

Theoretical and Practical Problems Related to the Audit, Control and Supervision System of Local Governments. (Based on the Case of the Estonia)

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Abstract

The aim of this article is to describe the current model of local governments' audit, control and supervision system of the Republic of Estonia, perform critical analyse of existing audit, control and supervision system in Estonia and propose foundational principles for developing an optimal model of an audit, control and supervision system of local government suitable not only for the Estonia. Author is of concluding opinion that does exist a possibility to design, arrange and maintain theoretically well founded and practically reasonably functioning integral and coherent audit, control and supervision system, but does not exist possibility to offer uniform, standard solution fitting to the municipal sector in general, because different models do apply to huge, big, middle-sized, small and tiny municipalities. Author presents six principles that should form a general philosophical basis for designing of an optimal model of audit, control and supervision system of municipalities, for developing solution that is scientifically justified, as well as appropriate for implementing and functional in real life. The broader meaning of this article is that ideas proposed by author are relevant as well for other countries that have a similar to the Estonia level of development of society and democracy and where municipalities are with very different size or where rather do dominate considerably small units than large ones.

Keywords: Audit, Control, Estonia, Internal Audit, Internal Control, Local Government, Supervision.

An Introduction

The aim of this article is to describe the current model of local governments' audit, control and supervision (hereinafter jointly referred to as ACS) system of the Republic of Estonia, to perform critical analyse of existing ACS system (hereinafter referred to as ACSS) in the Estonia and propose foundational principles for develop of an optimal

model of the ACSS of local government (hereinafter referred to as LOG) sector suitable not only for the Estonia.

The ACSS of LOG in the Republic of Estonia constitutes a commendable and interesting object of study, mainly due to the fact that a great majority of the Estonia's LOG units are small in every aspect: number of residents, size of territory, financial resources, natural resources and qualified experts. This is one of the reasons why the challenge facing the researcher — to find solutions which would be both theoretically appropriate and applica-

¹ Author is using terms "internal audit" as defined by the IIA (IIA 2004) and "internal control" as defined by the COSO (COSO 2001).

ble in real life as well - is considerably bigger, than it would be in the case of very large and large municipalities. The novelty of the present research lies in the author's attempt to "draw a map on a *tabula rasa*" in a new paradigm. Currently there is no scientific knowledge or certainty regarding the functionality of the ACSS of LOG in the Estonia. Unfortunately, this is not an exception but rather a rule. (Raudjarv 2006, 374) As of today, it has not been scientifically ascertained how well-functioning the ACSS of LOG in the Estonia really is. There is no scientific proof affirming that audit, control and supervision form an integral whole and that this whole is in compliance with values and principles of a modern society and generally recognised core values of democracy.

Author performed research based on qualitative approach of methodology and used qualitative methods of collecting, processing and interpreting data. Author is of opinion that qualitative approach and methods are relevant for solving main problem of this particular research. Author performed structural and non-structural search of relevant theoretical publications and different other sources of information and data (laws and other legal norms, standards, official documents, verbatim reports of constitutional institutions, academic dissertations, websites of international organizations and public journals and newspapers), validated information, analysed and synthesised collected information. Selected out sources of information were qualitatively analyzed by the aspects of semantics and content.

Current article consist 4 chapters: A Broader Context, An Overview and Critics of the Present model of the ACS of LOG in the Estonia, General Philosophical Basis and the Principles Underlying Research of the ACSS of LOG and the Development of Functional Solutions and Conclusions and Closing Remarks.

1. A Broader Context

The foundations of the Estonia's present-day

LOG sector were established after the re-independence of the Estonia. Local government in the Estonia had constituted a significant part of administrative arrangement before Soviet era as well, but a new system had to be established rather than the old one restored, as the interim centralised regime had brought about thorough reorganisations. Parliament of the Estonia the *Riigikogu* ratified the European Charter of Local Self-Government on 28.09.1994. (RTII, 01.01.1994, 95) Since that the Estonia does have its own set of LOG principles matching with core principles of local governments in other states of Europe. It is important to admit that in the case of Estonia, the foundations of LOG and administrative arrangement do not differ substantially from the principles of the "European Charter of Local Self-Government" (CE). However, there are differences in how these principles are actually implemented. The legal acts regulating the affairs of local government are unsystematic, sometimes even contradictory, and often declarative. (Mäeltsemees 1994) The state refers obligations to local authorities that are not covered by the necessary finances. (Maeltsemees 1994) It is unbelievable, but the situation has so far not much changed over fifteen years.

After the adoption of the Local Government Organisation Act on 02.06.1993 (RT I 1993, 37, 558) the Estonia does have a one-level LOG system. There are no representative bodies elected by residents at the regional level and county governments were given the status of state authorities. The internal organisation is based on two major institutions: a council and a government. (RT I 2006, 32, 244) The main task of a council is to adopt decisions regarding important aspects of local life, administer the development of the LOG, exercise control over the activities of the LOG, and adopt the budget of the rural municipality or the town. A government, on the other hand, is mainly responsible for performing day-to-day tasks. (RT 12006, 32, 244)

Estonia's local governments are characterised by small population (in 70% of the local governments the number of residents is

up to 5,000) and low population density (the average population density 12 people per square kilometre). (Suur 2006) The average surface area of local governments is 180 km². (Suur 2006) 90% of Estonia's local governments are extremely small for finding and maintaining well-qualified accountants, information technologists, lawyers, and other specialists. (Oviir 2006)

The volume of local governments' consolidated assets amounted to 42 billion kroons, liabilities to 8 billion kroons, and net assets to 34 billion kroons as at the end of the year 2005. The total consolidated net gain constituted 1 billion kroons (2005). (Soerd 2006) The average budget size is 15 million Estonian kroons (1 EUR = 15,6 EEK). (Suur 2006) A major share of income of the Estonia's LOG sector is formed by the income tax paid by resident natural persons. Local governments are allowed to impose local taxes. Local taxes are sales tax, boat tax, advertisement tax, road and street closure tax, motor vehicle tax, animal tax, entertainment tax, parking charge, (RTI 2004,45,319) but such taxes are with minor importance of the revenue. In general, local taxes are not relevant sources of income for LOG units. A national regional policy is still lacking, and the central government bodies pay too little attention to rural problems. (Maeltsemees 1994) From year to year, more tasks and functions are enjoined on local governments, but there has never been enough money to fulfil them. (Pelisaar 2004) Without any further comments, it is clear that in a situation where the number of tasks is growing but the funds needed to perform those tasks are decreasing, the role of the ACSS is becoming increasingly more important, whereas less and less attention is being paid to it. (Johanson 2002, 2004) The State Audit Office (hereinafter referred to as SAO) has clearly pointed out one of the reasons behind the problems, stating that "*Smaller local governments are facing the difficulty of being unable to guarantee the required level of administrative functions due to their small budget*" (Oviir 2006, 8)² Thus, the Estonian LOG sector depends to a great extent on political decisions of each budgetary year

of the sitting Parliament and the State Government. Getting a yearly revenue support grant from the state has been like a bad bargain for local authorities, although the grant should be clearly defined as a definite percentage of the state budget for a certain period. (Maeltsemees 1994) So far there are neither further researches made into this subject, nor appropriate solutions offered. The problem might be that, even if possible solution has been sought, that has been done in a wrong paradigm.

During the time of writing this article, but also earlier, the people of Estonia (citizens, taxpayers) are lacking legitimate possibilities to control the activities of the politicians they have elected and of the officials appointed by those politicians, and they have no considerable influence on the decisions adopted by the latter.³ Why? First of all, politicians stop being controlled by people immediately after elections, as coalition governments appoint members of controlling bodies only from among politically and professionally loyal persons; those performing supervisory functions are more often under the influence of the political forces forming the coalition, and the persons being subject to audit (i.e., politicians, officials) are often those commissioning the audit. Second of all, on the state level, the political leaders belonging to the government coalition channel the execution of power into a coalition council, which is not provided by the constitution. (KL 2005) The coalition council issues political guidelines to both the legislative power the Riigikogu and

² As one of the possible approaches to alleviate the problem, the author supports a suggestion made by the SAO, according to which "the Ministry of Finance should support those local governments wishing to centralise their accounting, change their accounting programmes, and reorganise their accounting by providing them with knowledge, instructions, and ready-made solutions. County governments could serve as centres ready to offer accounting and reporting services to smaller local governments." The field of accounting and reporting is a very significant, but still a small sphere in promoting the administrative capacity of the entire public administration, achieving meaningful activities, and ensuring the welfare of members of the society. The question is what is the most optimal way to do this?

³ See also Kekic 2006

the executive power the Government of the Republic. This means the leadership of the state is in the hands of few people who provide guidelines to the legislative power and the executive power as well and the legislative body does not have possibility to perform political control over the executive body. This means the role of the majority of members of the Riigikogu is mostly to follow orders.

Hopefully reader is now more able to grasp the subject of this article, to comprehend the ideas of the author and to shape their opinions and conclusions on the topic.

2. An Overview and Critics of the Present model of the ACS of LOG in the Estonia

A superficial examination may give one the impression that the ACS of LOG units in the Estonia is of sufficient coverage, well-functioning, and ensures the prevention or management of essential risks. ACS performance from the state level is done by different constitutional and governmental institutes. The Chancellor of Justice (RTI 2005, 31, 230; RT I 2006, 7, 42) and county governors (RT I 2005, 31, 230; RT I 2006, 14, 111) exercise supervision over LOG. The Minister of Regional Affairs and the Ministry of Internal Affairs (RT I 2006, 14, 111) exercise supervision over certain aspects of the activities of LOG. Partial economic control is performed by the SAO (RT I 2005, 32, 235). Projects funded from the financing sources of the European Union are audited by an authorised auditor appointed by an authorised body of the European Union, (RT I 2006, 7, 42) but also by the SAO, (RT I 2005, 32, 235, RT I 2006, 25, 190) the Ministry of Finance (RT I 2006, 7, 42; RT I 2006, 25, 190) and the Ministry of Internal Affairs (RT I 2006, 25, 190). The State Archivist executes archival supervision. (RT I 2004, 28, 188) The foundation Environmental Investment Centre is responsible for controlling the expedient use of the funds channelled to local governments via environmental investment projects that are financed by the money gained from the usage

of environment. (RT I 2005, 67, 512) As a functional transfer or arising from law, independent legitimacy, regularity, compliance, performance or financial audit is conducted by a private auditor. (RT I 2003, 88, 588; RT I 2005, 61, 478)

Political control over local governments is performed by local government authorities via the audit committee of a rural municipality or city council. (RT I 2005, 31, 230). The audit committee of LOG monitors the conformity of the activities of a rural municipality or city government with the council's regulations and resolutions; the accuracy of accounting of rural municipality or city administrative agencies and agencies under the administration of a rural municipality or city administrative agencies, and the purposeful use of rural municipality or city funds; the timely collection and registering of revenue and the conformity of expenditure with the budget of a rural municipality or city; the performance of contracts concluded by a rural municipality or city; the lawfulness and purposefulness of the activities of the rural municipality or city government and the agencies thereof. (*Ibid*) In the capital city Tallinn, internal audit of administrative agencies is performed by the city's internal audit unit - the internal audit service. In the institutions administered by the administrative agencies of the city, internal audit is organised by the respective institution. For that purpose, the head of each institution appoints a respective person to do it or forms a structural unit therefore, if necessary. (RT I 2005, 61, 478) The list of auditing, controlling, supervising and assessing authorities is long, but not exhaustive in this article. At this point, is not difficult to imagine a depressing picture of an endless army of auditors, controllers, supervisors and assessors pestering "poor" LOG units. The notional picture can be easily elaborated into an image of pointless red tape, overregulation and excessive control. This is true in some aspects, on certain fields of activity of the LOG and at the very particular moment. However, the question is whether that virtual picture is factual situation as well in Estonia?

Let us treat the legal facts presented above as one pole of the whole (it is not important at the moment whether it is the negative or positive one) and the following real-life facts as the other pole. Supervision by the Chancellor of Justice (hereinafter the CJ) is restricted to reviewing legislation of general application of local governments for conformity with the Constitution of the Republic of Estonia (hereinafter the Constitution) and the Acts of the Republic of Estonia. The CJ verifies whether agencies under supervision adhere to the principles of observance of the fundamental rights and freedoms and principles of sound administration but also the application of the principles of equality and equal treatment. (RT I 2006, 7, 42) Supervision done by the CJ is often based on a single complaint, although the CJ does perform also independent systemic risk-based supervision. Supervision by the county governor over the local government is only supervision over the legitimacy of individual acts adopted by the councils and governments of the local government units of the given county, and, in the cases and to the extent provided by law, also over the legitimacy, purposefulness (RT I 2004, 89, 605) and expediency (RT I 2006, 14, 111) of using the state assets in use by local government units, but not over the expediency, efficiency and effectiveness of activities and financing. The actual administrative capacity of the county governor in supervising the lawfulness of local government activities is often unsystematic, eclectic and insufficient. County governor may also be not objective and politically biased, as the posts of county governors are being allocated according to political affiliation or other political reasons and one's competence has become of secondary importance. The SAO may assess the legitimacy of internal control, financial management, financial accounting and financial statements audited; the legitimacy of economic activities, including economic transactions and the reliability of information technology systems, but not the efficiency of management, organisation and operations. (RT I 2005, 32, 235) Also the SAO's resources for performing audits of LOG units are very limited and audits

performed by the SAO are risk-based. That means the auditing of a LOG unit or an activity or issue of a LOG unit takes place once in 3 to 5 years. In its essence, the audits performed by the SAO are rather superficial. They do not go very deep into problems and reasons behind these problems. The Ministry of Finance exercises supervision, audits, controls and reviews foreign aid related funds and those allocated for specific purposes and the purposeful and lawful usage of the assistance granted, (RT I 2006, 7, 42) but its capability in performing those tasks is restricted due to limited resources. (Metsalu 2006, 3) The purchased-sold audit services in the form of outsourcing are affected concerning their temporal and content-related scope and the main issues treated, and largely dependent on the customer of the services as regards the expected result. The sole competence of a LOG unit council includes the appointment of auditors (RT I 2005, 31, 230) and establishment and termination of activities of council commissions, including the internal audit committee, election of chairmen and deputy chairmen for these commissions among council members and approval of membership of the commissions. (*Ibid*) Situations, where a council does consist of representatives of only one political party or interest group, whose fellow party men or interest group members are members of city or rural municipality council, are not rare. In general, the activities of the internal audit commission of a LOG unit's council in reviewing the operation of local government authorities and institutions administered by them are, in a way, in both objective and subjective situation of a conflict of interests, as internal audit committees are usually appointed by the political powers in office. (Metsalu 2006, 2) Even more, an internal audit service, even if any does exist, of LOG is in both objective and subjective situation of a conflict of interests, as their activities are directly steered by the will of the political powers in office via a local council or government. These facts are only minor facts in number, but very essential and expressive facts in matter. Thus, auditing, controlling and supervising authorities do not

cover all substantial spheres, activities, regions and LOG units with the same intensity, scope and regularity. One can conclude that activities of the ACS authorities are not systematic, but rather performed fragmentary and by mosaic way; proportions between audit, control and supervision activities could be not optimal and overall is existing real risk that some fields, activities and/or LOG units are under excessive "sight" of state, some of them entirely out of "sight".

In the context of social sciences, state theory and public management primary issues are not inputs, subjects, processes, systems and outputs, but first of all outcomes and impacts. At the level of outcome and impact one can recognise that internal control over LOG units is weak; (Kõrge 2006, 18) control systems and internal control systems are ineffective or inefficient; (Metsalu 2006, 2; Kõrge 2006, 20,21) smaller local government units lack functioning internal control systems; (Oviir 2006, 46) the extensive backwardness of accounting compared to the public sector units (ministries, larger local governments, etc) and insufficient level of accounting in those units; (*Ibid*, 8) in several cases, the internal audit committee had failed to perform the objectives provided by law and its role was mainly formal; (*Ibid*, 46) LOG funds received are not used for specific purposes; (*Ibid*, 25) the current LOG control systems do not make sure that only those receive subsistence benefits who are really destitute; (*Ibid*, 42) audited local governments were lacking a comprehensive overview of their assets and value thereof; budgetary funds were used not only for designated purposes and when needs changed, the budget was not accordingly upgraded. (*Ibid*, 47) The SAO does co-operate with the Government of the Republic in order to improve the internal control system and internal audit function of government authorities and state authorities administered by government authorities, but the Government of the Republic has no solutions for preventing local governments from encountering solvency problems, for dealing with such local governments that have already encountered financial difficulties, and for organising

financial supervision over the financial situation of local governments. (Metsalu 2006, 3) This list is not exhaustive.

When treating the two poles mentioned earlier as a whole, it can be concluded that legal framework gives an authority and responsibility for guard, control, assess and audit the operations of LOG for number of institutions, but audit, control and supervision activities of the legitimacy, efficiency, and effectiveness of the operation of LOG units are unsystematic, insufficient, politically biased, often in an objective situation of conflict of interests and do not form an integral and coherent system. Taking into account before described facts, one can conclude, that the result of combination of those two aspects does give to us unwelcome and inadmissible situation for modern society and public administration. Furthermore, one has to conclude that the ACSS of LOG is not functioning according to the justified expectations of modern society and public administration. This conclusion leads one inevitably to more general conclusion, that present model of ACSS of LOG in the Estonia has to be substantially improved, even if all relevant and obligatory component parts [audit (external and internal), control (external and internal) and supervision (external and internal)] of an integral ACSS are at present in whatever form and extent at the moment as well.

3. General Philosophical Basis and the Principles Underlying the Research of the ACSS of LOG and the Development of Functional Solutions

3.1 General Philosophical Basis for Further Treatment of the Theme

In order to not go too much into detail and disperse the interest and attention of the reader, this article is confined to examine, create and formulate the principles underlying a model of the ACSS of LOG. The author will treat the topic of optimal model of the ACSS of LOG more narrowly and thoroughly in his

subsequent article, because the matter is very complex and complicated.

Getting started in proper manner is important to adjust ones apparatus of mind and build up a relevant philosophical basis for further treatment of theme on the ACSS of LOG. An enthusiastic researcher might try to describe the object of study in a comprehensive, exhaustive and clearly determined way within the framework of the research. However, it is disputable, whether a finite, uniform and comprehensive clarification and description of the object of the study (ACSS of LOG) is a task practically possible to fulfil or not. There are at least six, but not only six, main reasons as follows to ask a question like that. 1. The object of a study is a complex and complicated system (system approach) consisting of many conceptually different research objects (LOG, ACSS, audit, control, supervision, interconnections between LOG and ACSS, interconnections between subsystems and elements, impacts of particular environment etc).⁴ 2. The ACSS of LOG as a whole and each separate LOG unit is an open system interacting with larger systems, which, in turn, are open systems as well. A state-wide ACSS of LOG should be treated as a whole, and an ACSS of each municipality has to be treated as a whole as well (holistic approach). State-wide ACSS and ACSS of LOG units do form a single integral system in day-to-day life and due that have to form one integral system in the apparatus of mind of researcher as well. Thus, when one does try to find scientifically justified and theoretically correct solutions, it is especially important to make sure that LOG sector as a whole and each municipality separately are treated not as an isolated and rigid system that is always in bal-

⁴ Only two of them themselves, in turn, do comprise complex subsystems and components. Subsystems do comprise more subsystems and elements as well. A fixed, uniform and permanent description and comprehension of the system as a whole or of its subsystems and components is destined to be a failure, as the two main parts (LOG and the ACSS of the LOG) of the object of study are defined, treated and comprehended differently in various parts of the world, as well as in different international organisations, various legal systems and by different scientists and experts.

ance, regardless of time, but on a philosophical basis, proceeding from the paradigm of self-organisation. (Näpinen 1994, 179) 3. Audit (including internal audit), control (including internal control) and supervision (internal and external supervision) are interconnected in a complex, non-linear manner, which is either difficult to determine or, in some cases, even indeterminable (Näpinen 2002, 130, 131) and that is why it used to be and still is not very easy to conduct the research and offer simple solution. (Randma, Annus 2000, 136). The ACSS of LOG is consisting subsystems and elements that are at the same time a part of the system as a subject and an object. For example, internal audit is a subsystem of the ACSS and an element of internal control system, but also an influencer of the internal control system and subject for the external and internal supervision as well.⁵ The object of the study is constantly changing in time and in space, because the object of study is in inevitable way linked with society and processes acting in society.⁵ The local government sector and each municipality as an organisation are inherently part of the human society in direct meaning and with all the naturally arising consequences. LOG system of each particular country is substantially different from LOG system of any other country and different municipalities of the same LOG system do have very various characters. Because of that, it is impossible to offer uniform solutions covering the entire local government sector as one universal object. Each LOG system is in very particular domestic environment. For example, compared to European and other world states being in the forefront of public administration (e.g., Australia, Canada, Denmark, Netherlands, New Zealand, UK, USA), Estonian politicians and officials acting in the municipal sector, as well as their electors, are, in

⁵ According to Näpinen, the society is an unpredictable self-organizing organism, and "*The self-organisation processes in society are not among those processes that are planned ahead and subject to set objectives, but among those that come into being unexpectedly and notwithstanding of the conscious activities of people.*" (Näpinen 1994, 179)

actual behaviour, still rather oblivious of such concepts and activities as European good governance, (EC 2001) modern management, (Roots 2003) audit, control (including internal control) and supervision, which is why the subjects mentioned are often rather novel and alien. So, what is evidently suitable for leading countries on public administration, this is not by default suitable for the Estonia. Arising from Estonia's political, legal, historical and cultural peculiarities, the impact of the public, primarily of the voters, on the political elite is almost negligible between elections. This is why one has to keep in mind that control performed by voters and other public subjects over the administrators of LOG units is much feebler than in many other countries.⁶ Democracy in Estonia is still very young, entailing both risks and benefits arising therefrom. (Kallas 2006, 18; Sutrop 2005) Thus, the ACSS of a LOG belongs to the context of social phenomena. Deriving therefrom, it is necessary to study and treat LOG and the ACSS of LOG from a human-centred point of view and that without exceptions. The main difficulty and inaccuracy in examining, analysing and searching for the scientific meaning of the ACSS of LOG, but also in devising solutions functional in real life, has been the fact that LOG and ACSS of LOG are examined without taking into consideration the most important factor influencing those objects — the human being. From a scientific viewpoint, such approach would be understandable and acceptable, if the field of study belonged to the area of exact sciences based on mathematics. (Näpinen 2002, 117, 118) However, in scientific, vocational, professional, and special literature, LOG units and the ACSS of LOG units are dominantly treated as mechanical systems that people may study, analyse, construct, actuate and bring to a halt, but where the human being is not con-

⁶ Gunter Schmidt emphasises: "...Administrative culture in the meaning of enhancing administrative output has to be kept under permanent control, and the best way of controlling is be done by the citizen (or the client). Therefore the law-maker should try to set up regulations which provide a claim for the citizen." (Schmidt 2003, 21)

sidered as their inseparable, inherent component. Using the paradigm of mathematics-based sciences (exact sciences) is, of course, possible and necessary, but the question is whether such approach is the only possible direction, considering that the aim of our research does not lie in finding a solution to an abstract theoretical problem. But not only that - LOG and the ACSS of LOG do need to be looked at as an organism, rather than a mechanism.

Based on previously described arguments and ideas, one has only way to conclude, that does not exist possibility to offer uniform, standard solution fitting to the LOG sectors of every state and to LOG sector as a whole as well, because: 1. LOG sectors in different political, legal, historical, cultural and economical environment are very different; 2. Different models of ACSS of LOG do apply to different political, legal, historical, cultural and economical environments; 3. Different models of ACSS of LOG do apply to huge, big, middle-sized, small and tiny municipalities. Regardless of that, the philosophical platform for designing of an optimal model of the ACSS of LOG has to be uniform and in proper paradigm.

3.2 Foundational Principles for Develop of an Optimal Model of the ACSS of Local Government

Contents of the entire topic, including each of its components (LOG, audit, control, supervision) are commonly and clearly indefinable (Joamets 2003), as it is a phenomenon that keeps changing with time and exists in an open environment. That is why it would be conceited to imagine one would be able to describe the object of research fully, completely and invariably in time, to identify the factors behind the problem and to provide absolute scientific solutions and suggestions to affect the factors causing the problem. To minimize or decrease a level of risk of complete failure in attempt to design an optimal model of the ACSS of LOG one has to keep in mind that the minimum general precondition for success is to deal with the subject

resting on two feet or two pillars: 1. on the philosophical platform, LOG and the ACSS of LOG need to be dealt with as an organism the central factor of which is the human being with his attitudes, convictions, values and demeanour, flaws and virtues; (self-organisation paradigm) and 2. using also the set of tools of the paradigms of mathematics-based sciences provided that it is applicable to social sciences and that the approach is not confined to only mathematics-based paradigms. Here it has to be emphasised that both feet are vital and they have to be of the same length, size and carrying capacity. Consequently, the paradigm commonly used in the research and scientific treatment of the ACSS of LOG units needs to be changed.

Taking into account all relevant arguments said above and by summarising everything claimed in previous chapters, the foundational principles underlying the research and functional, viable solutions of the ACSS of LOG can be formulated as follows:

1. LOG and the ACSS of LOG have to be treated rather as a living organism, not a mechanical system, the central factor (influencer, organiser), but not the only and major factor, of which is the human being with his attitudes, convictions, values and demeanour, flaws and virtues. Thus, change of the head of municipality administration or the only internal auditor in particular municipality will cause a major change in behaviour and functioning of the ACSS of this very particular municipality. Than smaller the LOG unit is, than bigger a change in behaviour and function of the ACSS is.
2. It is not possible to offer uniform and standard solution fitting to the LOG sectors of every state and to LOG sector as a whole as well, but different ACSS models apply to large, big, middle-sized, small and tiny LOG units. (Uniqueness principle)
3. The contents of the general field of the subject under examination as a whole (LOG basics and administrative arrangement) as well as its different constituents taken separately (audit, control, supervision) are univocally and clearly indefinable, constantly changing with time and located in an open environment. Thus, one has to accept fatally that optimal solution is changing in the time and a probability of failure in this particular attempt is nothing unlikely.
4. The audit, control and supervision of LOG units (organs, constituents) form a uniform cohesive whole (holistic approach) and are in constant interaction, which is why it is impossible to refer to a permanent equilibrium when speaking about the ACSS, although the balance of the organism (ACSS) as a whole and fixed proportions of its organs-constituents (audit, control, supervision) may be the desired result.
5. When examining the ACSS of LOG and trying to develop best solution, both the narrower (general governance environment of a LOG unit, general environment of the specific region, the Republic of Estonia) and wider (the European Union) political, economic, legal, cultural and historical context of the environment has to be known and taken into consideration.
6. When examining the ACSS of LOG and trying to develop best solution, it is necessary to know and take into account the rate of democracy and autocracy, as well as that of liberalism and totalitarianism in the society the ACSS of which is examined and a new, more appropriate system will be developed.

These six principles should form the minimum philosophical basis for designing and performing scientific research of the ACSS of LOG and for developing of solution that is scientifically justified, as well as appropriate and functional in real life. These are the principles the author is going to rely on in his subsequent research and analysis. The author is ready to acknowledge that results of practical application of theoretical solution are not fully predictable or controllable and they can not be ensured either by the author or any follower of his ideas. One of the reasons therefore is that no system of the society is perfect, close to the ideal, free from defects and

fully operational at any point in time. A system as a whole cannot be a hundred per cent reliable when even just one of its sub-systems is not dependable. It is impossible to disregard the recognition by COSO:

"An internal control system, no matter how well conceived and operated, can provide only reasonable - not absolute - assurance to management and the board regarding achievement of an entity's objectives. The likelihood of achievement is affected by limitations inherent in all internal control systems. These include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the collusion of two or more people, and management has the ability to override the system. Another limiting factor is that the design of an internal control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs." (COSO 2001)

Conclusions and Closing Remarks

The objective of the present article is to introduce the issue, calling the readers' attention and thoughts to the significant aspects of the wider context, general philosophical basis and foundational principles for development of an optimal model of the ACSS of LOG. Does exist a slight hope that the current article is of help for scientists researching the subject of the ACSS of LOG and for policy analysts, politicians and officials in understanding the foundational problems of the ACSS of LOG and LOG units on a wider scale and in directing their thoughts to even more thorough examination, fruitful reflections, and further actions in solving the tasks facing the society. The author is hoping that this particular article does give an adequate and appropriate description of the current model of local governments' audit, control and supervision

model of the Republic of Estonia and proposed by him six foundational principles for developing an optimal model of an audit, control and supervision system of local government are worthy to discuss and suitable for implementing not only for the Estonia. Author is of concluding opinion that does exist a possibility to design, arrange and maintain theoretically well founded and practically reasonably functioning integral and coherent audit, control and supervision system, but does not exist possibility to offer uniform, standard solution fitting to the municipal sector in general, because different models do apply to huge, big, middle-sized, small and tiny municipalities. Although this article is based on the context of the Estonia, the subject thereof should offer sufficient ground for analogy and comparison with smaller societies in the similar development stage. The author estimates the subject to be scientifically topical, especially in the context of state sciences, in the world, in the European Union and in the Estonia. However, the topic is definitely important in Estonia, as the Republic of Estonia is in the sphere of influence and, simultaneously, the influencer of three interactive processes: 1. integration with the European Union; 2. finding the model functional in the field of audit, control and supervision in the European Union, including local governments; 3. formation of the situation following the expansion of authority of the SAO. In a situation where three very important processes interlocking with the subject have started, it is essential that the following could be done at a very early stage: 1. An integral overview is obtained of the legal-political and institutional situation in the field of the ACSS of LOG; 2. The main problems of the ACSS of LOG are systemically identified; 3. the most appropriate theoretical model of the ACS of LOG is devised for the Estonia to ensure the coverage of all fields and aspects but exclude any unjustified duplication of institutional activities by functions; 4. Based on the devised model, requirements and recommendations together with a schedule (position) are devised in order to protect the interests of the Republic of Estonia in the European Union,

especially in developing the model of audit, control and supervision system for the local government; 5. The politicians, diplomats and officials representing the interests of Estonia in the European Union are consulted and provided with necessary relevant information about issues of the ACSS of LOG. However, it is obvious that the Estonian society will benefit therefrom only when politicians and officials both on state and LOG level do consider the problem worthy to be solved and commit themselves truly, not seemingly, as it has often been and still is the case.

Author is going to propose in nearest future a vision of an optimal model of the ACS of LOG, based on general philosophical basis and foundational principles described in this paper. Author is of strong opinion that optimal model of the ACS of LOG is great instrument to help politicians and LOG administrators in creating more and higher-quality public benefits for LOG residents. According to the estimate of the SAO 70% of public services to people are provided by local governments, (Oviir 2006, 29) but actually there are no scientifically collected data available regarding the share of LOG in the volume of public services rendered to the public by the state. However, the local government is inherently much closer and more important to the people than the state, which is why it is essential that the ACSS of LOG is appropriate and functional.

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