

<b>AUDIT REPORT</b>	<b>Date: 31.12.2025</b>	<b>Prepared by: Maarja Kilter (Head on Internal Audit Department)</b>	<b>Reference nr: A1-2</b>
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<b>Title</b>	<b>Audit on the Use of Modernisation Fund Support in Estonia (costs up to 31.12.2024)</b>
<b>Objective</b>	The audit was conducted in accordance with Article 16(4) of Implementing Regulation (EU) 2020/1001, which requires Member States to carry out an audit every two years on the use of amounts paid from the Modernisation Fund by the Member State or the scheme managing authority to project proponents or final recipients of the Modernisation Fund support.
<b>Scope</b>	The audit covers the use of support amounts paid from the Modernisation Fund to project applicants or final recipients during the period 1 January 2023 – 31 December 2024. The audit examines eligible costs related to the implementation of projects by final recipients (Muuhu Municipal Government, Hiiumaa Municipal Government, Saaremaa Municipal Government, Põltsamaa Municipal Government, Riigi Kinnisvara AS), the administrative costs of implementing measures by the State Shared Service Centre, and the costs of dual-system electric trains incurred following the tender process conducted by AS Eesti Liinirongid under the respective procurement contract. The scope of the audit also includes verifying the compliance of public procurement procedures related to the support with applicable requirements.
<b>Scope limitation</b>	The audit does not include: <ul style="list-style-type: none"> <li>➤ An assessment of the Ministry of Climate's management and control systems (MCS) for submitting Modernisation Fund investment proposals and reporting;</li> <li>➤ An assessment of the MCS of responsible ministries in developing regulations for measures financed by the Modernisation Fund, consolidating reports on the use of funding, and submitting them to the Ministry of Climate;</li> <li>➤ An assessment of the MCS of the State Shared Service Centre in processing project applications and reporting for these measures;</li> <li>➤ An evaluation of the impact of investments on energy efficiency and the modernisation of the energy system.</li> </ul>

## Summary

The audit was carried out in accordance with the principles and guidance set out in the Global Internal Audit Standards Framework issued by The Institute of Internal Auditors (IIA), including Domain II: Ethics and Professionalism, which defines the ethical principles and professional conduct requirements for internal auditors. Throughout the engagement, we adhered to the principles of independence, objectivity, and ethical conduct, while considering the expectations of the audit client. Although no external quality assessments have been performed regarding the Ministry of Climate's internal audit activities, we consciously align our work with the International Standards for the Professional Practice of Internal Auditing and apply appropriate ethical and professional practices.

In accordance with the Internal Audit Department's Statute No. 1-2/23/338 dated 09.08.2023, the following principles apply: (1) The Internal Audit Department is a structural unit of the Ministry of Climate reporting directly to the Minister. (4) The Department is functionally independent from other structural units of the Ministry and from agencies within its area of governance. (5) The Department does not participate in the management processes of the auditee, nor in the development or implementation of control procedures, and does not assume responsibility for management decisions when performing assurance or advisory engagements. The Audit Lead has confirmed their objectivity with respect to the internal audit subject under review and their obligation to immediately inform the head of the institution if a conflict arises with the signed objectivity confirmation and/or if a potential risk to objectivity emerges.

In preparing the report, we relied on the documentation available to us, as well as the information and explanations provided by the auditee during the audit. We conclude that all data submitted to us, along with other oral and written information, accurately reflect the activities performed and correspond to reality, and are sufficient for forming an opinion. If additional information, not disclosed or unknown to the auditor, had been available, the auditor's conclusions might have been different.

We thank the auditees for their pleasant cooperation.

Maarja Kilter (CGAP), /digitally signed/

## Introduction

The Modernisation Fund is an EU financial instrument established for the period 2021–2030 to support the modernisation of energy systems and the improvement of energy efficiency in 13 Member States with the lowest average income. The Fund was created under the EU Emissions Trading System (ETS) and is financed through revenues from the auctioning of emission allowances. Its purpose is to help lower-income Member States meet their 2030 climate and energy targets, as outlined in the European Green Deal and the European Green Deal Investment Plan.

The legal framework of the Fund includes the ETS Directive (notably Articles 10 and 10d) and the Implementing Regulation on the Modernisation Fund, both last amended in 2023 and applicable from 2024. In addition, the European Investment Bank (EIB), in consultation with the European Commission, has published an Assessment Guidance Document. Investments financed by the Fund must align with the objectives of the ETS Directive, the European Green Deal, the European Climate Law, and the long-term goals of the Paris Agreement.

The Modernisation Fund is coordinated by the European Investment Bank in cooperation with the European Commission.

The use of Modernisation Fund resources is governed by European Union legislation:

- Directive 2003/87/EC of the European Parliament and of the Council of 13 October 2003 establishing a scheme for greenhouse gas emission allowance trading within the Community and amending Council Directive 96/61/EC;
- Commission Implementing Regulation (EU) 2020/1001 of 9 July 2020 laying down detailed rules for the application of Directive 2003/87/EC of the European Parliament and of the Council as regards the operation of the Modernisation Fund supporting investments to modernise the energy systems and to improve energy efficiency of certain Member States and its amendment (2023/2606).

The requirements for the use and reporting of Modernisation Fund resources in Estonia are established by:

- [Atmospheric Air Protection Act](#) (AÕKS), §165<sup>1</sup> Modernisation Fund, which stipulates, among other things, that the allocation of Modernisation Fund resources and the ministers responsible for their use are determined in the State Budget Strategy (RES). For the implementation of measures specified in the RES, the minister responsible for the use of resources may establish, by regulation, the conditions and procedure for implementing the respective measure. Pursuant to subsection 51 of this paragraph, the Ministry of Climate submits the allocation of Modernisation Fund resources for assessment and approval to the European Investment Bank and the Investment Committee in accordance with Commission Implementing Regulation (EU) 2020/1001.
- Government of the Republic Regulation No. 25 of 10 March 2022 „[General Conditions for the Use and Reporting of Modernisation Fund Resources](#).“

### Modernisation Fund-supported programmes in Estonia

1. On 14 September 2021, Estonia submitted two priority investment applications, both approved by the European Commission. The EIB issued a positive confirmation for both on 11 October 2021.

#### ➤ **Programme for improvement of energy efficiency and renewable energy use in public sector buildings (MF 2021-2 EE 0-001)**

The objective is to improve the energy efficiency of public sector buildings and thereby reduce greenhouse gas emissions from their use. With the support of the Modernisation Fund, energy efficiency targets are planned to be achieved for 255,000–425,000 m<sup>2</sup> of floor area during 2021–2030. The programme is implemented through two sub-programmes: one focusing on central government buildings and the other on local government buildings. Activities under this programme are planned to be supported with €170 million from the Modernisation Fund during 2021–2030.

The form of financing is grant, which will be given for energy saving investments, renovation or in some case replacement and accompanying construction works.

From the Programme for improvement of energy efficiency and renewable energy use in public sector buildings, the following sub-measures and related project costs, as well as administrative costs for implementing the measures, are included within the scope of the audit:

a) Costs of projects supported under Regulation No. 36 of the Minister of Finance of 26 September 2023 „[Conditions and Procedure for the Use of Support from the Modernisation Fund for Improving the Energy Efficiency of Local Government Buildings](#)“.

The first application round was announced in October 2023 with a budget of €40 million and implementation costs of €142,000. The deadline for submitting applications was 31 January 2024. As a result of the evaluation, 39 applications were approved, with a total support allocation of €30,972,078.71. Projects are currently being implemented.

The second application round, with a budget of €45 million and implementation costs of €150,000, was announced in March 2025, and the deadline for submitting applications was 31 July 2025.

As of 31 December 2024, funding from the Modernisation Fund has been disbursed for the following projects

Project name	Support rate	Amount paid from the Modernisation Fund to final recipients up to 31 December 2024 (euros)
Kliima2.8.01.23-0039 Improvement of energy efficiency in Muhu Sports Hall (Muhu Municipal Government)	65%	5947,50
Kliima2.8.01.23-0026 Improvement of energy efficiency in the Käina Hobby and Cultural Centre building (Hiiumaa Municipal Government)	63%	69230,98
Kliima2.8.01.24-0063 Reconstruction of Orissaare Cultural Centre (Saaremaa Municipal Government)	69%	30304,80
Kliima2.8.01.24-0060 Improvement of energy efficiency in the educational building at Lille Street 2/3 in Põltsamaa (Põltsamaa Municipal Government)	67%	156519,57
<b>TOTAL</b>		<b>262002,85</b>

b) Costs of projects supported under Regulation No. 36 issued by the Minister of Public Administration on 5 August 2022 „[Conditions and Procedures for the Use of the Modernisation Fund Support for Energy Efficiency Improvements in Central Government Buildings](#)“.

First application round: the budget for the round was 28 million euros, the deadline for submitting applications was 31 January 2023. Two applications were submitted, both were approved. A total of 20.6 million euros of support was allocated to the applications.

Second application round: the budget for the round was 27 million euros, the deadline for submitting applications was 31 January 2024. Two applications were submitted, one of them was approved. A total of 0.9 million euros of support was allocated to this application.

Third application round: the budget for the round is 24 million euros, the deadline for submitting applications was 31 January 2025.”

As of 31 December 2024, funding from the Modernisation Fund has been disbursed for the following projects:

Project name	Support rate	Amount paid from the Modernisation Fund to final recipients up to 31 December 2024 (euros)
Kliima2.8.01.23-0008 Reconstruction of the office building at Lasnamäe Street 2 (Riigi Kinnisvara AS), VAT is not eligible	100%	74550,00
Kliima2.8.01.23-0010 Energy-efficient renovation of Tartu Courthouse (Riigi Kinnisvara AS), VAT is not eligible	100%	3900107,83
<b>TOTAL</b>		<b>3974657,83</b>

c) Administrative Costs for Implementing Sub-Measures of the Programme for improvement of energy efficiency and renewable energy use in public sector buildings.

The State Shared Service Center (<https://www.rtk.ee/en>), which is a government agency under the administration of the Ministry of Finance, is responsible for carrying out the open call for proposals and for supervision of the implementation of the projects and payments.

Administrative costs for implementing the measure under the Regulation No. 36 of the Minister of Finance of 26 September 2023, "Conditions and Procedures for the Use of Support from the Modernisation Fund for Improving the Energy Efficiency of Local Government Buildings", and related orders:

- Order of the Minister of Finance, 10 October 2023, No. 155: I confirm the indicative financial volume for the 2023 application round as €40,000,000. I confirm the administrative costs for the measure implementer for conducting the application round as €142,000 in total.
- Order of the Minister of Regional Affairs and Agriculture, 27 February 2025, No. 47 (1.1-2/47): I confirm the financial volume for the 2025 application round as €45,000,000. I confirm the administrative costs for the measure implementer for conducting the application round as €150,000 in total.

Administrative costs for implementing the measure under the Regulation Regulation No. 36 issued by the Minister of Public Administration on 5 August 2022 „Conditions and Procedures for the Use of the Modernisation Fund Support for Energy Efficiency Improvements in Central Government Buildings, and related orders:

- Order of the Minister of Public Administration, 19 September 2022, No. 175: Financial volume for the first application round: €28,000,000; administrative costs for the measure implementer for conducting the application round: €104,200 in total (administrative costs for implementing the measure: €8,200 (2022), €31,000 (2023), €32,000 (2024), €33,000 (2025)).
- Order of the Minister of Finance, 17 October 2023, No. 158: Financial volume for the second application round: €27,000,000; administrative costs for the measure implementer for conducting the application round: €134,000 in total.
- Order of the Minister of Finance, 20 September 2024, No. 105: Financial volume for the third application round: €24,000,000; administrative costs for the measure implementer for conducting the application round: €90,000 in total.

As of 31 December 2024, funding from the Modernisation Fund has been disbursed to the State Shared Services Centre for the following costs (code 9R40-MF00-08112HALD):

Year	Description of Costs	Amount paid from the Modernisation Fund to final recipients up to 31 December 2024 (euros)
2023	Administrative costs for measure implementation (partial salaries, taxes, etc.)	8790,42
2024	Administrative costs for measure implementation (partial salaries, taxes, etc.)	77986,05
<b>TOTAL</b>		<b>86776,47</b>

- **Energy-efficient low-emission public transport programme (MF 2021-2 EE 0-002)**  
The aim is to improve the energy efficiency of Estonia's public transport by supporting investments that accelerate the transition to vehicles using renewable energy or hydrogen. The programme contributes to the Transport and Mobility Master Plan 2021-2035 and to the National Energy and Climate Plan 2030. Activities include acquiring an environmentally friendly and energy-efficient ferry for the Virtsu–Kuivastu route, modernising Estonia's train fleet by purchasing 10 electric passenger trains with the Fund's support, and promoting the use of electric buses and/or trams in cities. These activities are planned to be supported with €130 million from the Modernisation Fund during 2021–2030.
- As of 31 December 2024, expenses have been incurred in connection with the procurement of electric trains. On 6 September 2022, the Government of the Republic of Estonia decided at a cabinet meeting to approve the acquisition of 10 new dual-system electric trains financed from the Modernisation Fund. The public procurement reference number is 217993 "[Purchase of dual-system electric trains](https://ted.europa.eu/et/notice/-/detail/121993-2020)" (restricted procedure; the international notice is published at <https://ted.europa.eu/et/notice/-/detail/121993-2020>). The contract with the successful bidder was signed on 19 December 2022. The trains are currently in production and according to the signed contract, the final handover of 10 electric trains will take place in March 2026.

As of 31 December 2024, funding has been paid to AS Eesti Liinirongid for the following costs:

Description of Costs	Support rate	Amount paid from the Modernisation Fund to final recipients up to 31 December 2024 (euros)
Execution of Contractual Payments under the Procurement Contract Resulting from the Public Tender 'Purchase of Dual-System Electric Trains' (Reference No. 217993), Concluded with the Škoda Transportation a.s. and Škoda Vagonka Consortium	100%	21702517,00

Payments to final beneficiaries under these two programmes have been made up to 31 December 2024 and are included within the scope of this audit (see Annex 1 for details).

- On 13 February 2024, Estonia submitted an application for Phase 2 of the Programme for Increasing Energy Efficiency and Renewable Energy Use in Public Sector Buildings (amounting to €250 million). The EIB issued a positive financing decision on 12 March 2024. No payments to final beneficiaries have been made from this funding.

## Final Report

Programme for improvement of energy efficiency and renewable energy use in public sector buildings	Sub-measure: Regulation No. 36 of the Minister of Finance of 26 September 2023 „Conditions and Procedure for the Use of Support from the Modernisation Fund for Improving the Energy Efficiency of Local Government Buildings“
Project submitter / final recipient (name of institution)	Muhu Municipal Government ( <i>Muhu Vallavalitsus</i> )
Project number	Kliima2.8.01.23-0039
Project title	Energy Efficiency Improvement of Muhu Sports Hall ( <i>Muhu spordihalli energiatõhususe parandamine</i> )
Decision forming the basis for Modernisation Fund financing	Decision of the Head of the Grants Implementation Department of the State Shared Services Centre, 24 May 2024, No. 11.2-54/24/540 ‘Approval of the application submitted by Muhu Municipal Government’.
Project eligibility period	31.01.2024 – 30.01.2027
Total amount of eligible project costs (in euros)	786 905,00 (100%)
Maximum amount of Modernisation Fund financing (in euros)	511 488,25 (65%)
Minimum amount of co-financing (in euros)	275 416,75 (35%)
Audited period and amount of Modernisation Fund financing up to 31.12.2024 (in euros)	5947,50
Amount of identified non-eligible financing (in euros)	N/A

### Audited cost documents

Cost document number and date	Submitter of the cost document	Description of the expense	Total amount of the cost document (EUR, including VAT)	Payment order for the recipient's payment to the service provider	Eligible amount (EUR)	Paid amount of Modernisation Fund funding to final recipient (EUR, with rate 65%)	Modernisation Fund funding payment order number and date	Procurement
14122057 (11.06.2024)	Ribbon Consult OÜ	Design, including expert assessment (interim certificate No. 1, contract No. 581-24)	9150,00 (VAT 1650,00)	No. 1602 (18.06.2024) in the amount of 9150 euros	9150,00	5947,50	PO31083 (26.07.2024)	Simple procurement No. 276330 “Design for partial reconstruction of Muhu Culture and Leisure Center”, design works contract

### Auditor's Summary Opinion

Based on the procedures carried out during the audit, it can be concluded that the use of the amounts paid from the Modernisation Fund to the final recipient, within the scope of the audit, has been compliant. The reimbursed costs meet the requirements of European Union and Estonian national legislation and are directly related to achieving the objectives and implementing the activities planned in the project.

All verified costs are supported by proper and relevant source documents confirming their link to the project and compliance with eligibility conditions. Transactions reflect actual circumstances; costs are accurately and fully recorded in the accounts, duly paid, and correspond to the nature and amounts of the payment transactions.

The procurement procedures have, to a significant extent, complied with applicable public procurement requirements. Minor deficiencies were identified (with no financial impact), but no violations or unfair treatment were found.

Project-related publicity and visibility activities have been carried out in accordance with EU visibility and communication requirements. The beneficiary has also ensured the retention of all project documents and data for at least five years after the last payment, in line with the obligation set out in Article 16(5) of Regulation (EU) 2020/1001.

The audit did not identify any breaches, deficiencies, or other circumstances that would call into question the justification, accuracy, or compliance of the costs with the rules governing the use of the support. In conclusion, it can be confirmed that the funds used within the project have been managed transparently, purposefully, and in accordance with applicable requirements.

Additionally, we recommended that any deviations from contractual payment conditions, such as early payments before meeting agreed milestones, be formalised through written amendments prior to execution to ensure full compliance and reduce interpretation risks (Clause 15.7 of the design contract states that the Agreement may only be amended by mutual consent of the Parties. Such amendments must be formalized in writing as annexes to the Agreement and shall take effect upon signature, unless otherwise specified in the amendment itself). Therefore, the change to the payment terms should have been made as an annex to the contract; however, this constitutes a formal deficiency, as the intent of the Parties has been clearly demonstrated. Feedback from Muhu Municipal Government: Thank you for your attention, we agree with your position.

Compliance of Project Planning with Modernisation Fund Objectives	Conclusion (YES / NO / N/A)
<p><b>Auditor verified:</b></p> <ul style="list-style-type: none"> <li>➤ Whether the use of funding or the project (regardless of whether implemented by the final recipient or by the State Shared Services Centre as the implementing body) complies with the eligibility criteria (in accordance with Directive 2003/87/EC Article 10d, Regulation (EU) 2020/1001, national support conditions and the financing decision).</li> </ul> <p><b>Explanation:</b> The target of the project is the Muhu Cultural and Leisure Centre (Building Register Code 120623835), located at Hariduse 2, Liiva Village, Muhu Municipality, 94701, Saare County (Cadastral Identifier 47801:004:0597, Registry Part 3744134). The building, with a heated area of 1,522.5 m<sup>2</sup>, is fully owned and used by Muhu Municipality. The sports hall section was completed in 1991, and the youth centre section was added as an extension in 2015. The youth centre hosts youth work activities and offers opportunities for young people to participate in various hobby activities. The sports hall is used by Muhu Kindergarten and Muhu Basic School, as well as for adult sports activities (including gym use), rehearsals for local cultural groups, and larger municipal cultural events. The sports hall is listed in the Rescue Board database as the primary evacuation site for Muhu Municipality. Most of the building consists of the depreciated sports hall with changing and washing rooms and other spaces. Due to the initial inadequate technical design and the deterioration of the sports hall (poor insulation, roof structure in poor condition, poor indoor climate) and based on the energy audit prepared by Energiapartner OÜ, the energy efficiency of the building will be improved with the support of the Modernisation Fund through the reconstruction of the sports hall. This will reduce greenhouse gas emissions, energy supplied to the building, and maintenance costs, and bring the building into compliance with indoor climate requirements.</p> <p><b>The project aims</b> to improve the building's energy efficiency, reduce greenhouse gas emissions, reduce energy consumption, lower maintenance costs, and ensure compliance with indoor climate standards through the reconstruction of the sports hall.</p> <p><b>The scope of the audit includes</b> design-related costs, which are eligible under § 5(3)(12) of the Regulation No. 36 of the Minister of Finance of 26 September 2023, "Conditions and Procedures for the Use of Support from the Modernisation Fund for Improving the Energy Efficiency of Local Government Buildings." According to this provision, eligible costs for energy efficiency works include <u>design costs necessary for the works listed in points 1–9</u>, construction supervision during the works, costs of engaging an energy efficiency expert, system adjustment costs, and, for cultural heritage sites, costs of preparing heritage protection conditions and conducting studies necessary for planning the works.</p> <p>When submitting the application, it was confirmed that:</p> <ul style="list-style-type: none"> <li>✓ The building will be used, in whole or in part, for providing services under § 6(1) and (2) of the Local Government Organisation Act for at least five</li> </ul>	YES

<p>years after the project's completion.</p> <ul style="list-style-type: none"> <li>✓ At least 90% of the heated net area of the building will be used for five years after the project's completion.</li> <li>✓ In the part of the building where public services are provided, or in the building or part to which such function is assigned, compliance with the requirements set out in the Regulation of the Minister of Economic Affairs and Communications of 29 May 2018, "Requirements for Buildings Arising from the Special Needs of Persons with Disabilities," will be ensured during reconstruction and extension.</li> </ul> <p><b>The project implementer is Muhu Municipal Government</b> and the project will be carried out during the period February 2024 – January 2027:</p> <ul style="list-style-type: none"> <li>✓ Procurement of design services: February–April 2024</li> <li>✓ Design and ordering of project expertise: April–December 2024</li> <li>✓ Procurement of construction and supervision services: January–March 2025</li> <li>✓ Signing of contracts: by April 2025</li> <li>✓ Construction works: by December 2026</li> <li>✓ Preparation of project reporting: January 2027</li> </ul> <p><b>Based on the information provided and the planned activities, the project complies with the eligibility criteria set out in Article 10d of Directive 2003/87/EC, Regulation (EU) 2020/1001, national support conditions, and the financing decision.</b></p>	
<p>➤ Whether the objective of the final recipient's activities is aimed at modernising energy systems or improving energy efficiency (including the objective of the State Shared Services Centre's activities, which—based on the support conditions—consists of processing grant applications, handling payment requests, making disbursements, and monitoring projects, thereby contributing to the achievement of the measure's objectives).</p> <p><b>Explanation:</b> Together with the application, the study No. 04012024 "Energy Audit of Muhu Cultural and Leisure Centre," prepared by Energiapartner OÜ, was submitted to support the objectives of the application.</p> <p>According to the project application submitted by Muhu Municipal Government, the entire building requires energy efficiency improvements through the reconstruction of the depreciated sports hall section, where the main issue is significant heat loss and energy waste caused by insufficient insulation of external structures. The youth centre section is in good condition and is not part of the project. Extracts from the application:</p> <p>“...The objective of this project is to improve the building's energy efficiency through the reconstruction of the sports hall, reduce greenhouse gas emissions, reduce energy supplied to the building, lower maintenance costs, and ensure compliance with indoor climate requirements.”</p> <p>“...As a result of the improvement works implemented with the possible support, the energy supplied to the building will decrease by up to 43.5% annually, and maintenance costs will decrease by €4,752 per year, i.e., €3.12 per m<sup>2</sup> of heated area annually.”</p> <p>“...The energy supplied to the building will decrease by 110 MWh annually, which equals 72.25 kWh per m<sup>2</sup> of heated area. Maintenance costs will decrease by €4,752 annually, which equals €3.12 per m<sup>2</sup>.”</p> <p>“Cross-sector indicators:</p> <ul style="list-style-type: none"> <li>➤ CO<sub>2</sub> emissions saved (tons/year): 54.12 (initial), 34.91 (target)</li> <li>➤ Energy supplied to the building (€ per year): €22,008.00 (initial), €17,256.00 (target)</li> <li>➤ Energy supplied to the building (kWh per year): 252,542.00 (initial), 143,275.00 (target)”</li> </ul> <p>No change of heating system or heating type is planned.</p> <p>In addition to works necessary for improving energy efficiency, the reconstruction will include the following non-eligible works: design of cold water supply, sewerage, electrical and low-voltage installations; works to ensure fire safety and accessibility requirements; installation of floor, wall, and ceiling finishes not related to achieving energy savings; water supply and sewerage works, etc.</p> <p>The share of non-eligible construction costs in the total reconstruction cost is estimated at 33.5%, with an estimated amount of €396,915. Both eligible and non-eligible cost calculations can be found in the applicant's worksheet in the attachment Muhu SH tööde prognoosmaksumus.xlsx.</p> <p><b>The project's objective and planned activities are clearly aimed at improving energy efficiency. They comply with the eligibility conditions for</b></p>	YES

<p>energy efficiency measures and contribute to achieving the objectives of the Modernisation Fund in accordance with Regulation (EU) 2020/1001 and national support conditions. Therefore, it can be concluded that the final recipient's activities are consistent with the objectives of modernising energy systems and improving energy efficiency.</p>	
<p>➤ Whether the activities of the final recipient support the objectives of the EU Green Deal (e.g., reduction of carbon emissions, clean energy, climate neutrality).</p> <p><b>Explanation:</b> The project application specifies the following target indicators:</p> <ul style="list-style-type: none"> <li>➤ CO<sub>2</sub> emissions saved (tons/year): 54.12 (initial), 34.91 (target)</li> <li>➤ Energy supplied to the building (€ per year): €22,008.00 (initial), €17,256.00 (target)</li> <li>➤ Energy supplied to the building (kWh per year): 252,542.00 (initial), 143,275.00 (target)</li> </ul> <p>These indicators confirm that, as a result of the reconstruction works, the building's energy consumption and CO<sub>2</sub> emissions should be reduced. <b>The activities planned by the final recipient support the objectives of the European Union Green Deal, including the reduction of carbon emissions, the adoption of clean energy, and progress towards climate neutrality. The project will deliver measurable improvements in environmental performance and energy efficiency, fully aligned with the strategic targets of the EU Green Deal.</b></p>	YES
<p>➤ Whether the documents forming the basis for the use of the support by the final recipient (e.g., applications, financing decisions, contracts or other agreements) include clear performance indicators (such as energy savings in MWh, reduction of CO<sub>2</sub> emissions) and a description of the measurement methodology, ensuring transparent, reliable and Modernisation Fund-compliant information on the achievement of results.</p> <p><b>Explanation:</b> The project is currently being implemented; at this stage, initial and target indicators have been defined in the project application (based on Energiapartner OÜ study No. 04012024). Actual results and the achievement of objectives can be assessed after the project has been completed.</p> <ul style="list-style-type: none"> <li>➤ CO<sub>2</sub> emissions saved (tons/year): 54.12 (initial), 34.91 (target)</li> <li>➤ Energy supplied to the building (€ per year): €22,008.00 (initial), €17,256.00 (target)</li> <li>➤ Energy supplied to the building (kWh per year): 252,542.00 (initial), 143,275.00 (target)</li> </ul> <p>The beneficiary undertakes to submit reports via the Structural Support Register on greenhouse gas emission savings for the full years following the project by no later than <b>15 February 2029, 15 February 2030, and 15 February 2031</b>. The report must reflect at minimum the reduction in energy supplied to the building as a result of the energy efficiency works carried out, expressed both in energy and maintenance cost units, and thereby the impact on greenhouse gas emissions compared to the pre-project indicators specified in the building's energy audit.</p> <p><b>The documents submitted by the final recipient of the support define clear performance indicators and reporting obligations together with a measurement methodology that enables transparent assessment of the achievement of results in accordance with the conditions of the Modernisation Fund. Actual effectiveness can be assessed after the completion of the project and submission of the reports.</b></p>	YES
<p>➤ Has the planning of the use of funding (the project) complied with climate and environmental criteria (e.g., avoidance of significant harm, DNSH), and are these documented and, where necessary, justified.</p> <p><b>Explanation:</b> The Estonian Government Regulation No. 25 of 10 March 2022 "General Conditions for the Use and Reporting of Modernisation Fund Resources" does not provide for a requirement to submit the results of an assessment regarding compliance of the supported activity with the "do no significant harm" principle or the assurance of climate resilience of the supported infrastructure.</p> <p>Similarly, the Regulation of the Minister of Finance No. 36 of 26 September 2023 does not provide for a requirement to submit the results of an assessment regarding compliance of the supported activity with the "do no significant harm" principle or the assurance of climate resilience of the supported infrastructure.</p> <p>The Modernisation Fund Assessment Guidance Document (p. 9) states: "<i>Do no significant harm</i>" principle (applicable as of 1 January 2025). <i>In line with Article 10f of the ETS Directive, from 1 January 2025, the BMS and the EC shall use the revenues generated from the auctioning of allowances referred to in Article 10(1), third (Original 2%) and fourth subparagraphs (New 2.5%) of this Directive in accordance with the "do no significant</i></p>	N/A

<p><i>harm</i>" criteria set out in Article 17 of Regulation (EU) 2020/852, where such revenues are used for an economic activity for which technical screening criteria for determining whether an economic activity causes significant harm to one or more of the relevant environmental objectives have been established pursuant to Article 10(3), point (b), of that Regulation. Further guidance on how the BMS will have to demonstrate compliance with Article 10f of the ETS Directive will be agreed and communicated at a later stage."</p> <p><b>The 'Do No Significant Harm' (DNSH) principle became mandatory from 1 January 2025. At the time of project planning, this requirement was not applicable; therefore, no non-compliance was identified. Future projects will need to comply with DNSH requirements effective from 1 January 2025.</b></p>	
<ul style="list-style-type: none"> <li>➤ Has compliance with the European Union State aid rules and the provisions set out in Chapter 6 "State Aid" of the Estonian Competition Act been ensured.</li> </ul> <p><b>Explanation:</b> Pursuant to §1(3) of the Regulation of the Minister of Finance No. 36 of 26 September 2023, no State aid within the meaning of Article 107(1) of the Treaty on the Functioning of the European Union and no de minimis aid is granted. The beneficiary is a local authority; therefore, the beneficiary is not a recipient of State aid or de minimis aid. <b>The project financing arrangement is in compliance with the European Union State aid rules and Chapter 6 "State Aid" of the Estonian Competition Act. The status of the beneficiary and the financing conditions exclude the application of State aid.</b></p>	N/A
<p><b>Scope of activities and exclusions:</b></p> <ul style="list-style-type: none"> <li>➤ Does the use of funding exclude investments in energy generation installations operating on fossil fuels; the use of coal, lignite, or other solid fossil fuels;</li> <li>➤ For activities related to fossil gas: is there evidence that the case constitutes an exception (e.g., a notification coordinated with the Commission), and are these activities temporary, transitional solutions, or of limited scope.</li> </ul> <p><b>Explanation:</b> The project focuses on reconstructing a depreciated section of a sports hall to improve energy efficiency. No investments are planned in energy generation facilities operating on fossil fuels, and there is no use of coal, lignite, or other solid fossil fuels. The application includes a formal confirmation stating: "I confirm that the project does not plan (including outside the project scope) the use of fossil fuels to meet the energy demand of the reconstructed building." <b>The planned activities do not involve fossil fuel-based energy generation or the use of solid fossil fuels. Consequently, the use of funding fully aligns with the objectives of the EU Green Deal and the Modernisation Fund regarding energy efficiency.</b></p>	N/A
<p><b>Actual Implementation of Activities and Achievement of Impacts</b> (exclusion of activities: the auditor does not perform or commission an energy audit or CO<sub>2</sub> reduction calculations)</p>	<b>Conclusion (YES / NO / N/A)</b>
<p><b>Auditor verified:</b></p> <ul style="list-style-type: none"> <li>➤ whether the activities of the final recipients comply with the project description, the terms of the agreement or other foundational financing document, and with the purpose of the funding.</li> </ul> <p><b>Explanation:</b> The application listed the following main activities: conducting the design procurement between 02–04/2024; design work and ordering an expert review of the construction project between 04–12/2024; conducting the construction procurement and owner's supervision procurement between 01–03/2025; signing procurement contracts by 04/2025 at the latest; carrying out construction works by 12/2026 at the latest; and preparing the project report in 01/2027. As a result of the audit procedures, it was established that the planned procurements have been carried out, the design works and expert reviews have been completed and documented. At the time of approving the audit report, construction works are still ongoing, but according to the schedule presented in the application, they will be completed by 12/2026 at the latest. <b>Therefore, the activities of the final recipient are in compliance with the project description, the agreement, and the conditions of the financing documents, and ensure the implementation, documentation, and verifiability of the activities arising from the purpose of the funding.</b></p>	YES
<ul style="list-style-type: none"> <li>➤ whether the activities have been implemented within the prescribed timeframe and in accordance with the schedule presented in the application or</li> </ul>	YES

<p>other financing document, including any approved modifications.</p> <p><b>Explanation:</b> The project eligibility period is 31 January 2024 – 30 January 2027. The applicant has confirmed that the activities listed in the project application for which support is requested were not started before the submission of the application. The planned procurements have been carried out and the design works completed. According to the schedule submitted by the final recipient in the application, construction works will be completed by December 2026 at the latest. At the time of approving the audit report, construction works are still ongoing.</p> <p><b>Therefore, the activities have been largely implemented within the prescribed timeframe and in accordance with the schedule presented in the application or other financing document, including any approved modifications.</b></p>	
<ul style="list-style-type: none"> <li>➤ whether the final recipients have achieved the results set out in the project, the agreement or other financing document (e.g., improvement in energy efficiency, MWh saved, reduction of CO<sub>2</sub> emissions), and whether the reported results are sufficiently substantiated / documented (where possible with photos, data records, etc.).</li> </ul> <p><b>Explanation:</b> At the time of approving the audit report, it is not possible to fully assess the achievement of the objectives set out in the application and financing documents (including improvement in energy efficiency, energy savings in MWh, and reduction of CO<sub>2</sub> emissions), as construction works are still ongoing and their completion is scheduled for December 2026. The recipient is obliged to submit reports via the Structural Funds register on greenhouse gas emission savings for the full years following the project by 15 February 2029, 15 February 2030, and 15 February 2031. These reports must include at least the reduction in energy delivered to the building as a result of the energy efficiency works, expressed both in energy and maintenance cost units, and the corresponding impact on greenhouse gas emissions compared to the pre-project indicators stated in the building's energy audit. <b>The audit revealed that activities have so far been implemented largely in accordance with the planned schedule, and the project has created all prerequisites for achieving the objectives by the end of the project.</b></p>	N/A
<p><b>Accounting</b></p> <p><b>Auditor verified:</b></p> <ul style="list-style-type: none"> <li>➤ whether the accounting system of the final recipient enables direct reconciliation of the costs and revenues declared for the project / funding, and whether these costs and revenues have been systematically recorded using a specific numbering system.</li> </ul>	<p><b>Conclusion (YES / NO / N/A)</b></p> <p><b>YES</b></p>
<p><b>Explanation:</b> The project's costs and revenues have been systematically recorded in the accounting system using a specific coding structure. In the accounting statement submitted by the final recipient, project-related expenses are clearly identified with a dedicated code (Project = SPH registry Climate2.8.01.23-0039 "Improving the energy efficiency of Muu Sports Hall"), ensuring a transparent link between costs, revenues, and project activities. <b>The accounting system of the final recipient enables direct reconciliation of the costs and revenues declared for the project and funding. All actual costs and revenues have been systematically documented and linked to a specific code, which ensures traceability, verifiability, and a clear connection to the project's activities.</b></p>	
<ul style="list-style-type: none"> <li>➤ whether, in cases where costs are allocated across multiple projects, appropriate allocation keys reflecting the actual workload have been established and applied systematically and accurately.</li> </ul> <p><b>Explanation:</b> The project application includes, among other things, the following confirmation: "I confirm that I have not received and will not receive support from the state budget, the European Union, or other external financial instruments for reimbursing the same cost within three years preceding the application." Within the scope of the audit, the cost under review was not allocated across multiple projects (Ribbon Consult OÜ invoice dated 11 June 2024, No. 14122057 "Interim Act No. 1, Contract No. 581-24"). <b>Since the cost is fully related to a single project activity, it was not necessary to establish separate allocation keys.</b></p>	N/A
<ul style="list-style-type: none"> <li>➤ whether clear accounting records have been maintained to prevent double reimbursement of costs, and whether cost documents are easily distinguishable (i.e., costs related to the use of the grant are clearly separated from other costs in the accounting system, as well as the cost and</li> </ul>	YES

<p>payment documents reflecting these costs from other documents).</p> <p><b>Explanation:</b> Within the scope of the audit, the cost under review was not allocated across multiple projects (Ribbon Consult OÜ invoice dated 11 June 2024, No. 14122057 "Interim Act No. 1, Contract No. 581-24"). <b>The cost is clearly identifiable in the accounting records and linked exclusively to the activities of the assessed project, ensuring proper traceability and preventing double reimbursement.</b></p>	
<p>➤ whether the final recipient has confirmed that the same costs have not been double-financed from other sources (e.g., other EU funds or national programs), and whether controls have been carried out (e.g., SFOS cross-check) to ensure that the same costs (such as train purchases, design services, etc.) have not been declared for other EU funds or national financing during the same period and to the same extent (e.g., Cohesion Fund, CEF, REPowerEU, etc.).</p> <p><b>Explanation:</b> The project application includes, among other things, the following confirmation: "I confirm that I have not received and will not receive support from the state budget, the European Union, or other external financial instruments for reimbursing the same cost within three years preceding the application." The final recipient has provided the necessary confirmations to prevent double financing, supporting accurate cost reporting and compliance with funding rules. The State Shared Service Centre performed a double-financing check on 22 July 2024 based on the SFOS cost document control sheet, ensuring that the same cost has not been declared for other EU funds or national financing during the same period and to the same extent (e.g., Cohesion Fund, CEF, REPowerEU, etc.). <b>The risk of double financing for project costs has been adequately mitigated, and the implemented controls ensure that costs are correctly declared solely within the scope of this project.</b></p>	YES
<p>➤ whether the costs are recorded in the final recipient's accounting system or reflected in tax documents.</p> <p><b>Explanation:</b> The final recipient provided an extract from its accounting system confirming that the costs are recorded in the accounting records. <b>The project costs are properly registered in the accounting system and reflected in tax documents, ensuring traceability and verifiability of the expenditures.</b></p>	YES
<p>➤ (A) for the Ministry of Climate: whether the funding has been transferred through payments to the final recipients or to the responsible ministries;</p> <p>➤ (B) for the responsible ministries: whether the funding has been forwarded to the final recipients or to the State Shared Service Centre for making payments to the final recipients;</p> <p>➤ (C) for State Shared Service Centre: whether the funding has been disbursed to the final recipients based on supporting documents.</p> <p><b>Explanation:</b> This is a project for which the State Shared Service Centre processes grant applications (C), makes payments for the supported activities or sets of activities partially or fully financed under the regulation, and performs oversight of the projects (see information on the audited costs). <b>State Shared Service Centre has disbursed the funding to the final recipient for the costs within the scope of the audit.</b></p>	YES
<b>Overall Financial Accounting Aspects</b>	<b>Conclusion (YES / NO / N/A)</b>
<p><b>Auditor verified:</b></p> <p>➤ Whether the costs declared by the project applicant or the final recipient of the Modernisation Fund support are eligible in accordance with the conditions for granting the support and the funding decision, and whether the funded costs were foreseen in the application or have been accepted by the responsible ministry or the State Shared Service Centre (e.g., through a contract amendment, correspondence, or reporting).</p> <p><b>Explanation:</b> The audit scope covered design-related costs that are eligible under § 5 (3) point 12 of Regulation No. 36 of the Minister of Finance dated 26 September 2023. For energy efficiency works, eligible costs include design necessary for the works specified in subpoints 1–9, construction supervision during the works, involvement of an energy efficiency expert, system adjustment costs, and, for cultural monuments, preparation of heritage protection conditions and related studies.</p> <p>The application initially planned eligible design costs, including expert review, amounting to €47,580. Both eligible and non-eligible cost calculations are documented in the applicant's worksheet (Muhu SH tööde prognoosmaksumus.xlsx). During project implementation, the budget allocation was</p>	YES

<p>revised, and only one invoice related to a design contract was reimbursed, totaling €9,150 (including disbursed funding of €5,947.50).  <b>The funded costs correspond to the activities described in the application and have been accepted by the State Shared Service Centre as eligible and justified, confirming compliance with the funding decision and the conditions for granting support.</b></p>	
<p>➤ Whether the amount and description of the costs correspond to the project budget and what was presented in the application.  <b>Explanation:</b> The invoice from Ribbon Consult OÜ dated 11 June 2024 (No. 14122057) for €9,150 (including VAT), described as "Interim Act No. 1, contract No. 581-24," corresponds to the amount and activity foreseen in the project budget. <b>The invoice is appropriate, justified, and recorded in the final recipient's accounting.</b> The original cost document is available and ensures traceability and verification of the cost's link to the project, guaranteeing transparency and compliance with the approved budget.</p>	YES
<p>➤ Whether the costs were incurred and paid by the project applicant or the final recipient of the Modernisation Fund support, whether they are directly related to the project (e.g., invoices include project references and costs were made efficiently), and whether appropriate supporting documents (invoices, payment confirmations, contracts) have been provided.  <b>Explanation:</b> The costs were incurred and paid directly by the final recipient of the support, in line with the activities permitted under the project. The invoice from Ribbon Consult OÜ dated 11 June 2024 (No. 14122057) refers to Interim Act No. 1 and contract No. 581-24, confirming the direct link to the project. <b>The costs were made efficiently and in accordance with the project objectives, ensuring the proper use of resources. All necessary supporting documents have been provided, including the invoice, payment order, interim act dated 11 June 2024, and the contract No. 581-24, guaranteeing traceability and verifiability of the costs within the project framework.</b></p>	YES
<p>➤ Whether the costs were incurred within the eligible project period and do not exceed the eligibility timeframe.  <b>Explanation:</b> The eligibility period specified in the approval decision dated 24 May 2024 (No. 11.2-54/24/540) is from 31 January 2024 to 30 January 2027. The invoice from Ribbon Consult OÜ dated 11 June 2024 (No. 14122057), described as "Interim Act No. 1, contract No. 581-24," falls within this period. The procurement notice leading to the contract was published in the Public Procurement Register on 26 February 2024, confirming that the costs were incurred during the eligible period and comply with the funding conditions. All verified costs were incurred within the eligible project period and meet the requirements of the funding decision.</p>	YES
<p>➤ Whether the actual support paid for eligible costs does not exceed the maximum support amount or rate specified in the funding decision, contract, or other applicable agreement.  <b>Explanation:</b> The approved support rate in the funding decision dated 24 May 2024 (No. 11.2-54/24/540) is 65%. <b>The support paid within the audit scope complies with this rate, and the maximum support amount has not been exceeded as of the date of the audit report.</b> The project is still ongoing; therefore, the final assessment of the total use of the maximum amount will be possible only upon project completion. The disbursed support is in line with the funding decision and the established limits, ensuring compliance with the approved conditions.</p>	YES
<p>➤ Whether the costs comply with applicable tax and social legislation.  <b>Explanation:</b> The invoice from Ribbon Consult OÜ dated 11 June 2024 (No. 14122057), described as "Interim Act No. 1, contract No. 581-24," includes 22% VAT and was prepared and submitted in accordance with applicable tax and social legislation. The invoice meets all legal requirements, and the payment was made by the final recipient in compliance with statutory obligations. <b>The costs are consistent with applicable tax and social regulations, properly documented, and paid in accordance with the law.</b></p>	YES
<p>➤ Whether the cost description is clear and, based on the description, demonstrably linked to the project activity.  <b>Explanation:</b> The invoice from Ribbon Consult OÜ dated 11 June 2024 (No. 14122057), described as "Interim Act No. 1, contract No. 581-24," reflects the activity "Completion and submission of the preliminary design to the Client." The invoice includes a reference to the contract, confirming a clear and direct link to the project activities. <b>The cost description is clear, understandable, and consistent with the project activities, enabling verification of the direct connection between the expense and the project's objectives.</b></p>	YES

<ul style="list-style-type: none"> <li>Whether the costs are, in the auditor's opinion, reasonable, justified, and in line with the principles of sound financial management.</li> </ul> <p><b>Explanation:</b> The invoice from Ribbon Consult OÜ dated 11 June 2024 (No. 14122057), described as "Interim Act No. 1, contract No. 581-24," reflects the activity "Completion and submission of the preliminary design to the Client." The amount of €9,150 (including VAT) is consistent with the project budget and the scope of work performed. The invoice was issued for services agreed in the contract and is supported by an official act confirming the completion of the work. The procurement process was carried out through a simple procurement tender published in the Public Procurement Register, ensuring transparency and compliance with applicable requirements. <b>Based on the audit review, the cost is considered reasonable, justified, and in line with the principles of sound financial management, guaranteeing economy, efficiency, and effectiveness in the use of resources.</b></p>	YES
<ul style="list-style-type: none"> <li>Whether the funding covers only costs that are directly related to the project and have actually been incurred (i.e., the work has been accepted, the service delivered, or the goods received and taken into possession).</li> </ul> <p><b>Explanation:</b> The invoice from Ribbon Consult OÜ dated 11 June 2024 (No. 14122057), described as "Interim Act No. 1, contract No. 581-24," is based on the acceptance act. The work was performed in accordance with the contract, and the invoice was paid by final recipient via payment order No. 1602 on 18 June 2024 for €9,150, confirming that the cost was actually incurred.</p> <p>The funded costs relate exclusively to project activities and are documented with an acceptance act, ensuring compliance with the requirement that only completed and received services are reimbursed. <b>The funding therefore covers only project-related and actually incurred costs, in line with the conditions of the support.</b></p>	YES
<ul style="list-style-type: none"> <li>Whether technical and administrative costs (e.g., audit, reporting, site supervision) are reasonable and justified in the context of the project's scope and objectives.</li> </ul> <p><b>Explanation:</b> Technical and administrative costs were not included within the scope of this audit for this project; therefore, their reasonableness and justification were not assessed.</p>	N/A
<ul style="list-style-type: none"> <li>Whether the cost documents and contracts are consistent (including invoices, quantities, and delivered services/works).</li> </ul> <p><b>Explanation:</b> Muhu Municipal Government signed contract No. 581-24 with Ribbon Consult OÜ on 28 March 2024 for €44,500 plus VAT at the statutory rate. Within the audit scope, the first invoice dated 11 June 2024 (No. 14122057) was reviewed in relation to Interim Act No. 1. The invoice description and quantities correspond to the contract and the acceptance act, which confirms the completion of the agreed works and delivery of services. <b>The documentation—including the contract, invoice, and acceptance act—shows full consistency, and no discrepancies were identified between the contract and the invoice. This ensures traceability and compliance with the project requirements.</b></p>	YES
<b>Own contribution</b>	<b>Conclusion (YES / NO / N/A)</b>
<b>Auditor verified:</b>	
<ul style="list-style-type: none"> <li>Whether the final recipient of the support has provided co-financing in monetary form in accordance with the funding decision (except in cases where the project was implemented on a zero-cost basis).</li> </ul> <p><b>Explanation:</b> The final recipient has provided co-financing in monetary form as required by the funding decision. The invoice from Ribbon Consult OÜ dated 11 June 2024 (No. 14122057) was paid in full by final recipient on 18 June 2024 via payment order No. 1602 for €9,150. The support amount of €5,947.50 was disbursed to the beneficiary in line with the approved support rate specified in the funding decision. The provision of co-financing is further confirmed by the decision of Muhu Municipal Council dated 17 January 2024 (No. 130), which allocated the necessary funds for project co-financing. <b>Based on the audit review, co-financing has been ensured, complies with the conditions of the funding decision, and is supported by actual payments and the municipal budget strategy.</b></p>	YES
➤ Whether the co-financing is correctly recorded in the beneficiary's accounting system and relevant reports.	YES

<p><b>Explanation:</b> Co-financing has been properly recorded in the beneficiary's accounting system in accordance with the date of cost incurrence and payment. The support portion and the co-financing share are clearly distinguished using a project-specific code and are reflected in the financial accounting system in compliance with the Public Sector Financial Accounting and Reporting Guidelines, which require accrual-based accounting and project-level segregation. Accounting entries and extracts can be provided if needed to verify the co-financing. <b>Based on the audit review, co-financing is correctly recorded, identifiable by project code, and complies with applicable accounting principles and reporting requirements.</b></p>	
<b>Value Added Tax (VAT)</b>	<b>Conclusion (YES / NO / N/A)</b>
<b>Auditor verified:</b>	
<ul style="list-style-type: none"> <li>➤ Whether VAT is eligible for the beneficiary, <ul style="list-style-type: none"> <li>a) it is permitted under the conditions for granting the support, and</li> <li>b) the beneficiary has no right to deduct or reclaim the VAT paid as input VAT in accordance with applicable VAT regulations.</li> </ul> </li> </ul>	YES
<p><b>Explanation:</b> VAT is considered an eligible cost for this project. Muhu Municipal Government (75018710) does not have VAT payer status, as confirmed by the Estonian Tax and Customs Board's taxpayer register check on 16 December 2025 (<a href="https://apps.emta.ee/saqu/public/kmkrnr">https://apps.emta.ee/saqu/public/kmkrnr</a>). The project activities do not generate taxable turnover and do not require VAT registration. Therefore, the beneficiary has no right to deduct or reclaim VAT as input VAT under §29 and §32(1) of the Value Added Tax Act. The conditions for granting support specify that VAT is eligible if it is non-recoverable for the beneficiary. Since this criterion is met, VAT is treated as an eligible cost in the project. <b>The handling of VAT complies with the support conditions and applicable tax legislation.</b></p>	
<ul style="list-style-type: none"> <li>➤ Have only VAT amounts that are non-refundable and non-recoverable been declared.</li> </ul> <p><b>Explanation:</b> VAT is eligible. Muhu Municipal Government does not have the status of a VAT payer, as confirmed by the check performed on 16 December 2025 in the Estonian Tax and Customs Board's VAT register (<a href="https://apps.emta.ee/saqu/public/kmkrnr">https://apps.emta.ee/saqu/public/kmkrnr</a>). The activities of this project do not generate taxable turnover and do not require registration as a VAT payer. Pursuant to Sections 29 and 32(1) of the Value Added Tax Act, the municipal government is not entitled to deduct or reclaim VAT as input VAT, since the project does not involve taxable turnover. Therefore, VAT paid within the scope of the project is considered an eligible cost.</p>	YES
<p>The grant conditions specify that VAT is eligible if it is non-recoverable for the beneficiary. As this criterion is met in the present case, VAT is regarded as an eligible cost in the project. The audit scope includes one invoice: Ribbon Consult OÜ, invoice No. 14122057 dated 11 June 2024, in the amount of €9,150 (including VAT). <b>The declared VAT amounts comply with the grant conditions and reflect only VAT that is non-refundable and non-recoverable by the beneficiary. Therefore, VAT has been correctly declared and is eligible.</b></p>	
<ul style="list-style-type: none"> <li>➤ Are there supporting documents (e.g., confirmation from the Estonian Tax and Customs Board) indicating that VAT is non-refundable or non-deductible? If such a document is not available, the auditor will add a note to the working papers stating that no possibility of refund was identified during the review.</li> </ul>	YES
<p><b>Explanation:</b> VAT is eligible. Muhu Municipal Government does not have the status of a VAT payer, as confirmed by the check performed on 16 December 2025 in the Estonian Tax and Customs Board's VAT register (<a href="https://apps.emta.ee/saqu/public/kmkrnr">https://apps.emta.ee/saqu/public/kmkrnr</a>). The activities of this project do not generate taxable turnover and do not require registration as a VAT payer. Pursuant to Sections 29 and 32(1) of the Value Added Tax Act, the municipal government is not entitled to deduct or reclaim VAT as input VAT, since the project does not involve taxable turnover. Therefore, VAT paid within the scope of the project is considered an eligible cost. The terms of the grant specify that VAT is eligible if it is non-recoverable for the beneficiary. <b>As this criterion is met in the present case, VAT is regarded as an eligible cost in the project. No possibility of VAT recovery was identified during the review.</b></p>	
<ul style="list-style-type: none"> <li>➤ Have public sector beneficiaries refrained from declaring VAT for activities falling under the exercise of sovereign powers? If VAT has been</li> </ul>	

declared for activities outside the scope of sovereign powers, has the beneficiary provided confirmation from the competent state authority.	YES
<b>Explanation:</b> Muhu Municipal Government does not have the status of a VAT payer and does not engage, within the scope of this project, in economic activities that fall outside the exercise of sovereign powers. Therefore, the beneficiary has not declared VAT for activities that could be considered taxable. All project-related activities are carried out in the performance of local government functions as a public authority. Since VAT has not been declared and the activities fall under sovereign powers, no confirmation from a competent state authority is required. <b>The treatment of VAT is consistent with applicable legislation and the grant conditions.</b>	
<b>Implementation of Procurement and Purchasing</b>	<b>Conclusion (YES / NO / N/A)</b>
<b>Auditor verified:</b> ➤ Were the principles of transparency, proportionality, and equal treatment of tenderers observed during the procurement or purchasing procedure.	
<b>Explanation:</b> Muhu Municipal Government conducted a simple procurement procedure via the Public Procurement Register for tender No. 276330: “ <u>Design for partial reconstruction of Muhu Cultural and Leisure Centre</u> ”, services, CPV 71240000-2 Architectural, engineering design and planning services. The procurement notice was published on 26 February 2024; the deadline for submission of tenders was 12 March 2024 at 11:00; tenders were opened on 12 March 2024 at 12:00; and the contract was signed on 28 March 2024 with Ribbon Consult OÜ (14355215) for the amount of €44,500 plus VAT of €9,790. The procurement was, to a significant extent, complied with the requirements of the Public Procurement Act, and no violations or other deficiencies were identified during the audit. The procedure was conducted as a simple procurement, as the estimated value fell within the simple procurement thresholds set out in the Public Procurement Act (over 30 000 euros, below the public procurement threshold 60000 euros). The procurement documents were properly structured and included general information, technical specifications, qualification requirements, evaluation criteria, and contract terms. Qualification requirements were justified and related to the subject matter of the contract. All tenderers were treated without discrimination, the procedure was transparent, and competition principles were respected. The contract amendment was made lawfully under Section 123(1)(4) of the Public Procurement Act, as the contract term was extended due to unforeseen circumstances discovered during structural opening (e.g., changes to sloped wall connections). The amendment did not alter the overall nature of the contract, the price remained unchanged, and the modification did not exceed statutory limits. Documentation of unforeseen circumstances is included in meeting minutes. The audit identified that conflict of interest declarations were, in some cases, submitted retrospectively by evaluators. In addition, the Muhu Municipal Government's order formalising procurement decisions did not include a note on the standstill period during which the contracting authority may not sign the contract; however, the contract was signed in compliance with the statutory standstill period. The simple procurement procedure adhered to the principle of transparency, as information was accessible to all potential tenderers via the Public Procurement Register; the principle of proportionality, as conditions and requirements corresponded to the scope and complexity of the service; and the principle of equal treatment, as procurement conditions were the same for all interested parties and evaluation was based on objective criteria. <b>No violations or unfair treatment were identified. Minor non-conformities in the procedure did not affect the outcome or competition in the auditor's opinion. Therefore, all costs incurred under the procurement, including the invoice included in the project, are justified and eligible.</b>	YES
➤ Have the requirements of the Public Procurement Act been complied with in the case of public sector beneficiaries.	
<b>Explanation:</b> As a public sector beneficiary, Muhu Municipal Government complied with the requirements of the Public Procurement Act when conducting simple procurement No. 276330 “Design for partial reconstruction of Muhu Cultural and Leisure Centre”. For the acquisition of project-related services (design for partial reconstruction of Muhu Cultural and Leisure Centre, simple procurement No. 276330, CPV 71240000-2), the procurement notice was published in the Public Procurement Register on 26 February 2024. The simple procurement procedure adhered to the provisions set out in the Public Procurement Act, including notification of tenderers, equal treatment, transparency of evaluation, and proportionality.	YES

<b>The procurement was largely carried out in compliance with applicable legislation. No violations or unfair treatment were identified during the audit.</b>		
➤ Were the costs incurred under the project above the thresholds set in the Public Procurement Act, and if so, was an appropriate procurement procedure conducted in accordance with the Act.		YES
<b>Explanation:</b> Muhu Municipal Government conducted simple procurement No. 276330 “Design for partial reconstruction of Muhu Cultural and Leisure Centre” via the Public Procurement Register (CPV 71240000-2 Architectural, engineering design and planning services). The contract was signed on 28 March 2024 with Ribbon Consult OÜ (14355215) for €44,500 plus VAT of €9,790. The procurement complied with the thresholds established in the Public Procurement Act, as the cost of design services exceeded the statutory limit for simple procurement, and therefore an appropriate procedure was organised. <b>The selected procedure type—simple procurement—was chosen in accordance with the Act, considering the value of the services, and ensured compliance with the principles of transparency, proportionality, and equal treatment.</b>		
➤ Did the successful tenderer and its bid comply with the procurement notice and the tender documents.		YES
<b>Explanation:</b> In simple procurement No. 276330 “Design for partial reconstruction of Muhu Cultural and Leisure Centre”, the successful tenderer, Ribbon Consult OÜ, and its bid complied with the procurement notice and the tender documentation. The sole evaluation criterion was the lowest price, and Ribbon Consult OÜ submitted the most economically advantageous offer based on price (€44,500 plus VAT). Therefore, it was selected as the service provider under the procurement contract.		
➤ Was the procurement procedure transparent, justified, and non-discriminatory.		YES
<b>Explanation:</b> Simple procurement No. 276330 “Design for partial reconstruction of Muhu Cultural and Leisure Centre” was conducted through the Public Procurement Register as an open simple procedure, with the scope of services and evaluation criteria clearly defined in advance. The procurement notice was published on 26 February 2024, the deadlines for submission and opening of tenders were fixed, and equal opportunities for participation were ensured for all interested tenderers. <b>Therefore, the procedure can be assessed as transparent, justified, and non-discriminatory.</b>		
➤ Was the contract concluded with the tenderer offering the best price-quality ratio or the lowest price, in accordance with the evaluation criteria set out in the tender documents.		YES
<b>Explanation:</b> According to Muhu Municipal Government Order No. 66 of 19 March 2024 “Approval of the results of simple procurement No. 276330 ‘Design for partial reconstruction of Muhu Cultural and Leisure Centre’”, the successful tenderer was selected based on the lowest price criterion. The contract was signed on 28 March 2024 with Ribbon Consult OÜ (14355215) for €44,500 plus VAT of €9,790. <b>The contract was concluded in accordance with the evaluation criteria specified in the tender documents, with the tenderer offering the lowest price.</b>		
➤ Was the contract concluded under conditions consistent with the tender and the procurement documents.		YES
<b>Explanation:</b> The conditions set out in the procurement documents for simple procurement No. 276330 “Design for partial reconstruction of Muhu Cultural and Leisure Centre” and in the contract signed on 28 March 2024 with Ribbon Consult OÜ are consistent and have not been altered.		
➤ Was the procurement contract concluded without a conflict of interest, and is the contracting partner not a related party.		YES
<b>Explanation:</b> The procurement contract was signed with Ribbon Consult OÜ (registry code 14355215) without any apparent conflict of interest. <b>The audit did not reveal any evidence that the company’s management or employees were connected to officials of Muhu Municipal Government in a way that could compromise the impartiality of the procurement process.</b> Therefore, the contract can be considered independent, and the contracting partner was not a related party. Auditors reviewed connections in the Business Register ( <a href="#">Ribbon Consult OÜ   e-Business Register</a> ). Muhu Municipal Government confirmed that it had no agreements or transactions with Ribbon Consult OÜ during the year preceding the simple procurement procedure or earlier, and that the company was entirely new and previously unknown to the contracting authority.		
➤ If a framework agreement was used, was it concluded in compliance with the principles of transparency and best price-quality ratio.		N/A
<b>Explanation:</b> No framework agreement was used within the scope of the project; therefore, the question of compliance with transparency and price-		

<p>quality principles in the context of a framework agreement is not applicable.</p>	
<p>➤ Is all procurement documentation (including notices, minutes, quotations, contracts, etc.) available, complete, and auditable.</p> <p><b>Explanation:</b> All procurement documentation, including procurement notices, minutes, quotations, the contract, and documents related to contract performance, is available, complete, and verifiable for audit purposes. Several documents are managed independently of the contracting authority in the Public Procurement Register, which ensures transparency and auditability.</p>	YES
<p>➤ Have similar or functionally related purchases not been artificially split to avoid the application of procurement or purchasing procedures;</p> <p><b>Explanation:</b> The audit did not identify any cases where similar or functionally related purchases were artificially divided to circumvent procurement or purchasing requirements. The design services for the partial reconstruction of Muhu Cultural and Leisure Centre were procured through a single, transparent procedure in compliance with applicable public procurement regulations.</p>	YES
<p>➤ Have any modifications been made to the project, and if so, were they carried out in compliance with the Public Procurement Act and the grant conditions.</p>	
<p><b>Explanation:</b> During project implementation, a modification was made to the contract signed with Ribbon Consult OÜ. The contract term was extended by agreement dated 10 October 2024 due to unforeseen circumstances discovered during design work when opening structural elements—circumstances that could not have been anticipated at the time of contract signing. Accordingly, clause 8.3 of the contract was amended pursuant to clause 15.7, and the deadline was extended by 30 days. The amendment did not affect the contract price or its overall nature and complies with Section 123(1)(4) of the Public Procurement Act. Documentation (meeting minutes) confirms the occurrence of unforeseen circumstances.</p>	
<p><b>Payment timing and compliance with contract terms:</b> A deviation was identified during contract execution: clause 8.7.3 stipulated that the first payment would be made after obtaining the building permit. In practice, the first work completion certificate was signed on 10–11 June 2024, and the invoice was paid on 18 June 2024, while the building permit application was submitted on 29 July 2024 and issued on 30 October 2024. The contracting authority justified the payment by explaining that, during the preparation of the preliminary design, it became necessary to start the main design to resolve certain details (due to new circumstances revealed during structural opening). The preliminary design was largely completed, and the main design had commenced, so the work volume exceeded the amount reflected in the certificate.</p>	YES
<p>From an audit perspective, the justification is understandable; however, the payment was not fully aligned with the explicit contract condition (Clause 15.7 of the design contract states that the Agreement may only be amended by mutual consent of the Parties. Such amendments must be formalized in writing as annexes to the Agreement and shall take effect upon signature, unless otherwise specified in the amendment itself). Therefore, the change to the payment terms should have been made as an annex to the contract; however, this constitutes a formal deficiency, as the intent of the Parties has been clearly demonstrated. Although the payment was made before the contractual precondition was met, in the auditor's opinion this does not affect cost eligibility because:</p>	
<ul style="list-style-type: none"> <li>➤ Documentation and explanations confirm unforeseen circumstances requiring adjustments;</li> <li>➤ The work was actually performed and documented (preliminary design completed, main design started);</li> <li>➤ The amount paid corresponds to the preliminary design cost stated in the tender;</li> <li>➤ The costs fall under eligible activities as per Regulation No. 36 of the Minister of Finance (26 September 2023), § 5(3)(12) (design and expert services).</li> </ul>	
<p>➤ The State Shared Service Centre accepted the justification and eligibility through reporting and correspondence.</p>	
<p>Therefore, the deviation in payment timing did not compromise the funding objective or project results.</p>	
<p><b>Auditor's conclusion and recommendation:</b> The procurement procedure was, to a significant extent, complied with applicable public procurement requirements, and no violations or other deficiencies were identified during the audit carried out in compliance with the principles of transparency, proportionality, and equal treatment. No violations or unfair treatment were identified during the procedure. A deviation was noted in payment timing during contract execution, but in the auditor's opinion it did not affect the procurement outcome or cost eligibility. In similar cases, deviations from</p>	

<p>contractual preconditions should be formalised through a contract amendment or a written agreement prior to making any payment. This ensures full compliance with the contract terms and reduces interpretation risks. All costs incurred under the procurement, including the invoice included in the project, are justified and eligible.</p>	
<p><b>Final Recipient's comment:</b> Thank you for your attention, we agree with your position.</p> <p><b>Personnel-related costs and other costs, including administrative costs for implementing State Shared Services Centre measures</b></p> <p><b>The auditor verifies personnel costs based on a sample (10% of the total amount). Other costs are checked based on the following approach: Full review if there are fewer than 10 cost lines; If there are more than 10 cost lines, the auditor reviews either 10 lines or 10% of the cost lines, whichever is greater.</b></p>	<b>Conclusion (YES / NO / N/A)</b>
<ul style="list-style-type: none"> <li>➤ What methodology is used for determining personnel costs and linking them to the funding;</li> <li>➤ Does the calculation of personnel costs comply with the applicable grant conditions and permitted accounting principles;</li> <li>➤ Is the link between personnel costs and the project sufficiently evidenced (including project-related tasks, working time, and workload proportion);</li> <li>➤ Are relevant documents such as employment contracts, job descriptions, or task allocations available to demonstrate the employees' connection to funded activities;</li> <li>➤ Is the portion of working time reimbursed from the funding correctly calculated and documented;</li> <li>➤ Are tasks not related to the funding correctly separated;</li> <li>➤ Are travel expenses and daily allowances correctly defined and linked to the project, in accordance with the beneficiary's internal rules and applicable legislation;</li> <li>➤ Do training costs (if any) comply with applicable legislation and are they justified in the context of the project objectives.</li> </ul> <p><b>Explanation:</b> No personnel costs, travel expenses, training costs, or similar expenses occurred in the final recipient's project during the audit scope period (2023 and 2024).</p>	N/A
<ul style="list-style-type: none"> <li>➤ What methodology is used for determining other costs and linking them to the funding;</li> <li>➤ Are "other costs" (including office supplies, software, administrative expenses, etc.) eligible and directly related to project implementation;</li> <li>➤ Are the costs correctly identified and attributed to the project;</li> <li>➤ Are the items listed on invoices not recorded as fixed assets, and is the accounting treatment consistent with the beneficiary's usual accounting practices;</li> <li>➤ Do other costs comply with internal cost-handling rules and are they proportionate to the scope and objectives of the project;</li> <li>➤ For procurements classified under "other costs," have procurement or purchasing procedures been followed (see section "Procurement and Purchasing").</li> </ul> <p><b>Explanation:</b> No other costs were incurred in the final recipient's project during the audit scope period (2023 and 2024).</p>	N/A
<p><b>Document Retention</b></p>	<b>Conclusion (YES / NO / N/A)</b>
<p><b>Auditor verified:</b></p> <ul style="list-style-type: none"> <li>➤ Has the final recipient retained all cost documentation and project reports in a manner that ensures a clear and traceable audit trail for activities and expenditures.</li> </ul> <p><b>Explanation:</b> The final recipient has retained all cost documentation and project reports in a way that guarantees a clear and traceable audit trail. During the on-site review 13.10.2025, all project documents—including invoices, payment orders, contracts, council decisions, and reports—were easily accessible. The link between documents and project activities and costs is clearly traceable, and supporting documentation exists for each expense, enabling verification and auditability.</p>	YES

<p>E-invoices are processed through the Finbite system, where coding and allocation to cost and project accounts are performed. Project-related payment documents include the project code (SPH rek Kliima2.8.01.23-0039 Muhu Sports Hall Energy Efficiency Improvement). The accounting software used is PMen. E-invoices are received via Finbite, where coding and project allocation occur, and the same environment is used for archiving source documents. In the accounting records, all project costs are identifiable by the code: Project = SPH rek Kliima2.8.01.23-0039 Muhu Sports Hall Energy Efficiency Improvement.</p> <p><b>In the auditor's opinion, the document retention and traceability requirements have been met, and the systems ensure cost control and transparency.</b></p>	
<p>➤ Has it been ensured that the final recipient retains all documents and data related to the grant, including information on payments and expenditures, for at least five years from the date of the last payment of the project or measure (as required by Article 16(5) of Regulation (EU) 2020/1001).</p> <p><b>Explanation:</b> Retention of documents for at least five years from the last project payment is ensured. According to Muhu Municipal Government's internal accounting rules (available in the State Gazette: <a href="https://www.riigiteataja.ee/akt/423012025004">https://www.riigiteataja.ee/akt/423012025004</a>), § 5 stipulates that accounting documents are retained for seven years from the end of the financial year in which the document was recorded, which exceeds the five-year requirement set by EU regulation. In addition, project files related to environmental and economic development projects are stored in the WebDesktop document management system for 15 years after project completion (based on the classification scheme approved by Muhu Municipal Government Order No. 73 of 05 April 2024), and project-related documents are also duplicated in the municipal file server. <b>In the auditor's opinion, the document retention obligation has been met and complies with both EU and national requirements. This obligation is also known to officials involved in the project.</b></p>	YES
<b>Communication and Visibility (Article 17)</b>	<b>Conclusion (YES / NO / N/A)</b>
<p><b>Auditor verified:</b></p> <p>➤ Has the final recipient of the support complied with the European Union's communication and visibility requirements (including proper use of the EU and Modernisation Fund logos, clear indication of the amount and origin of the support; implementation of communication activities, such as notice boards in strategic locations visible to the public and other information aimed at the general public);</p> <ul style="list-style-type: none"> <li>○ If the final recipient is required to install notice boards on sites and facilities, the presence of such boards is verified, along with proper references to EU and Modernisation Fund co-financing and compliance of the visual identity with the EU and the grant conditions guidelines (according to the grant conditions, §19: During construction works related to the project, an information board must be placed in the project area, which must include at least: the project title; the contractor; the completion deadline; additional wording: "The reconstruction is supported by the Modernisation Fund"; the logo of the ministry responsible for the sector and the State Shared Service Centre).</li> </ul> <p><b>Explanation:</b> The Muhu Municipal Government has installed an information board at the site. During the on-site visit as part of the audit procedures, the board was present and complied with the requirements.</p> <ul style="list-style-type: none"> <li>○ If the final recipient has used informational materials (e.g., printed publications, websites, videos) when utilizing the funding or presenting projects and their results, it is verified whether these materials include proper references to EU and Modernisation Fund co-financing and whether the visual identity complies with the EU and grant conditions guidelines;</li> <li>○ If information on the use of funding has been published in the final recipient's public communications (e.g., on its website, in annual reports, press releases, or other sources aimed at the general public), the presence of proper references to EU and Modernisation Fund co-financing is assessed, along with compliance of the visual identity with the EU and grant conditions guidelines, and the accuracy and timeliness of the information (e.g., funding amounts, purpose of the support, project period, etc.);</li> </ul> <p><b>Explanation:</b> The Muhu Municipal Government has shared information about the project and the funding source on its <a href="#">website</a>. Examples of information published on the Muhu municipality website include:</p> <ul style="list-style-type: none"> <li>○ Project information: <a href="https://www.muhu.ee/documents/22617526/32735676/Spordihalli+projekti+info.pdf/e2573197-f231-4032-b52c-">https://www.muhu.ee/documents/22617526/32735676/Spordihalli+projekti+info.pdf/e2573197-f231-4032-b52c-</a></li> </ul>	YES

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- News article: "Muhu sports hall to be reconstructed by Arens Ehitustööd OÜ and Dreibau OÜ" [https://www.muhu.ee/et/teated6-/asset\\_publisher/CJCDXuBonPN9/content/muhu-spordihalli-rekonstruktsioon-arense-ehitustood-ou-ja-dreibau-ou?](https://www.muhu.ee/et/teated6-/asset_publisher/CJCDXuBonPN9/content/muhu-spordihalli-rekonstruktsioon-arense-ehitustood-ou-ja-dreibau-ou?)

Details about the allocation of funding were published in the municipal newspaper Muhulane, issue No. 6, on 1 June 2024.

Articles published in the newspaper Saarte Hääl:

- 6 January 2025: "Muhu sports hall to get insulated walls and fresh air" <https://saartehaal.postimees.ee/8165664/muhu-spordihall-saab-soojad-seinad-ja-varske-ohu>
- 29 May 2025: "Muhu sports hall under renovation" <https://saartehaal.postimees.ee/8258172/muhu-spordihall-laks-remonti>
- If the final recipient has informed the public about receiving the support (e.g., when presenting projects and their results), it is assessed whether appropriate, coherent, effective, and proportionate information has been provided to different target groups, including the media and the general public.

**Explanation:** During the audit, it was established that the Muhu Municipal Government has fulfilled its communication obligations related to the project and installed a compliant information board at the construction site. In accordance with the established communication and visibility requirements, the board displays the European Union logo as well as the info that the project is co-financed from Modernisation Fund and amount of support. In addition, information about the project and its funding has been published in the media. This ensures transparency of the project's financing and public awareness.