliable reporting, operational effectiveness and compliance.

Within the scope of this dissertation, internal control is defined as a managerial process providing reasonable assurance for the achievement of organisational objectives, and internal financial control as its functional core, focusing on financial flows, financial processes and financial discipline, including the quality of financial information and the related non-financial information. Contemporary internal control should be evaluated not by the degree of formalisation, but by its level of integration into business processes, its adaptability to risk and change, and its capacity to provide reliable data and traceability in the context of digitalisation and ESG requirements. This proposition is vital for economic groups, where control is simultaneously “centralised as policy” and “decentralised as execution”, which creates a risk of fragmentation and inconsistency in the absence of unified principles, criteria and control standards at group level.

In Bulgarian academic research, interest in internal control is particularly visible in the public sector due to the regulatory requirements of financial management and control systems. Nevertheless, the conceptual foundations of internal control are equally applicable to the private sector, including economic groups. At the current stage, internal control is undergoing a transformation driven by global economic changes and technological advancements. As a result, the focus is shifting from control over traditional financial reporting to broader areas, including corporate governance, ethics, technological transformation, non-financial reporting and sustainability.

Subsection **1.1.3. Regulatory framework of internal control** analyses the regulatory framework of internal control in Bulgaria, emphasising the difference between the public and corporate sectors. A key conclusion is drawn that in the corporate sector there is no legally established minimum standard for internal financial control, accountability and functional independence. This leads to heterogeneous practices and increased risk of omissions, errors and abuses, while the reliability of financial reporting remains strongly dependent on external audit and voluntary managerial decisions.

In summary of this paragraph of Chapter One, it is concluded that internal control evolves from an internal organisational practice into an institutionalised requirement for building trust in reporting, managerial decisions and non-financial sustainability claims. In this context, a critical risk for enterprises—especially for economic groups—is formal compliance, including the existence of policies and procedures that are not effectively tested, integrated and reported. Regulatory norms should transform internal financial control into a system for financial risk management, data control and the enhancement of corporate governance.

Section **1.2. Internal financial control – characteristics, managerial dimensions, models for building an internal financial control system, and measurement of effectiveness** clarifies the specific nature of internal financial control as a subcategory of internal control focusing, with a focus on financial information, financial processes and the reliability of reporting.

Subsection **1.2.1. Conceptual and managerial aspects of internal financial control and its distinction from internal audit** distinguishes internal financial control from internal audit. It is argued that internal financial control is “embedded” in operations and functions through daily procedures and rules (preventive and detective controls), whereas internal audit is an independent function that evaluates the effectiveness of the system and proposes improvements. It is emphasised that conflating the two concepts leads to organisational deficits, including unclear responsibilities and a weakening of the control environment.

Subsection **1.2.2. Conceptual framework and methodological approaches for modelling the internal financial control system** analyses models for establishing an internal financial control system, using the COSO framework as a structuring approach.

Subsection **1.2.3. Measurement of the effectiveness of internal financial control** considers effectiveness measurement as a central methodological problem. It is argued that effectiveness cannot be assessed solely through the existence of documents and formalised rules, but should include indicators of actual functioning. Importantly, the effectiveness of internal control is not a static variable, but reflects the system's dynamic resilience and the risk of propagation of weaknesses, especially within economic groups. In this context, the measure of effectiveness is not reduced merely to the existence of control procedures, but to the quality of centralised oversight and monitoring, the degree of automation, the vertical and horizontal alignment of controls, and the dynamic management of systemic risks in a complex, multi-component structure. The most significant practical risk is that assessment remains formal and is reduced to verifying the existence of procedures. Therefore, measurement requires integration of indicators, evidence, independent reviews and assessment of the control environment.

The main conclusion of section **1.2** is that internal financial control is an integrated managerial process rather than solely an accounting function. COSO provides an applicable framework for structuring and evaluation, but it requires adaptation and operationalisation through indicators. Without measurability and monitoring, control may remain formal, without real impact on the reliability of reporting and managerial outcomes.

1.3. Conceptual aspects of risk management and audit committees as an element of oversight over internal financial control

Subsection **1.3.1. Concept of risk and risk management. The role of internal financial control in the risk management process** examines risk management as an integral component of internal financial control. It is clarified that control should manage residual risk and be designed on the basis of risk assessment and prioritisation. The stages of risk management are presented: identification, assessment, response and monitoring.

Emphasis is placed on the risk-based approach as a methodological foundation: control resources are directed towards the most material risks, which increases the effectiveness and cost-efficiency of the system. Within this logic, the aspect of ESG risks is integrated as a factor expanding the scope of control, particularly in relation to non-financial information and organisational sustainability.

Subsection **1.3.2. Methodological and legal aspects of the audit committee as an intermediary in the triad: owners – management – internal and external auditors** analyses the role of the audit committee as an oversight mechanism and mediator within the triad “owners – management – internal and external auditors”. It is concluded that an effective audit committee limits “tone-at-the-top control risk”, i.e., the risk of influence on or circumvention of control mechanisms by management. It is stated that the audit committee has a key role in:

- oversight of financial reporting;
- assessment of internal control and risk management;
- interaction with internal and external audit;
- improving transparency and capital market confidence.

The research highlights the importance of audit committees in the governance and oversight structure of corporate-sector enterprises. First, companies experience difficulties in assigning audit committee functions due to the need for additional financial resources and the requirement for specific competencies of the persons entrusted with oversight and control. Second, over-regulation and duplication of control functions by different control bodies prove to be a problem that may lead to administrative burden and dysfunctionality. Another significant shortcoming regarding the establishment of audit committees as a unit in corporate-sector companies and as part of the control function in economic groups is the lack of specific requirements for the composition and term of office of audit committee members.



Figure 1. Relationships of the audit committee with shareholders, internal audit, registered auditors and senior management

Source: Author's interpretation

The conclusions from Chapter One may be summarised as follows:

1. In contemporary theory, internal control is regarded not only as a stand-alone function but as an integrated system of processes, policies and responsibilities. Regardless of the numerous and diverse control principles, it always has a moral-ethical and practical meaning. Postulates such as “As a man sows, so shall he reap” and “With the measure you use, it will be measured to you”, although not scientifically grounded principles, prove to be particularly applicable in managerial practice and serve as moral guidelines for preventing dishonest behaviour.

2. Internal financial control in the corporate sector should be viewed as a managerial system rather than a technical accounting function. Its role is to provide reasonable assurance for reporting reliability, legality, asset protection and effective resource management, which positions it as a key element of corporate governance. The analysis shows that in Bulgaria the regulatory framework regarding internal financial control is fragmented in the private sector. It exists as an indirect obligation in accounting and commercial legislation, but it does not define clear organisational models, leading to a practical dependence of effectiveness on corporate culture, managerial will and enterprise resources.

3. Internal financial control is not only a mechanism for risk management but also a factor for improving the competitiveness of any organisation in the era of digital transformation and globalisation, as it provides a foundation for good corporate governance

and for building trust among stakeholders. Contemporary internal financial control is inseparably linked to management and management accounting. Internal financial control provides reliable and timely information that is vital for decision-making, performance evaluation and resource allocation.

4. Internal financial control is not limited to verifying the information presented in financial statements, but covers the entire ongoing financial management, including planning, resource expenditure, cash flow management and financial relationships. The expansion of the focus from reporting to sustainability raises the question of whether internal financial control is becoming a broader system of trust and risk management, which in turn requires reconsideration of traditional control mechanisms.

5. There is conceptual overlap and practical conflation between the notions of internal control, internal financial control and internal audit in a number of Bulgarian enterprises, which reduces the effectiveness of all three functions. The author's position is that this conflation is one of the main reasons internal control is perceived as an administrative burden rather than a source of added value. Based on the examined academic interpretations and regulatory requirements, the following author's definition may be formulated: **internal financial control represents a normatively prescribed purposeful activity, based on policies and procedures, carried out by financial-control bodies within the enterprise, with the aim of establishing facts regarding financial condition and protecting assets, on the basis of which corrective actions are undertaken.** Internal financial control, primarily oriented towards compliance, reliability and legality in organisational activity, ensures the protection of property, prevention of errors and fraud, accuracy and completeness of accounting records, and the preparation of reliable financial information. An author's definition is also provided, according to which **internal audit is an independent and objective activity performed by certified and competent persons who, on the basis of international standards and knowledge of the regulatory framework and the specifics of business processes, provide assessments and consultancy on matters previously defined by management, with the aim of supporting informed and appropriate decision-making and improving the internal control and risk management system.**

6. Measuring the effectiveness of internal financial control logically becomes a key topic, because without indicators, functioning tests and independent assessment, control remains formal and declarative. The effectiveness of internal financial control depends on the systematic interaction among the key stakeholders: the audit committee, internal audit,

registered auditors, senior management and shareholders. Nevertheless, the view is advanced that the role of audit committees in Bulgaria is still not sufficiently understood by representatives of the corporate sector. This body is often perceived by companies as a regulatory burden requiring the engagement of specialists and payment of a certain annual remuneration. The analysis makes it possible to establish that the audit committee is a critical “bridge” between owners and management, but its effectiveness depends not on its formal existence, but on its independence, competence and access to information.

7. The development of risk management shows a clear transition from perceiving risk as a threat to understanding risk as a combination of threat and opportunity. This aligns with the logic of COSO ERM, according to which risk is inseparably connected with strategy and performance. Risk management and internal financial control are interrelated but not identical systems. Risk management defines the boundaries of acceptable risk and strategic choice, while internal financial control provides the daily mechanisms for limitation, monitoring and accountability of that risk. Effective risk management requires measurability, accountability and linkage to managerial decisions, rather than merely documentary compliance.

Chapter II: Specific characteristics, organisation, and methodology of internal financial control in economic groups: achievements and problems

Section **2.1. Economic groups as a concept, legal characteristics and managerial aspects** examines economic groups as a specific corporate form in which several legal entities operate under a common economic objective, shared resources, and centralised or coordinated management. The analysis demonstrates that the control environment in economic groups becomes more complex due to multi-layer governance levels (parent undertaking, subsidiaries, related parties), intra-group relationships, and the requirements for consolidated financial reporting.

Section **2.1.1. Defining the concept of an “economic group”** reviews different academic and practice-oriented approaches to defining an economic group. It concludes that an economic group is fundamentally characterised by:

- the existence of a parent undertaking and controlled entities;
- economic dependence and coordination of activities;
- the need for consolidated reporting and group-wide policies.

It is emphasised that an economic group constitutes an environment in which financial risks can multiply and be transmitted across affiliated entities. Therefore, internal financial control should be designed and assessed at the group level, rather than only within each individual company.

Section **2.1.2. Types of corporate structures** presents a typology of corporate structures (holding, consortium, joint venture, trust, cluster, conglomerate, corporate group) and outlines differences in the degree of integration, centralisation, and control. The analysis indicates that:

- in holding structures, the control function is more readily centralised;
- in consortia and less integrated forms, the risk of fragmentation of control practices is higher;
- in conglomerates and multi-industry groups, risks increase due to diverse business models, differing standards, and more complex consolidated reporting.

Section **2.1.3. Legal, accounting and managerial aspects of economic groups** analyses legal and accounting features related to control within groups, including:

- management of related parties and intra-group transactions;
- transfer pricing and tax risks;
- consolidation processes and eliminations;
- cash-flow management and intra-group financing;

- the risk of inconsistencies arising from differing accounting policies and varying maturity of internal control across subsidiaries.

From a managerial perspective, it is argued that an economic group requires unified policies, clear reporting lines, a monitoring system, and coordination among entities, so that control is integrated at the group level.

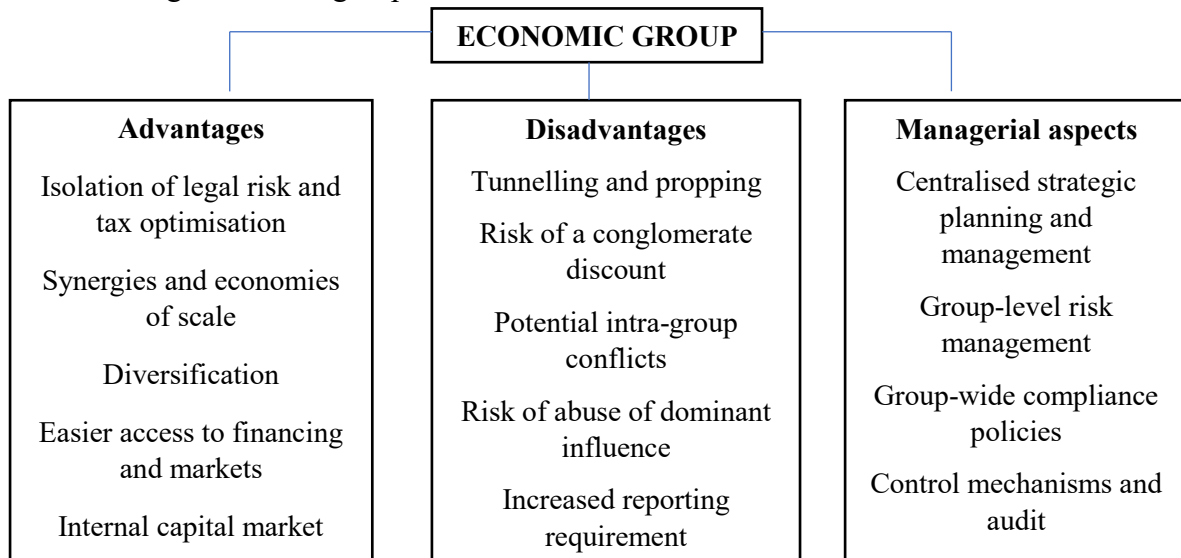


Figure 2. Advantages, disadvantages and managerial aspects of the economic group

Source: Author's interpretation

Section **2.2. Specific characteristics of internal financial control and risk management in economic groups** analyses the interaction between risk management and internal financial control in economic groups. It is emphasised that group-level control cannot be effective if entities apply heterogeneous practices, if group-wide policies are absent, or if the parent undertaking lacks mechanisms for monitoring and coordination.

Section **2.2.1. Applicability of the COSO framework in economic groups** discusses the COSO framework as a foundation for structuring internal financial control in a group context. The analysis argues that the five COSO components (control environment, risk assessment, control activities, information and communication, monitoring) should be operationalised not only at the level of each entity, but also at group level through: centralised policies and procedures; a common risk register and rules for risk assessment; group reporting and control lines; unified reporting formats; internal review procedures and follow-up actions.

The benefits of applying COSO in economic groups relate to establishing a unified approach to internal financial control across all entities and improving risk management through integrated monitoring structures. This supports enhanced transparency and facilitates consolidation, providing a basis for coordinating internal and external audits at group level. Implementing COSO, however, requires substantial resources, especially in large international

groups. Beyond mismatches between national legislation and group policies, potential resistance by subsidiary management is identified as an additional challenge.

Table 1.

Application of the COSO components for internal financial control purposes in economic groups

COSO component	Focus of internal financial control	Applicability in an economic group	Role of the parent undertaking
Control environment	Financial discipline and accountability	Unified policies for budgeting, remuneration and related-party transactions	Sets the “tone at the top” and group-wide rules
Risk assessment	Identification of financial and operational risks	Risks related to credit exposure and investments	Centralised assessment and prioritisation of risks
Control activities	Limiting financial deviations	Control over revenues, expenses, assets, investments and intra-group transactions	Imposes minimum mandatory control procedures
Information and communication	Reliability of financial information	Unified rules for reporting and consolidation	Ensures comparability and transparency
Monitoring	Assessment of control effectiveness	Internal audit and periodic evaluations	Coordinates monitoring and corrective actions

Source: Author’s interpretation

It is concluded that economic groups often exhibit differing levels of maturity of the control environment across entities, which creates “weak points” within the overall system and risk zones in consolidated reporting.

Section **2.2.2. Risk management and internal financial control system in economic groups** argues that internal financial control should be risk-based and oriented towards material risks affecting financial performance and reporting reliability. The analysis discusses key group risks:

- risk of inaccurate intra-group reporting;
- transfer pricing risk and tax penalties;

- liquidity risk and mismatches in cash flows;
- risks related to investments and financing;
- risk arising from managerial pressure and circumvention of controls;
- cybersecurity risks and shortcomings in information systems.

Based on the examination of the nature of financial risk in economic groups, the following author's definition is proposed: financial risk in an economic group represents a set of interrelated and transmissible risks between the parent undertaking and subsidiaries, whereby adverse financial events in one entity may have a multiplying effect on consolidated financial results, assets, liabilities, cash flows, liquidity, and the group's overall reputation.

Section **2.2.3. Guidelines for improving internal financial control in non-financial reporting and ESG risks** presents guidelines for improving control in the context of non-financial information and ESG risks. It is argued that internal financial control should cover not only traditional financial risks but also non-financial risks affecting sustainability and corporate reputation: environmental and climate risks; social risks and human resource management; and governance risks (corruption, conflicts of interest, unethical practices).

First, a unified methodological framework for measuring ESG indicators across the group is often lacking. Subsidiaries may apply different approaches to assessing carbon emissions, social indicators, or governance practices, which complicates internal financial control and creates a risk of inconsistency when consolidating information. Second, the boundaries of ESG reporting often do not coincide with the boundaries of financial consolidation. Economic groups may include entities under differing degrees of control and participation, including joint ventures and associates, for which it is not always clear whether and to what extent they should be included in sustainability reporting. This creates a risk of incompleteness or double-counting of non-financial data. Third, non-financial information is inherently more susceptible to subjectivity and managerial judgement. Within an economic group, this creates conditions for selective disclosure, particularly when ESG indicators are linked to management remuneration or the group's reputation. Because non-financial indicators are frequently based on estimates and assumptions, they limit the applicability of classical control techniques, and thus traditional internal financial control needs to be appropriately redesigned.

Section **2.3. Implementation of internal financial control in economic groups – specific control objects and organisation of control procedures** systematises the key objects of control that directly affect the reliability of consolidated reporting and the financial

sustainability of the economic group. The analysis is practice-oriented and addresses specific risks, control objects, and mechanisms.

Subsection **2.3.1. Related-party relationships and transfer pricing** presents related-party relationships and related-party pricing as among the most important control objects within the group.

Related-party relationships in an economic group entail a particular risk level that must be identified by the parent undertaking due to the possibility of negotiating terms that deviate from market conditions and result in profit shifting or artificial improvement of financial results. The accounting standard designed to clarify such relationships is IAS 24 *Related Party Disclosures*. Under IAS 24, relatedness depends on the exercise of control, the presence of key management personnel, or membership within the same economic group. The IAS 24 definition focuses on the ability to influence operating and financial decisions. Bulgarian legislation defines related parties primarily for taxation purposes and transfer pricing regulation.

The parent undertaking employs a range of control instruments to reduce the risk of manipulation, adverse fiscal consequences, and transactions conducted under non-market conditions. These measures include a related-party transaction policy, requirements for preparation and retention of transfer pricing documentation, transaction approvals, and internal audit. Any transaction above a specified threshold of total revenues must be approved by the central management of the parent undertaking. The group is obliged to maintain detailed documentation of the prices used in related-party transactions.

Subsection **2.3.2. Budgets, expenses and personnel** argues that budgetary control should include not only limits but also systematic plan-versus-actual analysis, cost centres, and early warning signals for deviations. In the context of group budgetary control, the budget is not merely a tool for planning revenues and expenses, but a key strategic mechanism ensuring alignment between the objectives of the parent undertaking and the operational actions of subsidiaries. Budget control as a process includes setting and approving subsidiary budgets, systematic monitoring of execution, reporting of deviations, and subsequent corrective measures. The parent undertaking defines the overall framework and key assumptions and approves budgets submitted by subsidiaries, sometimes referred to as a forecast business plan. Execution control is implemented through monthly monitoring against the approved budget, with deviation analysis as the central mechanism.

A critical managerial function in economic groups is controlling decentralised expenses incurred by subsidiaries, which affect the consolidated financial result. To ensure uniform reporting standards and expense control, the parent undertaking should establish an internal

financial control system that reduces information asymmetry between central management and subsidiary management. An effective expense-control framework in the group should be developed across four stages—planning, execution, monitoring, and analysis—reflecting COSO principles.

Personnel, as a specific resource, constitutes an object of management, while labour and social security costs are among the most significant expense categories included both in cost of sales and administrative expenses. Personnel-related risks manifest through unauthorised payments, inefficiency, payroll fraud, and inadequate control of working time.

Subsection **2.3.3. Investments, financing and liquidity management** focuses on other important control objects affecting cash flows in the group.

The management of investment policy and financing methods in economic groups is strategically significant, as it affects the financial stability and liquidity of each subsidiary, which in turn influences consolidated results and returns to shareholders. To ensure effective allocation of resources and reduce the risk of financial instability, the parent undertaking establishes an integrated financial policy and control mechanisms safeguarding the group's strategic objectives. Capital expenditure management is based on an adopted investment policy. The parent undertaking sets criteria such as payback period, project materiality, and required rate of return, which each group entity must assess before initiating an investment project.

Appropriate financing is essential for each investment. The parent undertaking does not allow individual entities to negotiate relationships with financial institutions independently. This enables the group to obtain better terms and minimise interest rate risk. Payments also represent a critical stage in the management of both investments and current expenses, and payment control is an essential part of group liquidity management. The key role of the parent undertaking is to ensure policy harmonisation, process consistency, and central oversight of risks related to investments, liquidity, financing, and payments. Through centralisation of investment decisions, control over project execution, regulation of borrowing relationships, liquidity management and cash pooling, the group achieves sustainability, efficiency, and strategic coherence.

It is concluded that the group context requires a centralised policy for investments and debt, since risks are transmitted across entities through excessive leverage, low liquidity, and intra-group financing.

Subsection **2.3.4. Revenues, financial results and management of receivables and liabilities** examines the management of revenues, receivables, liabilities and financial results through the introduction of unified policies and procedures at group level. This process requires

control over contracts, invoicing procedures, credit limits, monitoring of overdue balances, and compliance related to liabilities. The importance of revenue control is emphasised as an area with a high risk of manipulation and improper recognition. For receivables, risk relates to impairment and liquidity, while for liabilities, risk concerns omissions, penalties, inconsistencies, and hidden liabilities.

Subsection **2.3.5. Non-current assets and inventories** briefly presents these assets as control objects where lack of due care or deliberate misappropriation may occur. In economic groups, managing these assets requires a higher level of coordination and control, including not only accounting recognition and measurement but also managerial activities related to proper utilisation, safeguarding, maintenance, modernisation, and physical verification.

At group level, rules are established for scrapping, asset transfers between entities, inventory valuation methods, and procedures for damaged or surplus materials and raw materials. Inventory control is oriented towards turnover analysis, sales realisation, storage periods, the need for impairment, and the presence of seasonality.

Subsection **2.3.6. Annual closing, presentation of results and consolidation** presents the final stage of accounting activity in preparing financial statements, focusing on control specifics in consolidating information from subsidiaries and eliminating intra-group revenues and expenses, profits and losses, receivables and liabilities. It is concluded that year-end closing and consolidation concentrate risks related to inconsistent policies, elimination errors, incorrect adjustments, and incomplete subsidiary data. Control requires unified accounting policies, consolidation procedures, data checks, control over adjustments, and documentary traceability.

Conclusions from Chapter Two

Based on the analysis of internal financial control features in economic groups, the dissertation thesis systematises the following conclusions:

1. The establishment of a separate subsidiary is a strategic decision and not merely a formal structure; it is a corporate governance instrument. The reasons for forming an economic group as a distinct structure are economic, legal, organisational, and risk-related. One of the most significant reasons is limited liability, whereby the group “isolates” risky activities through a separate entity. Another key reason is the use of tax incentives and optimisation of tax rates. Groups may allocate profits across entities through transfer pricing, thereby diversifying risk and revenues and managing capital structure at the entity level. A subsidiary facilitates accounting and strategic management of results and enables the involvement of external investors or partial sale of a business activity without affecting other group entities.

2. Economic groups are complex organisational structures in which legally independent entities operate under unified strategic leadership, allowing resource concentration, process integration, and higher economic efficiency. Legally, groups combine the independence of entities with centralised management by the parent undertaking, raising specific issues regarding responsibility, intra-group relationships, and the manner of exercising control. Managerial aspects emphasise the role of synergy, coordination, and the integration of key functions, including financing, investments, and internal financial control. Through these mechanisms, groups become flexible and competitive economic actors. At the same time, complexity necessitates clear rules for governance, accountability, and control.

3. Control is the fundamental connecting category between corporate law, accounting, taxation, and internal financial control in economic groups. Internal financial control cannot be effective if it is limited to individual entities; it must be designed and operate at the group level. The highest-risk areas specific to economic groups, from the perspective of information asymmetry and regulatory sanctions, are consolidation and related-party relationships.

4. The evolution of internal financial control is directly linked to increasing requirements for ESG risk reporting and disclosure. Sustainability assurance requires the auditor to provide assurance and an opinion on the reliability of non-financial information, which is not feasible without internal financial control systems embedded in relevant processes. This view is supported by guidance from the International Federation of Accountants on sustainability reporting and by regulatory requirements introduced by the Financial Supervision Commission in connection with the implementation of the CSRD in Bulgaria. The need for knowledge beyond economic theory and accounting expands the competencies required of report preparers, external auditors, internal financial control experts, accountants, and those charged with governance in relation to non-financial reporting, which must be measurable and reliable.

5. The parent undertaking's control over subsidiaries covers key objects such as expenses, revenues, assets, budgeting, financing, personnel, transfer pricing, liquidity management, and consolidation. Centralised policies ensure consistency, risk limitation, and prevention of abuse. A group financial management and control system is a key instrument for ensuring transparency, efficiency, and compliance with standards. The parent undertaking formulates common policies, control activities, and monitoring procedures that ensure comparability of accounting practices, detection of deviations, and integration between budgeting, planning, risk management, and internal financial control. In this way, the group can respond in a timely manner to financial risks and improve managerial processes by enhancing reporting quality.

Chapter III: Practical and applied aspects of internal financial control in economic groups: problems and challenges

3.1. Contemporary perspectives and challenges for internal financial control within the economic group

At the beginning of Chapter Three, it is argued that the empirical research should be interpreted in the context of contemporary transformations that redefine both the objectives and the toolkit of internal financial control. These transformations are particularly pronounced in economic groups, where management is distributed among individual entities, while accountability and control are assessed at group level.

In this context, internal financial control evolves from a predominantly compliance-oriented function into an integrated management mechanism supporting transparency, risk mitigation, and strategic sustainability across the entire group structure.

3.1.1. Digital transformation for continuous monitoring and cyber resilience of internal financial control in economic groups 3

Digital transformation is examined as a structural factor that reshapes both the architecture of the control system and the instruments used for monitoring. It is argued that economic groups, due to multilayered information flows and differing levels of digitalisation among subsidiaries, are exposed to increased risks related to:

- inconsistencies in data during consolidation;
- incompleteness or delays in management information;
- limited traceability of control activities; and
- cyber-related risks affecting information systems.

The methodological focus is placed on the transition towards **continuous monitoring**, which requires:

- automation of control testing and real-time alerts for deviations;
- implementation of unified data standards and management reporting at group level;
- development of audit trails within information systems; and
- integration of cyber resilience as an integral component of control design.

In this regard, digitalisation is not perceived solely as a technological enhancement, but as a prerequisite for maintaining effective internal financial control in complex group environments characterised by decentralised operations and centralised accountability.

3.1.2. Internal financial control as a factor for investor confidence, improved quality of financial reporting information, and stability of capital markets within economic groups

Internal financial control is analysed through the lens of agency theory and the concept of information risk. It is argued that the quality of control constitutes a systemic determinant of the reliability of consolidated financial reporting and a key mechanism for reducing information asymmetry between owners, management, and external stakeholders.

In the context of public companies and capital markets, internal financial control fulfils the role of a “trust-building mechanism”, as it limits the likelihood of material misstatements and abuses, enhances the credibility of financial statements, and supports the sustainability of financial performance by improving transparency and accountability.

Internal financial control influences investor confidence both directly—through the quality and reliability of reported information—and indirectly—through the robustness of management processes and the mitigation of financial and non-financial risks. Consequently, effective internal financial control contributes not only to compliance but also to long-term value creation and market stability.

Section **3.2. Empirical study of internal financial control in economic groups** presents the empirical design of the research, which follows a dual approach. On the one hand, transparency is assessed through the **Internal Financial Control and Risk Management Disclosure Index** (Section 3.2.1). On the other hand, the quality of internal financial control at group level is measured through an author-developed index, followed by empirical testing of the relationship between internal financial control quality and financial performance within a selected economic group (Section 3.2.2).

In Subsection **3.2.1. Analysis of internal financial control and risk management disclosures in the consolidated financial statements and management reports of economic groups operating in the tourism sector**, an attempt is made to measure the level of transparency in disclosures related to internal financial control and risk management within a sample of economic groups operating in the tourism sector.

Subsection 3.2.1.1. Methodology for calculating the Internal Financial Control and Risk Management Disclosure Index for economic groups in the tourism sector presents a methodology for the quantitative measurement of publicly disclosed information on internal financial control and risk management. The public Internal Financial Control and Risk Management Disclosure Index is conceptualised as an indicator of corporate transparency and is constructed through the aggregation of criteria reflecting:

- the existence and level of detail in descriptions of the control system;
- the degree of structuring of risk identification and management;
- disclosure of supervisory bodies (audit committee, internal audit);
- presence of monitoring and accountability mechanisms; and
- integration of non-financial (ESG) risks and data.

The assessment is based on officially published documents for each analysed economic group, including consolidated financial statements, management reports, audit reports, and corporate governance statements. The scope of the study covers publicly disclosed information on internal financial control and risk management systems of selected economic groups operating in the tourism sector in Bulgaria and internationally.

Based on publicly available data from consolidated financial statements, audit reports, and management reports for the years 2022, 2023, and 2024, it is not possible to measure the actual quality of internal financial control, but only the degree of formalisation, disclosure, and institutionalisation of internal control and risk management practices.

The following economic groups are included in the sample: *BOR INVEST-1 Ltd., Albena AD, Tourist Investment Ltd., Zlatni Pyasatsi AD, Galaxy Investment Group Ltd., Holding Varna AD, InterContinental Hotels Group, and Melia Hotels International.*

The unit of analysis is each group individually, with assessment conducted through a review of disclosed information for the respective year. A uniform scoring scale is applied for each indicator:

- **0** = no disclosure;
- **0.5** = partial disclosure;
- **1** = full disclosure.

Indicators are grouped according to the COSO framework, adapted for public disclosure purposes:

1. **Control environment** – ethical code, audit committee, conflicts of interest, role of the board of directors;
2. **Risk assessment** – risk framework, financial and non-financial risks, quantitative exposures, linkage between risk and strategy;
3. **Control activities** – internal control procedures, related-party transactions, segregation of duties, IT controls, internal audit;
4. **Information and communication** – transparency, periodicity, comparability, internal communication, management and non-financial reporting;
5. **Monitoring** – responsibility statements, external audit, self-assessment, internal audit.

The index is calculated by summing the scores across all indicators, assuming equal weight for each component.

Subsection 3.2.1.2. Empirical study of internal financial control and risk management disclosures in the consolidated financial statements and management reports of a sample of economic groups reveals significant differences in disclosure practices among the examined economic groups. A tendency is observed among some enterprises to rely on generic formulations aimed at meeting minimum regulatory disclosure requirements, without providing sufficient detail regarding actual control mechanisms and their functioning. At the opposite end are groups whose disclosures are structured, contain measurable elements, and allow for a higher degree of verifiability. Among Bulgarian economic groups operating in the tourism sector, the lowest disclosure levels are observed in relation to control activities, IT controls, non-financial reporting, and monitoring. Higher and more standardised results are identified with respect to transparency, periodicity, comparability, and the presence of audit reports. While the regulatory framework ensures a minimum level of transparency, investor confidence is primarily influenced by the existence of an internal audit function and sustainability reporting. At lower values of the Disclosure Index, information risk increases significantly.

Conversely, international hotel groups, such as *InterContinental Hotels Group* and *Melia Hotels International*, demonstrate a high degree of COSO framework integration, where internal financial control forms an inseparable part of strategic management, risk management, and corporate reporting. In these groups, risk management is clearly linked to strategy and long-term sustainability, which is reflected in significantly higher Disclosure Index values. In contrast, most Bulgarian economic groups limit their disclosures to formal, accounting-oriented information, which does not clearly identify internal control as a managerial tool. Risk management in Bulgarian groups is predominantly confined to financial risks considered within an accounting framework (credit, liquidity, and foreign exchange risks). Non-financial risks (operational, ESG and reputational risks) are almost entirely absent from public disclosures or are addressed only through brief narrative statements, which creates conditions for information asymmetry and the underestimation of strategic risks. Monitoring emerges as the least developed component within Bulgarian economic groups, with limited disclosure regarding internal audit, self-assessment of internal financial control systems, or corrective actions. Control activities are largely implicit and derived indirectly from accounting policies and consolidation procedures, with insufficient transparency regarding key process controls and automated IT controls.

Hypothesis 1, concerning the level of public disclosure of information on internal financial control and risk management as an indicator of corporate transparency—but not as sufficient evidence of the effectiveness of the internal control system—is confirmed. The study demonstrates that public disclosure is a necessary condition for transparency; however, reporting alone does not ensure the effectiveness of internal control systems, as transparency reflects the extent of disclosure, rather than the actual integration, maturity, and operational effectiveness of control mechanisms within organizations.

The conclusions from the empirical study indicate that transparency is measurable and enables comparative analysis. It should be emphasised that disclosures capture the degree of reporting, rather than the effectiveness of the control system's actual functioning. For this reason, the need for a parallel instrument to assess the quality of internal financial control is substantiated.

All examined Bulgarian groups demonstrate a relatively good level of financial transparency, insofar as this is required by accounting standards. At the same time, there is a notable absence of information regarding internal communication related to control issues, whistleblowing channels, and managerial reporting. Given that such deficiencies constrain the possibilities for effective monitoring, the recommendations to the sample of examined Bulgarian groups can be systematised in the following directions:

1. **Formalisation of the control environment** through adoption and public disclosure of: a Code of Ethics; a conflict-of-interest policy; and rules governing senior management accountability.
2. **Expansion of risk management** beyond financial risks to include: operational risks, ESG risks and reputational risks.
3. **Institutionalisation of internal audit** as an independent function reporting to the audit committee.
4. **Enhancement of transparency in related-party transactions**, including by describing the relevant control procedures.
5. **Introduction of periodic self-assessment** of internal financial control, based on COSO or another applicable model.

The assessment results of the Internal Financial Control and Risk Management Disclosure Index for the sample of economic groups, based on specific disclosures in consolidated financial statements and management reports, are summarized in the following table.

Table 2.

Internal Financial Control and Risk Management Disclosure

Economic Group / Disclosed information in consolidated reports for evaluation	BOR INVEST-1 EOOD	Albena AD	Tourist Investment EOOD	Galaxy Investment Group OOD	Zlatni Piasatsi AD	Holding Varna AD	Inter Continental Hotels Group PLC	Melia Hotels International S.A.
Control Environment	0.5	4.5	0.5	1.5	1	4.5	5	5
Code of Ethics	0	1	0	0	0	0.5	1	1
Audit Committee	0	1	0	0	0	1	1	1
Conflict of Interest Policy	0	1	0	0	0	1	1	1
Role of the Board of Directors	0.5	1	0.5	0.5	1	1	1	1
Remuneration Policy	0	0.5	0	1	0	1	1	1
Risk Assessment	2.5	4.5	1.5	1	3	5	5	5
Financial Risk Elements	1	1	1	0.5	1	1	1	1
Risk Management Framework	0.5	1	0.5	0.5	1	1	1	1
Risk Sources, Exposures, and Quantitative Data	1	1	0	0	1	1	1	1
Non-financial Risks	0	0.5	0	0	0	1	1	1
Link Risk-Strategy	0	1	0	0	0	1	1	1
Control Activities	1.5	2	0.5	1	1	1.5	4	4.5
Internal Control Procedures (Documentation, Consolidation, Accounting Policies)	0.5	0.5	0	0	0.5	0.5	1	1
Controls over related party transactions	0.5	0.5	0.5	0.5	0.5	0.5	1	1
Unified Policies	0.5	0.5	0	0.5	0	0.5	1	1
Segregation of Duties	0	0.5	0	0	0	0	0	0.5
Automated and IT Controls	0	0	0	0	0	0	1	1
Information and Communication	2	2	2	2	2	2	5	5
Transparency	1	1	1	1	1	1	1	1
Periodicity and Comparability	1	1	1	1	1	1	1	1
Internal control communication channels	0	0	0	0	0	0	1	1
Non-financial Information	0	0	0	0	0	0	1	1
Management Information	0	0	0	0	0	0	1	1
Monitoring	1.5	2	2	2	2	3.5	5	5
Statement of Management Responsibility for Internal Control	0.5	1	1	1	1	1	1	1
Auditor's Report and Opinion	1	1	1	1	1	1	1	1
Management self-assessment	0	0	0	0	0	0	1	1
Internal Audit	0	0	0	0	0	1	1	1
Procedures for evaluating internal financial control effectiveness	0	0	0	0	0	0.5	1	1
Total	8	15	6.5	7.5	9	16.5	24	24.5
Index	0.32	0.60	0.26	0.30	0.36	0.66	0.96	0.98

Source: Author's interpretation

In Subsection 3.2.2. **Empirical assessment of the quality of internal financial control and its impact on the financial performance of the economic group of Albena AD** statistical processing and regression analysis is conducted with the aim of testing Hypothesis 2, concerning the existence of a relationship between the quality of internal financial control (measured through an author-developed index) and financial performance indicators, namely return on assets (ROA) and profit margin, of the economic group. The hypothesis is partially confirmed. The obtained results provide grounds to conclude that the quality of internal financial control may act as a factor influencing financial performance through risk reduction,

process optimization, and enhanced transparency. However, the existence and quality of internal financial control is neither the sole nor the dominant determinant of the financial performance of the economic group.

Section 3.2.2.1. Methodology of the empirical study of internal financial control in the enterprises of the Albena AD economic group develops a group-level **Internal Financial Control Quality Index**, structured according to COSO components and operationalised through quantitatively measurable indicators. The applied index measures the maturity of: the control environment; risk assessment; control activities; information and communication; and monitoring.

The study is designed as an **embedded case study**. The primary analytical unit is the Albena AD group, while the subsidiaries constitute embedded sub-units. A mixed-method approach is applied through triangulation: documentary analysis and semi-structured interviews are used to describe the factual functioning of internal control; an Internal Financial Control Quality Index is developed, structured according to the five COSO components and operationalised through quantitatively and statistical models are employed to test the relationship between internal financial control and financial performance at group level..

The data comprise both primary and secondary sources: internal documents and policies; publicly available corporate documents; and the relevant regulatory and academic framework. Semi-structured interviews are conducted with employees holding key managerial and control functions (executive directors, finance managers, chief accountants, IT managers, human resources, security, and procurement), structured along the five COSO components. The results are documented in protocols and cross-checked against documentary evidence; they are presented in aggregated form.

An **Internal Financial Control Quality Index** is created and tested. It represents an aggregated numerical assessment of the extent to which the internal financial control system is formally defined and documented; implemented and functioning consistently within the economic group; ensures reliable and timely financial and non-financial information; and limits systemic risk arising from control weaknesses. The index is constructed in accordance with COSO and includes 25 key indicators evaluated on a 0 / 0.5 / 1 scale (absence / partial functioning / full functioning). For each entity, a score of up to 25 is calculated and transformed into an index on a ten-point scale. Triangulation is supplemented by verifiable indicators (audit outcomes, reporting delays, sanctions, and frequency of consolidation adjustments). The limitations of the index approach are acknowledged (dependence on documentation, potential interview bias, simplified scale), and the index is interpreted as a tool for comparability and

trend analysis. As part of the methodology, the core activities of the parent company Albena AD are presented, along with the ownership percentages and the business fields of the subsidiaries within the group.

Subsection 3.2.2.2. Empirical analysis of the quality of internal financial control and the financial performance of the Albena AD economic group through the application of statistical methods applies statistical testing of the working hypothesis regarding a positive relationship between the quality of internal financial control quality and financial performance. The analytical approach includes regression analysis to assess whether variations in the quality index are associated with variations in financial indicators, while controlling for the influence of other factors.

Financial performance is measured through **profit margin** (net profit / net revenues) and **return on assets** (net profit / total assets). Correlation and regression analyses are applied for the periods 2018–2019 and 2022–2024, while 2020 and 2021 are excluded due to the COVID-19 effect and sector-specific interventions. Entities without active operations or with limited publicly available information are excluded. The financial indicators and the calculated index are presented as follows:

Table 3.

Financial indicators and calculated Internal Financial Control Quality Index of Albena AD at individual and consolidated level

Albena AD individual level	2018	2019	2022	2023	2024
Net Profit	10 985	16639	992	1729	5304
Total Assets	579 921	601 853	591 920	586 392	578 457
Net Sales Revenue	99 354	93 850	68 822	87 080	95 526
Return on Assets (ROA)	1.89%	2.76%	0.17%	0.29%	0.92%
Profit Margin	11.06%	17.73%	1.44%	1.99%	5.55%
Internal Financial Control Quality Index	10.00	10.00	8.00	9.00	9.00
Albena AD consolidated level	2018	2019	2022	2023	2024
Net Profit	9 763	8 749	-2 361	1 156	7 434
Total Assets	635 603	651 590	607 892	596 551	592 106
Net Sales Revenue	128 848	120 792	103 639	127 502	135 182
Return on Assets (ROA)	1.54%	1.34%	-0.39%	0.19%	1.26%
Profit Margin	7.58%	7.24%	-2.28%	0.91%	5.50%
Internal Financial Control Quality Index	7.00	7.00	6.00	7.00	8.00

Source: Individual and consolidated financial statements of Albena AD.

Note: Assets, net profit and net sales revenue are presented in thousand BGN.

The results allow the conclusion that a higher quality of internal financial control is associated with improved financial performance through: reduction of the risk of deviations; optimisation of processes; and enhancement of transparency and reliability of financial reporting.

The correlation analysis reveals heterogeneous relationships between the Internal Financial Control Quality Index is developed, structured according to COSO components and operationalised through quantitatively and financial performance indicators. For some entities, a strong positive relationship is observed (including Albena AD at both the individual and consolidated level with respect to the profit margin), while for others a negative correlation is identified. This suggests the influence of entity-specific factors such as sector dynamics, scale of operations, seasonality, cost structure and managerial decisions. It is concluded that internal financial control affects return on assets primarily through its impact on the profit margin, i.e. through cost management and pricing policies; however, correlation does not imply causality.

Table 4.

Calculation of correlation coefficients for the companies within the Albena AD Group

Company	<i>Correlation coefficient between internal financial control quality and return on assets (ROA)</i>	<i>Correlation coefficient between internal financial control quality and profit margin</i>
Albena AD (individual level)	0.8767	0.8622
Albena AD (consolidated level)	0.5766	0.9478
Albena Tour EAD	-0.3703	0.6560
Primorsko Club EAD	-0.2280	-0.2025
MC Medika Albena EAD	-0.5366	0.7402
SBR Medika EOOD	0.7382	0.8230
Alfa Consult 2000 EOOD	-0.6639	-0.8941
Byalata Laguna AD	0.3854	0.6970
Intersky AD	0.1901	0.2097
IDI AD	0.7337	0.7317
Albena Autotrans AD	0.5579	0.5475
Eco Agro AD	-0.1916	-0.1841
Ekostroy AD	0.1288	-0.0188
Tihiya Kat AD	0.3948	0.5601
Perpetuum Mobile BG AD	0.2348	0.3164

Source: Author's calculations based on available data.

The regression analysis indicates a weak positive relationship between the quality of internal financial control and return on assets, characterised by limited explanatory power (low coefficient of determination) and marginal statistical significance (not convincing at the 5% level, but acceptable at the 10% level). Internal financial control, taken in isolation, does not represent a primary determinant of return on assets in the analysed entities; its effect is relatively weak, while other factors exert a more substantial influence, including market conditions, operational efficiency, seasonality, climate-related impacts, cost management, asset protection, revenue growth and others. Furthermore, no convincing statistical evidence is found that the quality of internal financial control affects the profit margin within the analysed sample. This suggests that other determinants – such as pricing policies, raw material costs, market conditions, strategic decisions and seasonality – have a significantly stronger impact on the profit margin than the quality of internal financial control. On this basis, it is argued that improvements in internal financial control should be targeted at specific control activities and key risk areas at the entity level, rather than focusing solely on the formal expansion of policies.

Within subsection **3.3. Internal financial control in the Albena AD economic group: analysis and methodological approaches in the context of ESG risks**, an analytical and practice-oriented review of the internal financial control system within the Albena AD economic group is presented, with particular emphasis on the adaptation of group entities to contemporary risks, including ESG-related risks. Based on the empirical investigation, both functioning control mechanisms and control deficiencies are identified, which affect the reliability of financial reporting, the effectiveness of management processes and the overall sustainability of the group.

In **3.3.1. Analysis of internal financial control in the Albena AD economic group**, the analysis is structured according to the key components of the control system, following the COSO framework, and is aligned with the specific characteristics of group governance, the diversified sectoral profile and the heightened risk exposure inherent in the tourism industry.

3.3.1.1. Control environment. It is established that Albena AD sets a strong “tone at the top”, which is transmitted to subsidiary entities through centralised reporting rules, approval procedures for significant transactions and investments, and functioning corporate governance mechanisms, including an audit committee. Practical manifestations of this control environment include regular quarterly reviews of subsidiary performance, reporting of deviations from business plans, and centralised authorisation of key transactions (intra-group operations, loans, debt commitments and changes in remuneration of key personnel). In terms of financial reporting reliability, established transfer pricing policies are highlighted as a key control

instrument, encompassing contractual arrangements, adherence to the arm’s length principle, prior approval procedures and the maintenance of documentation. These policies contribute to the elimination of intra-group balances and the mitigation of tax and fraud-related risks. Alongside these strengths, a deficiency is identified with regard to specialised training in internal financial control for positions performing critical functions (cash handling, asset management and reporting), which creates a risk of procedural formalisation and excessive reliance on the human factor.

3.3.1.2. Risk assessment. Within the Albena group, the existence of a risk management system is formally declared, defining responsibilities, risk analysis processes and reporting arrangements. Sector-specific risks inherent in tourism are identified, including point-of-sale fraud, incorrect pricing practices, uncollectible receivables, inventory losses and theft, as well as significant investment-related risks associated with potential manipulation of costs, percentage-of-completion estimates and capitalisation of expenditures in order to present more favourable financial results. While certain risks—such as liquidity, currency, interest rate, credit, price and capital risks—are disclosed in the consolidated financial statements, there is a clear need for the formalisation of a group-wide risk register and predefined response scenarios. Such tools would support consistency in strategic risk responses, including mitigation, acceptance, avoidance or transfer. Given that the group does not currently operate a formal risk register, the subsequent table presents a proposed illustrative risk register for Albena AD, which may be further expanded and tailored to reflect the specific risk profiles of individual subsidiary entities.

Table 4.

Illustrative Risk Register of Albena AD

Risk type	Risk description	Probability	Impact	Risk level (Probability × Impact)	Existing control procedures	Recommen- daions
FINANCIAL RISKS						
<i>Liquidity risk</i>	Inability to generate sufficient cash flows to cover short-term liabilities					
<i>Currency risk</i>	Adverse impact resulting from unfavourable exchange rate fluctuations					
<i>Credit risk</i>	Delays in payments from major foreign tour operators or corporate clients					

OPERATIONAL RISKS

<i>Investment risk</i>	Delays or cost overruns beyond the pre-approved budget in hotel renovations or asset upgrades					
<i>IT risk</i>	Breaches in reservation or payment systems, as well as disruption of operational activities					
<i>Revenue manipulation</i>	Incorrect or incomplete recognition of sales revenues due to weak operational controls and inadequate segregation of duties					

STRATEGIC RISKS

<i>Competitive risk</i>	Intense competition leading to pricing pressure and loss of market share					
<i>Competitive risk</i>	Dependence of revenue generation on a short summer season					

Source: Author's interpretation.

3.3.1.3. Control activities

The empirical study identifies the existence of segregation of duties in key processes (reservation revenues and payments, procurement and banking operations), daily reconciliation of revenues and cash receipts, and controls over corrections and cancellations within the information systems. At the same time, weaknesses are identified, primarily driven by seasonality and staffing constraints, whereby accounting personnel also assume operational functions (e.g. cashiers or front-office reporting roles), which compromises the principle of independence of control functions. Deficiencies are also observed in the physical safeguarding of assets and inventory management, particularly with regard to fast-moving consumables. To address these weaknesses, technological solutions are proposed, including barcode tracking, digitalisation of audit trails, and automated approval systems, as well as stricter procedures for supplier selection and enhanced controls over outsourced service costs.

3.3.1.4. Information and communication

The group operates under unified reporting rules and communication channels, with liquidity management and payments monitored centrally. Empirical evidence indicates the existence of a two-way information flow through regular reports and coordination between accounting and finance units. It is recommended to establish a secure whistleblowing channel and to implement integrated information systems with embedded controls and audit trails in order to enhance transparency, traceability and timely communication of control-relevant information.

3.3.1.5. Monitoring

A significant deficiency identified is the absence of an internal audit function at group level. As a compensatory measure, the engagement of independent external experts on a periodic basis is proposed, along with the development of an integrated electronic environment providing access to key contracts and documentation. The need to transition towards a more structured and more frequent monitoring process is emphasised, including monthly reviews of key control indicators across the subsidiary entities. For each of the analysed subsidiaries, key control indicators have been proposed on the basis of the conducted interviews and empirical observations.

Table 6.

Control Focus Areas in Monitoring Internal Financial Control by Type of Subsidiary within the “Albena” AD Economic Group

Type of subsidiary	Control focus areas in monitoring	Objective of control
Agricultural enterprise	Physical control of output; consumption norms; cost analysis	Limitation of deviations, misuse, and inaccurate reporting
Energy company	Control over raw material and spare parts costs; monitoring of technical operations	Ensuring cost efficiency and reliability
Medical entities	Reconciliation between provided services, reporting systems, and cash inflows	Ensuring completeness and reliability of revenue
Tour operators	Control over pricing; commissions; cancellations; management of credit and foreign exchange risk	Limiting financial losses and inaccurate reporting
Transport company	Fuel cost control; GPS monitoring; reconciliation of routes and revenues	Prevention of misuse and operational inefficiency
Resort complexes (all-inclusive)	Control of revenues and expenses under all-inclusive schemes; inventory control	Improving profitability and reducing losses
Construction and infrastructure companies	Control of market prices; bills of quantities; material usage	Limiting overstated costs and deviations
Aviation company	Fuel control; regulatory compliance; documentation	Compliance with regulatory requirements and financial sustainability
Real estate investment companies	Control of rental income; contracts; maintenance costs; related-party transactions	Ensuring transparency and protection of investors’ interests

Source: Author’s interpretation.

Subsection 3.3.2. **Methodological approach to building an internal financial control system in Albena AD** presents the developed illustrative system for financial management and control, specifically adapted to the dual role of the parent company – both as a major tourism operator and as a central coordinating element within a multi-industry economic group. The methodological approach is based on the principle of **“centralised strategic control –**

decentralised operational execution“, whereby the parent company defines policies, limits and standards, while subsidiaries implement day-to-day procedures and primary documentation. Particular emphasis is placed on the role of the **Internal Financial Control Department** as a center for control coordination, operating within the framework of the “three lines of defence“ model—operational management, control functions and independent audit. The key functional areas of activity are identified as follows: harmonisation of policies; control of financial flows; oversight of consolidation processes and related-party transactions; risk management; monitoring of control deficiencies; and communication of control requirements.

In Section **3.3.3. Identification of ESG risks within the Albena economic group**, key ESG risks of an indicative nature are identified, and their relevance to internal financial control is argued on the grounds of their simultaneous financial, operational, regulatory and reputational impact. ESG risks are considered a factor that expands the scope of control towards the validation of non-financial information, sustainability management and oversight of capital expenditures related to environmental and social transformation. Within the group, the following are highlighted:

- **Environmental risks** (climate change, resource efficiency, waste and pollution, emissions, biodiversity and regulatory sanctions), with emphasis on their effects on seasonality, cost structure and the results of agricultural and energy entities;
- **Social risks** (service quality, health and safety, labour shortages and workforce migration, reputational effects and broader societal impact);
- **Governance risks** (corporate governance, control deficiencies in subsidiaries, cybersecurity and personal data protection, regulatory pressure related to CSRD, and information transparency).

Empirical evidence indicates that Albena AD pursues an active sustainability policy, including investments in energy efficiency, renewable energy sources, waste management and the utilisation of bio-waste through biogas, as well as social policies related to health, safety and human resource development. This provides a foundation for the integration of ESG requirements into the internal financial control system.

Subsection **3.3.4. Recommendations for improving internal financial control in the Albena AD economic group** formulates recommendations aimed at strengthening the control environment, increasing the independence of control functions and reducing the risk of merely formal compliance with procedures. The key emphases may be summarised as follows:

- the need for a clearly positioned group-level finance function (e.g., **Director of Corporate Finance**);

- the introduction of a coordinating managerial role for systematic oversight of subsidiaries (e.g., **Director of Subsidiaries**);
- harmonisation and digitalisation of **document flows** and approval systems;
- **technological strengthening of controls** over sales, inventories, all-inclusive processes and payments;
- reinforcement of **investor oversight** in capital projects;
- preparation for the structured collection and consolidation of **ESG data** in the context of CSRD.

Synthesis of findings from the theoretical and empirical investigation

As a result of the conducted theoretical and applied research, it can be concluded that, within economic groups, the effectiveness of internal financial control should be assessed at **group level**, as weaknesses or deficiencies in individual subsidiaries may have a significant adverse impact on consolidated financial statements and on stakeholders' overall trust in the group. Therefore, control systems should be viewed not only at the level of individual entities but as an overarching framework of group governance encompassing harmonised policies, unified methodologies for risk identification and assessment, and centralised mechanisms for monitoring and accountability. The adoption of data analytics, automated controls and early warning mechanisms enhances the ability of groups to identify deviations in real time and to manage multiple risks, including cyber risks. Historical examples of corporate failures demonstrate that internal financial control has a direct effect on investor confidence and the stability of capital markets, as it reduces information asymmetry and increases the reliability of both financial and non-financial reporting.

Within the empirical study, a logical approach is outlined for examining the relationship between the quality of internal financial control and the performance of a specific economic group in Bulgaria. The proposed **Internal Financial Control Quality Index**, constructed by combining qualitative and quantitative methods, based on the five COSO components and applied to Albena AD and its subsidiaries, enables comparative analysis across group entities and supports the monitoring of dynamics over time. The triangulation of documentary analysis, interviews and publicly available information increases the reliability of the findings and reduces the risk of subjectivity in assessment. Through regression analysis and the use of financial indicators such as profit margin and return on assets, a basis is established for testing the hypothesis that higher internal financial control quality is a prerequisite for improved financial results and greater resilience of the economic group. The results provide grounds to

assume that the quality of internal financial control may be a factor influencing financial outcomes through risk reduction, process optimisation and enhanced transparency.

The empirical assessment of disclosures in a sample of six Bulgarian and two international tourism groups, and the developed **Internal Financial Control and Risk Management Disclosure Index**, reveals certain weaknesses in the reporting of policies and control procedures across the COSO components.

The analysis of internal financial control within the Albena AD economic group presents a range of control procedures and practices applied by the parent company in the process of implementing harmonised policies and control mechanisms across the group. Specific weaknesses are also identified and recommendations for improving the control process are proposed. ESG risks are identified as an integral part of the internal control system, and an illustrative risk register is presented. In order to support a comprehensive and completed process, an internal system for financial management and control for the Albena AD group is also developed.

In conclusion, internal financial control is not merely a matter of formal compliance; it is a corporate governance mechanism within economic groups that enhances the transparency of information presented and disclosed in financial statements, reduces the risk of misstatement, and strengthens confidence in capital markets. The presented methodology, the developed indicators and the **Internal Financial Control Quality Index** establish a practical framework for assessing the control environment and serve as a tool for managerial decision-making, process improvement and strengthening the stability and sustainability of the group in a dynamic and high-risk business environment.

IV. STATEMENT OF CONTRIBUTIONS IN THE DISSERTATION

1. Based on a critical analysis of the specialised academic literature, the specific characteristics of **internal financial control in economic groups** are identified. The theoretical framework of internal financial control is expanded through the integration of a risk-based approach and through substantiating the significance of ESG risks.

2. An **Internal Financial Control and Risk Management Disclosure Index** is developed for purpose of the comparative analysis of economic groups in the tourism sector, based on publicly available information. The index serves as a tool for assessing corporate transparency and for identifying deficiencies in the public disclosure of control policies and procedures.

3. An **Internal Financial Control Quality Index** is developed, structured in accordance with the COSO framework and operationalized through quantitatively measurable indicators. The index enables comparability among companies within an economic group and supports the assessment of the maturity of the control system.

4. The Internal Financial Control Quality Index is empirically applied through an **embedded case study** within the economic group of **Albena AD**. The key components of internal control under the COSO framework are evaluated, control deficiencies are identified, and specific recommendations for system improvement are formulated. Within the scope of the study, ESG risks are integrated as an inherent element of internal financial control, a sample risk register is developed, and a system of financial management and control is proposed, tailored to the role of the parent company in group-level governance and oversight.

5. An empirical test of the relationship between **the quality of internal financial control and financial performance** in the economic group of Albena AD is conducted using statistical data processing and regression analysis. The results provide empirical support for the thesis that internal financial control represents a factor influencing the reliability of consolidated financial reporting, risk management, and investor confidence.

V. LIST OF THE PUBLICATIONS ON THE TOPIC OF THE DISSERTATION

Articles in Journals

Articles

1. Hristova, V. (2025). The interrelation between capital markets and internal financial control: Analysis of regulatory frameworks, empirical evidence, and corporate failures. In: *Economics and Computer Science, "Publishing house knowledge and business"* Varna, Vol. 11 No. 2, 2025, 2, pp. 42-52. ISSN (online) 3033-2362. Available at: <https://eknigibg.net/ojs/index.php/ecs/article/view/31/20>.

Reports

1. Hristova, V. (2019). Applying the COSO-ERM Model in the Management of Environmental, Social, and Governance Risks. In: *Contemporary Problems in Accounting, Analysis, and Audit. Proceedings of the Youth Scientific Conference*, Varna: Nauka i Ikonomika, pp. 521–535. ISBN (online) 978-954-21-1001-9. Available at: https://ue-varna.bg/uploads/filemanager/303/publishing-complex/2019/Accounting_audit_finance_changing_world_2019.pdf.
2. Hristova, V. (2020). Personal Data Protection – A Challenge for Internal Audit: [Electronic Resource]: [CD]. In: *Strategic Directions in the Development of Control Institutions in Bulgaria: Proceedings of a Scientific Conference*, Sofia: UNWE Publishing Complex, pp. 115–122. ISBN (online) 978-619-232-277-9. Available at: <http://booksinprint.bg/Publication/Details/d81b407f-0234-4887-a218-d54ffdf42a4>.
3. Hristova, V. (2025). Artificial Intelligence in the Field of Internal Control. In: *Accounting and Control: Traditions and New Challenges in Value Creation and Sustainability: Proceedings of the International Scientific and Practical Conference, April 11, 2025*, Varna: Nauka i Ikonomika, pp. 246–253. ISBN (online) 978-954-21-1203-7. Available at: <https://ue-varna.bg/uploads/filemanager/303/publishing-complex/2025/Accounting-control-2025.pdf>.

VI. DECLARATION FOR ORIGINALITY

I hereby declare that this dissertation is entirely my own original work and that in its creation no other publications and works have been used in violation of their copyright. I further declare that the information provided by me in connection with the procedure for acquiring a scientific degree is authentic and has been prepared in accordance with the requirements of the Development of Academic Staff in the Republic of Bulgaria Act and the Regulations on the Terms and Procedures for Acquiring Scientific Degrees and Occupying Academic Positions at the University of Economics – Varna.