



# Equity control

Plamena Nedyalkova\*

## Introduction

Equity control is an up-to-date issue that is subject to various analyzes, studies and research by different specialists. This control object is specific in terms of its nature and content. Equity control, as a methodology and technology, differs as a control process in the public and non-public (sector), which gives relevance and importance to the study of this important economic object. Therefore, the main **purpose** of this study is to present the methodology and technology of controlling the equity in the non-public (private) sector, fulfilling the following main **tasks**:

1. To present the methods and approaches of controlling the equity in the non-public sector.
2. To present the main problems of internal and external control over equity control.

In order to achieve these goals and objectives, **control over equity** is considered to be a process aimed at determining the condition and change of equity, identifying the causes, prerequisites and factors that give rise to an unlawful change in the equity. Equity control aims to ensure its legality, it is aimed at the proper organization of the processes for its amendment and at regulation with optimal use of control resources, and when establishing some deviations and irregularities, to impose an appropriate system of impact. Equity control is a specific type of control, as well as a specific type of control is the production of production, „production by means of nanotechnological materials and articles“ (Nedyalkova, 2018).

This study presents the technology of controlling the equity for non-public (private) enterprises, the technology being considered from the position of internal and external control, as types of control determined according to the affiliation of the control body with the control object. The technology of controlling the equity is determined

not only by the type of financial control but also by the stages of the control process, the scope and objectives of the control body (i.e. the control body) that is engaged in the implementation of the control process. In today's globalization processes, the issue of payment of share contributions by partners is increasingly relevant and up-to-date, given that modern „transactions are carried out without an intermediary and control by regulatory bodies such as banks, because the trade in cryptocurrencies is decentralized“ (Yaneva, 2019).

## 1. Equity control technology for non-public sector entities

The technology of controlling the equity is primarily determined by the nature of the object, according to the specifics of the enterprise and the chosen accounting base according to which the equity changes. In non-public (private) sector entities that apply the *National Accounting Standards* as an accounting base, **equity** as an **accounting object** consists of the following sub-items: *reported capital, emission premiums, reserve from subsequent assessments, reserves, accumulated profit (loss) from the past years and current profit (loss)*. Companies that apply *International Accounting Standards* as their accounting base, **their equity**, as an accounting object, includes: Share capital, ie. the so-called registered capital; Reserves; Retained earnings (uncovered loss); Other components of equity, such as treasury shares; Equity components relating to an asset or group of assets held for sale, as well as the non-controlling interest of the company should be presented when preparing the financial statements in the structure of the equity. According to IAS 1, the financial result of the current year should not be presented in the statement of the operations in the equity structure, since "profit and loss is the total amount of revenue minus expenses, excluding the other components of the statement of other comprehensive income". Hence, due to the different nature and understanding of the content side of the individual equity components under the two normative acts, namely NAS 1 (National Accounting Standard 1) and IAS 1 (International Accounting Standard 1), these acts create the prerequisite for the control technology and the control methodology to be considered separately

\* Chief Assistant Plamena Nedyalkova, PhD  
Department of Accounting  
University of Economics - Varna

due to the regulatory differences of the main constituent elements of the equity.

Therefore, with reference to FIG. 1, the control technology in non-public sector enterprises can be conceptually presented, namely:

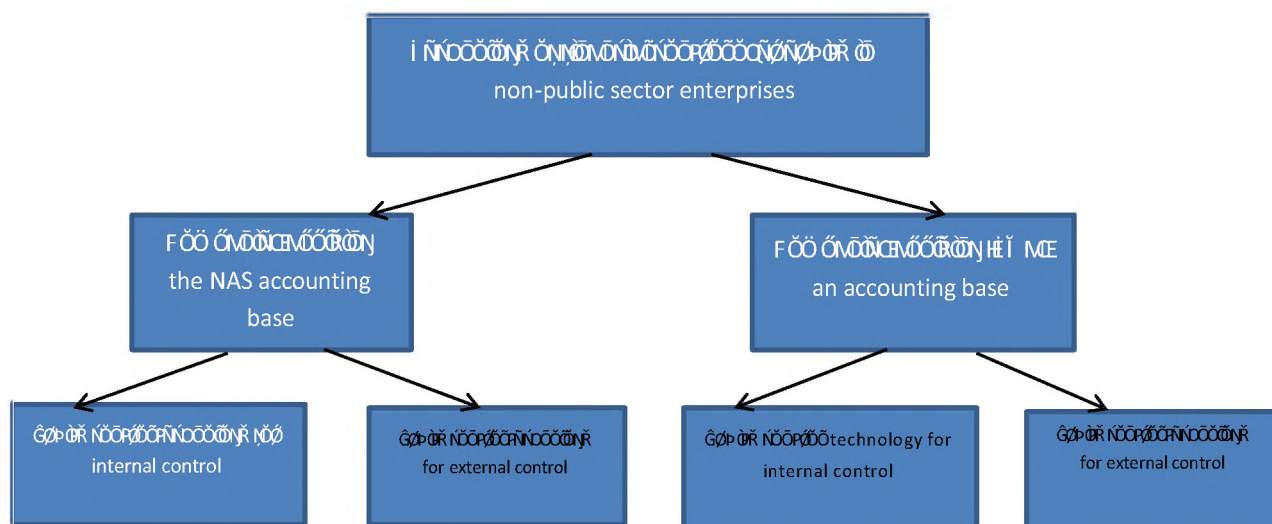


Fig. 1. Technology of financial control over equity in non-public sector enterprises

### 1.1 Theoretical concepts on the technology of internal financial control over equity for non-public (private) enterprises

In the internal financial control, the technology of controlling own funds is very dependent and determined by the scope and purpose of control. Also, in some companies, due to financial constraints, the control department is composed of a minimum number of control persons. For this reason, additional tasks, having the character of management tasks, may be included in the scope of the internal control process.

**Controlling** is accepted as a company's management tool. It is aimed at “company management, focused on optimal use of resources and effective development of the company in the long run. With the help of controlling, *corporate goals are achieved through the complex integration of a system for information-analytical and methodological provision of management in the process of planning, control, analysis and decision-making*“ (Hadjieva, 2016).

Equity control is an issue that affects the overall management of the company. Whether management is qualitative or of poor quality, this is most strongly seen in the condition and change in

the constituent components of the equity, i.e. it has an impact on the status and change in the registered capital, reserves, emission premiums and the financial result. When the change in these elements of equity is of considerable magnitude, dynamically changing from one extreme to the other extreme (i.e. from positive values to negative or vice versa), in case of changes occurring outside the ones previously determined for the company, it is respectively accepted that these changes are due to poor and incorrect management. Therefore, here comes the link between controlling, management and control, as a function of management, i.e.:

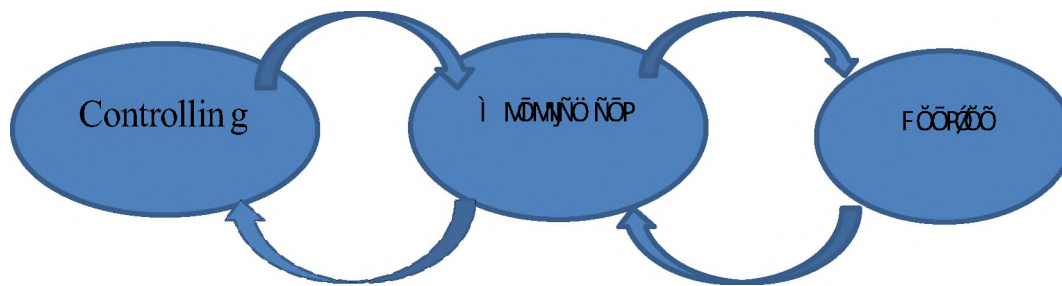


Fig. 2 Presentation of informational and methodological assurance between controlling, management and control as a function of management

Based on FIG. 2, a very important and substantial clarification should be made that the control of an object will be influenced directly by the effects of the management, on the one hand, and indirectly by the actions of the controlling, that supports the respective management. Therefore, in specific companies, this impact may be more clearly revealed, and in other enterprises, respectively, such a strong dependence may not be observed. The more established the controlling in a company is, the bigger manifestation and impact it will have on the control process itself and on the control technology itself.

**The common equity control technology**, which affects all equity constituents of all non-public sector companies (i.e, both IAS / IFRS applying entities), runs through the approved stages of the control cycle, applying at all stages the means and methods of the financial control in order to achieve the pre-determined control objectives. The combination of means and methods represents the method of internal financial control over equity.

The control technology is a set of methods, approaches, tools, and techniques for performing specific activities to achieve ultimate control results. From a theoretical point of view, when it comes to the financial control technology, a distinction should be made between **the methods of financial control over specific objects** (in this case the equity) and **the methods determined for the course of the financial control cycle**. The methods of financial control over specific objects relate to the type of the controlled object. The main purpose of **the methods of financial control over the specific object** is focused on the direction of impact over the controlled object. **The methods of the financial control cycle** are directed to the respective stages, to the corresponding actions and procedures during

which the control cycle goes. Their content refers to the rules for formulating control objectives and tasks, the rules for deriving final control decisions, the ways of performing the common control functions, the general rules for the control actions, etc.

*The methods of controlling the equity depend on:*

1. The control environment in which the internal financial control is carried out.
2. The timing of internal financial control.
3. The substantive activity of the company itself.
4. The information security of the controllers exercising internal financial control over the object-equity.
5. The technical security of the controllers who carry out the internal financial control.
6. The professional competence and professional knowledge of the controllers.

**In practice, the following methods of internal financial control over equity are approved:**

1. **Methods aimed at detecting frauds and errors in the determination and modification of equity.** The methods present the fraud and error detection approaches that are accepted by the company itself, thereby revealing the external factors and the external prerequisites for their occurrence and manifestation. Concerning internal financial control, when the methods are applied by the internal control persons, their application is more comprehensive. The control persons are much better informed by the external control persons as they are familiar with the activity of the company. They are much better informed by the external control persons about the respective control





situation and the control environment, which makes the application of the methods in the internal financial control effective. The methods for detecting fraud and error are:

- *Strategic methods* – these methods address the elements of fraud, the potential perpetrator, and the strategy chosen by the fraudster. These methods include: training and research, modeling, deductive and inductive approaches, hypothesis creation and testing.

- *System methods* – systematic methods are directed to the activity of the company. These methods are relatively reliable and are often applied in the control practice and in controlling the equity, as the final result of the activity of the company is reflected in the equity and in its element - the financial result. The systematic approach can be applied by both internal and external control persons, such as independent experts, investigators, registered auditors, etc.

- *Technological methods* – The technological methods are relatively new control methods due to the introduction of continuously new innovations and technologies in the control practice. According to D.Dinev, "the technological methods include numbers tests; horizontal, vertical and trend analysis; analysis of tendencies, etc" (Dinev, 2012).

- *Inductive and deductive methods* – In the inductive methods, the control procedures start from the observations of the respective object and lead to generalizations and conclusions. This is the so-called „top-downwards” approach and involves looking for common or unusual cases. The application of the inductive methods is not documented in the control practice. For example, the formulation of hypotheses, i.e. the control process' assumptions or sub-theses, is not described by the controllers, since they contain a lot of uncertain, unstated conditions and unverified information. The conjectures in question remain for the controlling person himself, he or she should, during the whole control process, carry out the assigned control tasks, as they should be clearly and correctly formulated.

*Deductive methods* – these are methods that can help small businesses and organizations to counter fraud and abuse without exceeding their budget or technological resources. These methods include data extraction and analysis, digital analysis

and sampling. Based on this method, deductive conclusions are deduced from the so-called control process. In many cases, this conclusion is based on assumptions, which is why these methods are not used alone in practice but in combination with the inductive methods. This gives a more accurate picture of the controlled object accordingly.

- *Quantitative and descriptive methods* – through the quantitative methods, a number of questions are answered, but in terms of scrutiny aimed at the search for fraud and abuse, they answer the question: how often are violations, frauds and abuses committed. The descriptive methods describe or explain the causes and prerequisites for fraud and abuse.

**2. Methods aimed at discovering the risks of changes in equity** – The methods are regulated in various normative acts, such as *International Standards on Auditing (ISA) 330 Audit Procedures for Responding to Risk Assessments, ISA 315 Understanding the Company and its Environment, and assessing the risks of significant inaccuracies, deviations and nonconformities*, etc. International auditing standards are applied by external control persons (auditors) for the company, the methodology described therein will be discussed in more detail in the following parts of the study when presenting the technology of equity control in external control. From the internal control's point of view, each company should have some established internal control rules and procedures to follow them during the control process. In **internal control, methods** aimed at discovering the risks of changes in equity are:

2.1 *A method aimed at detecting risks of material deviations from changes in equity* – The purpose of the method is to determine whether this change is the result of speculative investment and speculative activities. The method does not affect only the equity of the company as an approach but also affects other objects of the company, since the investment process is a set of activities through which investments are transformed into tangible material form and / or financial result. The method identifies risks from the perspective of the entity's objectives, the determination of acceptable levels of risk and the determination of residual risks, by determining the adequacy and effectiveness of the



approved control procedures.

**2.2 A method aimed at detecting the expected risks of a change in equity** – The method is one of the most easily applicable in the control practice, as it is based on monitoring. The risks that are found through this method are those probable, foreseeable and predetermined risks that occur when the equity balance changes. For example, such an expected risk is the risk of a change in the cost of equity.

**2.3 A method aimed at detecting unexpected risks of a change in equity** – the method reveals those risks that are difficult to foresee for the change in equity. The model is based on analysis, inspection, testing and foreseeing. The contingencies are those that could not have been foreseen by the company itself. The internal control seeks, in advance, with its available information to anticipate and identify these risks, but there are cases where unforeseen events occur despite the impact of controls.

**3. Methods aimed at controlling the financial result** – The financial result is a specific control object in terms of its dynamic variability. This dynamic implies the use of specific internal control methods such as comparison, analysis, synthesis, references, etc“ (Dineva, 2014). The control over the financial result applies the method of analysis, which is also accepted as a means of control since based on it the result of the control activity is deduced. The internal control persons may, with sufficient available information, control the operating (current) financial result - profit or loss; accounting financial result<sup>1</sup> ; tax financial result<sup>2</sup> and post-tax financial result.

**4. Methods aimed at controlling the reserves** – Reserve control involves the use of specific control methods because of the different types of

reserves that may be created by the company's activities. For example, the following methods are applied in *the internal control of legal reserves: survey, monitoring, analysis and forecasting.*

***In addition to research, monitoring, analysis, forecasting, the methods of systematic control apply to the internal control over the reserves related to treasury shares.*** The methods of systematic control follow the pre-selected control strategy. In this case, the control strategy is the optimal use of the company's resources and minimizing the negative effect and costs for the company of the redemption of the shares. In the case of joint-stock companies, to achieve the efficiency of internal financial control, it should start to have an impact, even while making a management decision to repurchase their own shares. The timing of the redemption should be correctly determined, as this decision reduces the company's share capital.

**5. Methods aimed at controlling emission premiums** – the internal control over emission premiums also affects this object as an element of equity. For this reason, all the established methods that apply to the internal control over other elements apply to the control of emission premiums.

In the case of internal equity control, the application of the respective methods is at the discretion of the controlling persons, the methods can be applied both combined (jointly) and each method can be applied independently. In the individual application of the respective method, the results of the control process will depend and be determined according to the impact of the method. For this reason, in the control of equity, it is advisable to apply all the established methods in practice, since the proposed impact system will be more effective and cover more of the identified problems of the controlled object.

The method, therefore, answers the question of how to carry out the control, while the control approach determines the direction of the control actions, revealing their purpose. So the approach is determined first and then the method. In the internal financial control over equity, the following basic approaches have been put into practice:

**1. The “top-downwards” approach** - in this approach, control follows the hierarchical structure of the company, aiming at controlling the

<sup>1</sup> Tax financial result is the accounting financial result transformed under the CITA (Corporate Income Tax Act), Art. 18 CITA, issued in Official Gazette issue 111/27 Dec.2019; changed in issue 96/6 Dec.2019; changed in issue 110/27<sup>th</sup> Dec.2019; changed in issue 111/27<sup>th</sup> Dec.2019 ; changed in issue 102/31 Dec.2019; ; changed in issue 18/28th February 2020

<sup>2</sup> Tax financial result is the accounting financial result transformed under the CITA (Corporate Income Tax Act), Art. 18 CITA issued in Official Gazette issue 111/27 Dec.2019; changed in issue 96/6 Dec.2019; changed in issue 110/27th Dec.2019; changed in issue 111/27th Dec.2019 ; changed in issue 102/31 Dec.2019; ; changed in issue 18/28th February 2020



performance and the way in which the management decisions are implemented.

**2. The “down-upwards” approach** – in this approach, control actions start from the lowest organizational structural units of the company and reach the highest structures of management levels in it.

**3. The financial approach** – it covers the financial accounting information and its presentation in the financial statements.

Due to the limited nature of this study, we will not focus on other control approaches, but only on the three approaches presented above. Each of these approaches is explored and presented in the following sections of the exposition.

In addition to the strictly defined methods and approaches that are inherent in the internal financial control over equity, the very study of the problem so stated should take into account that ***the technology of the internal control over equity, consistently goes through the stages of the control cycle, and namely: determination of the object of control, determination of the norm of control, determination of the condition of the controlled object, comparison of the norm of control with the established state of the object, determination of deviations and the reasons for them, application of a system of impact.*** In the case of the internal financial control, when there is a detection of irregularities, abuses and deviations from the determined state of the equity, the internal control persons can provide the management of the company with guidance, recommendations, make proposals for improvement of the condition of the controlled object. In this case, the object is equity. The internal control persons should not and must not impose restrictive measures and effects on those found guilty during the control process. This is within the authority of the management of the company, and of all kinds of responsibilities, the management can claim ***disciplinary or pecuniary responsibility*** from the guilty individuals, under the requirements of the Labor Code, since these persons are in employment and legal relations.

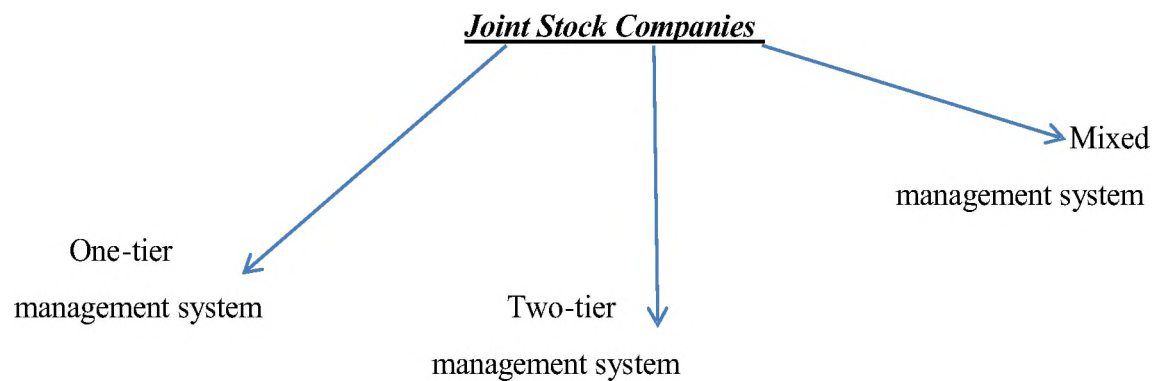
***The internal control process in controlling the equity is not only going through the stages of the control cycle but also is going through the stages that are specific to the company itself, i.e. stages that are characteristic of its organizational***

***structure.*** Also, it is time to point out that it is necessary to distinguish between ***the internal audit procedures*** and ***the internal control procedures of a company.*** The internal audit focuses on process verification, i.e. checking the appropriate actions. While the internal control is aimed at the verification of the objects, the verification of the implementation of management decisions made and helping to achieve the goals of the company, by improving its condition, and by fulfilling its control objectives and tasks. In other words, it can be assumed that the internal audit in the company is a follow-up control and it is within the company's power to verify the implementation of the control process.

### ***1.1 Practical aspects of the technology of the internal financial control for companies from the non-public (private) sector***

In the previous part of the presentation, we presented the theoretical concepts of the internal financial control over equity for non-public (private sector) companies. Using some examples, the following sections of the study present the practical aspects of the technology of the internal financial control over equity. Therefore, the Joint-Stock Companies and Limited Liability Companies are considered as examples. Equity control at the Joint-Stock Companies is more laborious and much more complex than the other commercial companies, including the limited liability companies. This is due to the organizational structure of the companies, which is defined and approved at the very foundation of the company. Commercial Law allows joint-stock companies to have a one-tier, two-tier management system, while in other countries a mixed management system is allowed, i.e.:





**Fig. 3 Degree of management of Joint Stock Companies**

The unified management system includes *a general meeting of the shareholders* and *a board of directors* or *a supervisory board*. The system is widespread in Anglo-Saxon countries. The one-tier management system is regulated in Art. 219 of Commercial Law.

The two-tier system of management is again regulated in Commercial Law. This system consists of *a general meeting, a board of directors or supervisory board and a board of managers*.

In some countries, we can see the so-called mixed management system, for example in France, but in this type of system, priority is given to the one-tier management system.

The "*top-downwards*" control approach of joint-stock companies goes beyond making the appropriate management decisions and ends with the implementation of the relevant decisions, in cases of:

1. Modification of the registered capital of the company by decision of the management of the joint-stock company - inclusion of a new partner or leaving of a partner; change in the capital structure of the company, etc.
2. Decision to issue own shares or bonds.
3. Modification and change in the number of the company's reserves, which come as a result of a management decision;
4. Modification and change of the financial result after taxation, which is the result of a management decision (eg payment of dividends, distribution of profits, coverage of losses from previous years, etc).

The control, when implemented from the **top-downwards**, actually monitors, observes and controls the quality of the management decision taken. According to the statutory powers of the general meeting as defined by the Commercial Law, one of its powers is to increase and decrease the capital of the company, as well as to transform and terminate the company. The general meeting includes the voting shareholders, who attend it in person or through a representative. The general meeting is convened by the Board of Directors, respectively by the Management Board. It may also be convened by the supervisory board, as well as at the request of shareholders who hold shares representing at least 5 percent of the capital for more than three months. Also, the general meeting "approves the annual financial statements after being certified by the nominated registered auditor when an independent financial audit was performed, decides to distribute profits, replenish the Reserve Fund and pay dividends" (Commercial Law, 2019).

The implementation of the decision on the change of equity taken by the general meeting of the joint-stock company affects the other organizational units of the company, such as the legal department, financial and accounting department, etc. In this regard, the internal control is carried out consistently throughout the departments concerned, and may carry out the following **control actions**:

1. It checks the processes and procedures for **authorizing and approving** the change in equity.
2. It controls the implementation of the



**double signature system**, which impedes the assumption of financial obligations or making payments which, if the signatures of the chief accountant of the joint-stock company and the signature of the financial director or the manager are not available.

3. It controls the implementation of **preliminary control** over the achievement of lawful actions by the financial director or the managing director of the joint-stock company.

4. It controls the implementation of **preliminary control** over the achievement of lawful actions by the chief accountant.

5. It controls **the procedures for accurate, exact, complete and timely accounting of business transactions** that affect the change in equity.

6. It performs a **systematic and ongoing check** to document transactions and actions affecting the change in equity.

7. It checks **the reporting process on the status and changes in equity**.

8. It checks **the processes and procedures on return on equity**, using the analysis as a means of control, along with other means and methods of the internal financial control.

9. It checks **the processes for evaluating the efficiency and effectiveness of the operations**.

10. It checks the **decision-making processes for the transformation of the company and the control over the processes for the implementation of the management decision** for transforming the company by merging, division or separation.

In carrying out each of the control activities listed, the internal control receives initial and subsequent information from various information sources. These sources are:

**1. Normative sources of information** - laws, decrees, decrees, regulations, etc.

**2. Planned sources of information** - strategic plans, short-term plans, business plans, etc.

**3. Legal sources of information** – an application for entry of the company in the commercial register; minutes of the constituent meeting; notarized power of attorney, where the persons (partners or shareholders) are prevented from attending the general meeting and are

represented by other persons; a fundraising subscription list; a shareholders' book; a statute of the joint-stock company; a conclusion of experts to assess the non-monetary contributions; a written consent of the depositors with the description of the contribution; a sample of the signatures of the persons who can dispose of the collection account; court decisions regarding incorporation or deregistration, etc.

**4. Accounting sources of information** - the reference for participation in the capital of other companies; financial statements, reports, activity reports, primary accounting documents, secondary accounting documents, accounting records, etc.

**5. Statistical information sources** - statistical reports, statistical inquiries, etc.

The control actions described above represent the current internal control over equity, where **the primary purpose and task of the control is to assist the management in the implementation of the management decisions**. In carrying out the control actions mentioned above, the control persons may identify some current irregularities, current errors, and current abuses in performing the assigned current tasks related to the change in equity. **The control persons, *when detecting current irregular deviations from the permissible status and the permissible change in equity, can counteract currently*** by:

- Indicating to the inspected persons their mistakes and violations
- Providing ongoing guidance on how to eliminate the errors
- Cancelling an incorrectly written document and drafting a new one with the correct content, under the supervision of the control persons. This is done only when the control is carried out in the form of ongoing control; in the case of subsequent control, such actions are unacceptable. In the subsequent control, when the presence of documents with false contents is established, it is considered a violation of the established norms and follow-up actions are taken on the guilty persons.

- The control persons have different powers in the control process, according to their position and their responsibilities. When establishing an unlawful obligation or unlawful expense, by applying the double signature system -





the company's chief accounting officer and/or its financial director/ manager may refuse to sign the documents and thus prevent financial abuse and fraud. The refusal to sign the documents for commitment or expenditure shall be made in writing, shall be explained and recorded in the records of the company.

- The controlling persons may propose to the management of the company to terminate an investment transaction which, according to the initial plans, was in favour of the company, but the implementation of the investment project itself reveals unforeseen risks of unplanned and unforeseen events, which are a prerequisite for significant disturbance of the capital stability of the company.

- In case of violation, the control persons may propose to the management of the company to impose disciplinary accountability and/or property accountability on the guilty people.

- Others:

- The control persons, with sufficient information available, may propose to the management of the company the redemption of the treasury shares in order to regulate the treasury shares in circulation.

- The control persons may propose to the management of the company restructuration, reorganization of departments and units.

- The control persons may offer training programs and qualifications for the staff in identified weak areas and units of the company.

*In the current control of equity, a number of errors, irregularities and deviations can be identified, such as:*

1. Current accounting errors in accounting for documents and transactions relating to equity

2. legal inaccuracies of the information presented in the legal documents - contracts, protocols, agreements, etc.

3. Incorrect and inaccurate compilation of accounting documents

4. Incorrect opening of an escrow account of the company

5. After the registration of the company, the escrow account was not transformed into a current account of the company

6. The estimated non-monetary instalment is incorrect. With the current control, it can be

established that the requirements of Art. 72 of the Commercial Law, have been almost documented, i.e. the company has conclusions of 3 experts, but in a more detailed internal control and investigation it is established that the experts are "related persons" within the meaning of the Tax and Social Security Procedure Code, i.e. they are dependent, not independent persons. In this case, the internal control persons may propose to the management of the company that other persons should conclude the evaluation of the non-monetary instalments.

7. The front side of the shares does not properly show its nominal value. When printing the shares, their nominal value, which is determined by a decision of the shareholders - the founders of the joint-stock company, should be presented in the Articles of the joint-stock company. In exercising current control, in identifying such a problem, it may be required of the BNB Printing House to cancel the printed shares and to print new ones with the new correct denomination, in which case all the documents shall be resubmitted to the BNB Printing House and the costs of the newly printed shares should be paid. In such cases, the control persons may suggest to the management of the company restrictive measures and a system of actions to prevent other similar situations, as well as suggest the demand for disciplinary and/or pecuniary liability from the guilty person.

8. The company transformation procedures were incorrectly implemented - the problems here can be of any kind, from incorrect accounting entries and incorrect drafting of documents, to legal and tax inaccuracies and abuses.

**The "down-upwards" control** approach is applicable to internal control and internal audit, but not to external financial control. This approach applies to the three main forms of control - preventive (preliminary), current and ex-post control. The "down-upwards" approach flows from the lowest units and structures of the company and reaches the highest management structures. It is aimed at:

1. Control of processes and activities.
2. Controlling the implementation of management decisions.
3. Controlling the cooperation between departments and structural units.
4. Controlling the impact and presentation



of data - when multiple employees work on the same projects at the same time, it is possible skewed results and inaccurate long-term decisions to occur.

5. Controlling the implementation of the company's budget policy from the lowest organizational levels to the highest.

6. Monitoring the implementation of pre-approved projects in all structural units.

7. Controlling the fulfillment of the strategic goals and tasks set out in the strategic plans of the company.

The approach thus presented and its scope requires the application of certain methods. The methods used by internal financial control to implement the "down-upwards" approach are:

1. *Methods for maximizing the potential* – In applying the "down-upwards" approach, controllers should identify the strengths and weaknesses of the controlled persons, as well as the strengths and weaknesses of the unit or department concerned. Recognizing the strengths and weaknesses, controllers should determine whether the tasks assigned are right, accurate and appropriate for both the department and the individual. Recognizing the strengths and weaknesses, controllers should determine whether the tasks assigned are right, accurate and appropriate for both the department and the individual.

2. *Quality methods* – these methods give qualitative changes to the object, applying: *expert interviews, extracting secondary data from already processed and analyzed information through various software products, for example SPSS; feedback to all organizational structures and units and implementation of quality management methods* – these methods are aimed at managing products, services or processes in accordance with the relevant quality standards (ISO). Quality management has 3 main components:

- *Quality control* - quality review of all factors during the manufacturing or development process;

- *Provision of quality* - monitoring and evaluation to ensure that quality standards are met;

- *Improvement of quality* – getting better product, service, or process features that are better than their previous state.

3. *Quantitative methods* - the complex internal systems, which are implemented and

validated by the company itself, predispose to the application and use of quantitative methods of internal financial control, namely the investigation and analysis of quantitative information; application of statistical and mathematical methods in control practice, etc.

Based on all of the above, the following conclusions can be made:

1. In internal financial control over equity, different approaches and methods are approved, the choice and application of the most accurate approach and method determine the final result of the control process.

2. In internal financial control over equity, the risks of the changed state of the controlled object can be identified by presenting the development directions of the company by optimizing the inherent risks.

3. Internal financial control over equity is directed at all its building blocks (registered capital, reserves, financial result, emission premiums, etc.). The choice of applying a particular approach is also determined by the particularities of the individual building blocks.

4. Control over equity is dynamic in terms of time and place of implementation, it affects different structural units in the company, which is a prerequisite for the need of complex knowledge and skills on the part of the controlling persons.

### **1. External financial control over equity for non-public (private) companies**

Above, we have outlined the approaches and methods of internal financial control over the equity of non-public (private) companies. Equity, because of its importance for the development of a company and because of its structural features, is subject not only to internal financial control but also to external financial control. Various controlling institutions and persons are empowered to exercise external financial control over the equity of non-public (private) companies, namely:

1. The National Revenue Agency – in terms of tax liabilities, it gives rise to the change in equity.

2. The Registry Agency, which organizes, coordinates and manages the activities of the Registry Office; organizes the work on the creation and maintenance of the Property Register; ensures the connection between the Property Register and



the other registers; creates and maintains a central archive in electronic form of the files of the real estates and the enacted acts with attached documents and ensures the development and technical improvement of the Property Register, the Bulstat Register (national statistic number), the Commercial Register and the Register of the Property Relations of the Spouses.

3. Committee on Financial Supervision of investment intermediaries, investment companies and insurers.

4. Bulgarian National Bank (BNB), which oversees commercial banks in order to maintain good capital adequacy of credit institutions and maintain a certain equity structure.

5. Institute of Certified Public Accountants - certified public accountants and registered auditors

Each of the mentioned controlling institutions has a specific perimeter of impact and scope in controlling the equity, due to the different purposes, objectives and tasks of the controlling institutions. What they all have in common is that they apply two main approaches. The first approach is **the financial approach**. The second approach is **the "outside-inside" approach**. The financial approach treats equity as a financial accounting entity and is aimed at controlling financial information and financial accounting documents. This approach is co-implemented with the "outside-inside" approach, i.e. the control persons first analyze information, data and facts available to them, they analyze the external information, and then, through the appropriate control processes, additional information is needed that is available within the company itself or getting (receiving) such additional information by performing the on-site checks. Such external sources of information are tax returns, financial statements, financial references and information, and more.

One of the main and important controlling bodies exercising external control over equity is the National Revenue Agency (NRA). It can be assumed that these controlling institutions perform direct and indirect control from the moment of establishment of the company until the termination of the company. The NRA also represents the state in commercial bankruptcy cases. The NRA exercises direct control over one of the main

elements of equity, namely tax liabilities on the financial result. According to the NRA data, the total corporate tax revenues of the companies, the income from taxes on dividends and liquidation shares of local and foreign persons, as well as the income from other taxes for 2018, are the following:





**Table 1**  
**Central Budget Revenue<sup>3</sup>**

Revenue	Report 31.12.2017 with unspecified revenue	Plan 2018	Revenue as of 31.12		Implementatio n of the 2018 Plan (with unspecified revenue )	Growth / Drop 2018/2017 (with unspecified revenue )	
			With unspecifie d revenue	Without unspecified revenue		Milli on leva	%
	Million leva	Million leva	Million leva	Million leva	%	Milli on leva	%
1	2	3	4	5	6	7	8
<b>Tax revenue</b>	<b>10 521,8</b>	<b>11 160,5</b>	<b>11 347,0</b>	<b>11 626,0</b>	<b>101,7%</b>	<b>825,2</b>	<b>7,8%</b>
Income tax on individuals, including ST (sole trader)	2 939,0	3 052,4	3 234,9	3 314,4	106,0%	295,9	10,1%
Income tax	2 203,6	2 294,1	2 345,7	2 403,4	102,2%	142,1	6,4%
Dividend tax and liquidation shares of local and foreign companies, persons and income of non-residents	68,4	69,9	87,1	89,2	124,6%	18,7	27,3%
VAT	5 146,1	5 560,0	5 500,2	5 635,5	98,9%	354,1	6,9%
Other taxes	164,7	184,1	179,1	183,5	97,3%	14,4	8,8%

Note: CITA taxes other than corporate tax (including insurance premium tax) are included in Other taxes.

The National Revenue Agency states in its report that corporate tax revenue is generated by:

- annual equalization payments to annual tax returns
- advance payments made by taxable persons who formed tax profit for the previous year
- reimbursed sum for excess corporate tax over annual tax returns
- payments to audit acts and instalments for past years

According to data of the National Revenue Agency, as of 31.12.2018, 337 748 tax returns under Art. 92 of CITA for the financial year 2017, the information on the filed declarations is as follows:

<sup>3</sup> Only part of the information is presented, not all the aggregated and collected information from the NRA



**Table 2**  
**Data from the annual tax declarations filed under Art. 92 of CITA**  
**for the financial year 2017, compared to those for the financial year 2016**

Art. 92 of CITA as of 31.12.2018	2016	2017	2016/2017	
	(million leva)	(million leva)	%	(million leva)
Total revenue	333 135	335 990	0,9	2 855
Total costs	316 532	314 805	-0,5	-1 727
<b>Financial result</b>				
positive	23 487	26 784	14,0	3 297
negative	7 624	6 598	-13,5	-1 026
Accounting profit	24 236	27 822	14,8	3 585
Tax profit	20 273	22 800	12,5	2 528
Tax loss	5 925	5 195	-12,3	-731
Accrued corporate tax	2 027	2 280	12,5	253
Difference for payment	761	858	12,7	97
Excess tax	80	117	45,1	36
<b>Number of declarations</b>	<b>322 381</b>	<b>337 748</b>	<b>4,8</b>	<b>15 367</b>



**Table 3**  
**Corporate tax revenue structure by type of payments**

Type of payment	As of 31.12.2017	As of 31.12.2018	Change %	2018/2017 (million leva )
Payment of annual tax return	675,1	777,0	15,1	101,9
Payment of advance payments	1 337,9	1 414,8	5,7	76,9
Payment of audit acts	24,7	40,4	63,6	15,7
Payment of interests	20,3	26,1	28,6	5,8
Payment of corporate tax for previous years	176,5	131,9	-25,3	-44,6
Corporate tax refunded and deducted	30,9	44,5	44,0	13,6
<b>Total</b>	<b>2 203,6</b>	<b>2 345,7</b>	<b>6,4</b>	<b>142,1</b>

The National Revenue Agency, as an institution whose main control activity is aimed at controlling tax liabilities and collecting revenues for the central budget of the country, controls both non-financial corporations and financial corporations. The control of the equity is performed by the NRA through the approved control procedures for tax audits and audits for each individual element of the equity. According to the Corporate Income Tax Act (CITA), it is regulated that corporate tax is levied on the following:

- the profit of the local legal entities
- the profit of non-merchant local legal entities, including religious organizations, from transactions under Article 1 of the Commercial Law, as well as from the rental of movable and immovable property
- the profit of foreign legal entities from a place of business in the Republic of Bulgaria
- profit from the activities of certain gambling organizers

As the NRA considers only one aspect of the elements of equity, namely **the tax financial result** (Corporate Income Tax Act, 2020) for tax purposes in order to determine the tax liability - corporate tax, it can be assumed that this external control is

organic in scope and impact. Generally, this thesis is validated in the Anglo-Saxon control system, where there are established institutions exercising quality control over the accounting information presented in the financial statements and tax control exercised by the tax administration. In our supervisory practice, there are actually no controlling institutions within the executive branch that have purely accounting controls over compliance with accounting laws. The problem of the NRA, as a controlling institution, is that it is directly or indirectly responsible for being a controlling institution that oversees the implementation and enforcement of tax laws, as well as the compliance with the accounting laws. The legislator has achieved this through various legal mechanisms, as in Art. 18 of the CITA states that the tax financial result is the accounting financial result, transformed according to the procedure of this law; the positive tax financial result is tax profit, and the negative tax financial result is tax loss. Additionally, Art. 22 of the Corporate Income Tax Act specifies that the tax financial result is determined by transforming the accounting financial result in the order and manner specified in this law, with tax permanent differences and tax temporary differences. This further





clarification regarding the determination of the tax financial result, based on the transformation of the accounting financial result, is a control action over the accounting financial result, in accordance with the powers of the National Revenue Agency.

Based on all the above, the following main conclusions can be drawn:

1. Equity control is specific in terms of the variety of ways to change it. This also leads to difficulties in the scope of this control object in terms of internal and external control.

2. The application of different approaches and methods by the internal control persons is aimed at achieving greater accuracy and precision in making control decisions and presenting prescriptions for improving the activity of the company.

3. External control institutions apply different control procedures for controlling their own capital - revisions, checks, audits, inspections, etc. The main approaches that are common to all external control institutions are the financial approach and the "outside-inside" approach.

### **References:**

1. *Tax and Social Security Procedure Code* – Official Gazette issue 105/29 December 2005... changed and sup. in issue 102/31 December 2019; changed and sup. in issue 18/28 February 2020

2. *Corporate Income Tax Act* - Art. 18 CITA issued in Official Gazette issue 111/27 Dec.2019; changed in issue 96/6 Dec.2019; changed in issue 110/27th Dec.2019; changed in issue 111/27th Dec.2019 ; changed in issue 102/31 Dec.2019; ; changed in issue 18/28th February 2020

3. *Commercial Law* - Official Gazette issue 48/18 June 1991... changed and sup. in issue 33/19 April 2019; changed and sup. in issue 83/22 October 2019

4. *Annual Activity Report of the National Revenue Agency 2018*

5. Dineva, V., *Methodological Aspects of Internal Audit*, Sofia, 2014, p. 35

6. Dinev, D., *Economic fraud*, The Institute of Expert Fraud Examiners, 2012, p. 39

7. Nedyalkova, P. Features, Characteristics and Methodology of Internal Control over Nanotech Manufacturing and Nano-Production in Food Industry. *Economic Studies [Икономически изследвания]*, Sofia : Economic Research Institute. Bulgarian Academy of Sciences, 27, 2018, 3, pp.157 - 189.

8. Yaneva, M. Analysis of market trends of cryptocurrencies. *Economics and management: start-up scientific researches by PhD students*, Faber, Veliko Tarnovo, 2019, p. 180

9. Hadjieva, V., *Controlling concept*, New Bulgarian University Publishing House, 2016, p. 18