

<b>AUDIT REPORT</b>	<b>Date: 31.12.2025</b>	<b>Prepared by: Maarja Kilter (Head on Internal Audit Department)</b>	<b>Reference nr: A1-4</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 (Muhu 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>	<p>The audit does not include:</p> <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 (Muhi 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

<b>Programme for improvement of energy efficiency and renewable energy use in public sector buildings</b>	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“
<b>Project submitter / final recipient (name of institution)</b>	Saaremaa Municipal Government ( <i>Saaremaa Vallavalitsus</i> )
<b>Project number</b>	Kliima2.8.01.24-0063
<b>Project title</b>	Reconstruction of Orissaare Cultural Centre ( <i>Orissaare kultuurimaja rekonstrueerimine</i> )
<b>Decision forming the basis for Modernisation Fund financing</b>	Decision of the Head of the Grants Implementation Department of the State Shared Service Centre, 24 May 2024, No. 11.2-54/24/532 ‘Approval of the application submitted by Saaremaa Municipal Government’
<b>Project eligibility period</b>	01.02.2024–31.01.2027
<b>Total amount of eligible project costs (in euros)</b>	1 108 248,00 (100%)
<b>Maximum amount of Modernisation Fund financing (in euros)</b>	764 691,12 (69%)
<b>Minimum amount of co-financing (in euros)</b>	343 556,88 (31%)
<b>Audited period and amount of Modernisation Fund financing up to 31.12.2024 (in euros)</b>	30304,80
<b>Amount of identified non-eligible financing (in euros)</b>	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 69%)	Modernisation Fund funding payment order number and date	Procurement
2024058 (28.06.2024)	KOMPRO OÜ	Design, including expert assessment (Acceptance Certificate No. T2566-1)	24400,00 (VAT 4400,00)	No. 38932 (26.07.2024) in the amount of 24400,00 euros	24400,00	<b>16836,00</b>	PO34480 (18.11.2024)	Open Procurement Procedure No. 276773, Design Contract
2024077 (23.09.2024)	KOMPRO OÜ	Design, including expert assessment (Acceptance Certificate No. 2)	19520,00 (VAT 3520,00)	No. 38932 (26.07.2024) in the amount of 24400,00 euros	19520,00	<b>13468,80</b>	PO34480 (18.11.2024)	Open Procurement Procedure No. 276773, Design 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, and no violations or other deficiencies were identified during the audit.



For the project-related publicity and visibility activities within the scope of the audit, the requirements have been met; **however, for activities outside the scope, they have not been fully carried out in accordance with EU visibility and communication requirements.** According to the Saaremaa Municipal Government letter dated 31.12.2025 (No. 7-4/7303-2), the beneficiary will correct the information displayed on the information board at the earliest opportunity and ensure compliance with the regulation.

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 within the scope of the audit 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.**

**While the audit did not identify any breaches or deficiencies affecting the eligibility of costs verified within the scope, three observations were made:**

**1. Changes in building size and technical systems during implementation may require alignment of project indicators with the final approved objectives (resolved during the audit).**

Response dated 30.12.2025 (State Shared Service Centre): The State Shared Service Centre has approved the change in the building's floor area and endorsed the updated energy audit. According to the measure regulation, building extensions are not supported, except where expansion is necessary for the installation of technical systems specified in the energy audit. In this project, the increase in floor area results from the unavoidable need to install modern technical systems and is fully in line with the exception set out in the regulation. The updated energy audit accurately reflects the change in floor area (EA pp. 21 and 23), and the extension volume is clearly distinguished in the audit calculations. The project continues to be implemented in compliance with the decision approving the application and the requirements of the measure regulation.

**2. The proportion of eligible design costs should be reassessed once the eligibility of construction costs is clarified.**

Response dated 30.12.2025 (State Shared Service Centre): The eligibility check of costs is carried out in accordance with the measure regulation and State Shared Service Centre's internal procedures. State Shared Service Centre emphasizes that cost eligibility is assessed and support is paid based on the information and project data available at the time of payment. We hereby confirm that once the final proportion of eligible construction costs has been determined, the eligibility of design costs will also be assessed according to the same principle, including retroactively. For costs already paid, an offset will be applied.

Response dated 31.12.2025 (Saaremaa Municipal Government): We agree that the calculation of eligible design costs must apply the same proportion as used for determining the eligibility of construction costs. The calculation of the construction cost eligibility ratio is currently in progress in cooperation with the State Shared Service Centre.

**3. The information board at the construction site should be brought into compliance with the requirements of 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“.**

Response dated 30.12.2025 (State Shared Service Centre): State Shared Service Centre has drawn the beneficiary's attention to the fulfilment of publicity requirements on 30.05.2024 (see project mailbox). At present, State Shared Service Centre has not received any costs related to the construction contract, during the processing of which it would be possible to verify compliance with the publicity requirements in accordance with the measure regulation.

Response dated 31.12.2025 (Saaremaa Municipal Government): We will correct the information displayed on the information board at the earliest opportunity and ensure compliance with the requirements of the regulation.

**These matters do not affect the compliance of costs audited to date but require attention by the State Shared Service Centre and the beneficiary to ensure full compliance at project completion.**

Compliance of Project Planning with Modernisation Fund Objectives	Conclusion
Auditor verified:	(YES / NO / N/A)

- 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).

**Explanation:** The target of the project is the Orissaare Cultural Centre (Building Register Code 106013522), located at Kuivastu Road 37, Orissaare Borough, Saaremaa Municipality, Saare County (Cadastral Identifier 55001:008:0383). The building, constructed in 1959, is municipally owned and has a heated area of 1,281.6 m<sup>2</sup>. Its volume and façades are under heritage protection (registered cultural monument No. 27352). The municipality has confirmed its ability to ensure the building's preservation, management and use for public services for at least ten years after project completion. The facility currently houses a community centre and a library. In 2021, the exterior façade was repaired using COVID-19 funds (€174,646). The need for reconstruction is established in the Saaremaa Municipality Cultural Development Plan 2020–2030 under Strategic Objective 3: “Cultural infrastructure is efficiently used, sustainably managed, and modernised,” activity 3.1.6: “Reconstruction of Orissaare Cultural Centre”).

**The project aims** to bring the Orissaare Cultural Centre into compliance with modern energy efficiency standards and thereby reduce energy consumption. Planned activities include:

- Insulating the plinth from the inside and insulating the first-floor floors;
- Replacing all windows and doors with energy-efficient alternatives;
- Insulating or covering the walls below windows;
- Installing a new ventilation system with heat recovery;
- Reconstructing the water supply and sewerage system;
- Reconstructing the electrical system and installing 29 kW solar panels.

The building's energy performance indicator before the project is 321 kWh/(m<sup>2</sup>·year). Annual electricity consumption during 2021–2022 averaged 33.2 MWh (approx. €9,400), and heat energy consumption was 170 MWh (approx. €10,700). Heat energy for heating was 185 MWh, and for domestic hot water preparation 1.3 MWh.

As a result of the planned works, an estimated heat energy saving of 3.4 MWh/year and electricity saving of 10.5 MWh/year will be achieved, with a financial saving of approximately €1,500 per year. After reconstruction, the building's energy performance indicator will be 171 kWh/(m<sup>2</sup>·year), achieving energy efficiency class C.

In addition to energy efficiency objectives, the building will become a multifunctional centre housing the community centre, library, and municipal service offices. This will ensure sustainable access to public services in the region and optimise the use of municipal service centre spaces (the current service centre operates in an outdated municipal building that does not meet energy efficiency requirements, class F). During design, it will also be assessed whether the currently unused attic space (approx. +200 m<sup>2</sup>) can be utilised; this was not included in current calculations. The heating system will remain district heating.

**The project implementer is Saaremaa Municipal Government** and the project will be carried out during the period February 2024 – January 2027. Main activities and budget:

- Design, including expert assessment: €109,800
- Construction, including owner's supervision: €998,448 (including owner's supervision; external walls; windows; external doors; ceiling insulation; water supply and sewerage; heating, ventilation, and cooling; electrical installations; low-voltage installations and automation and other construction-related costs).
- Energy efficiency works according to the energy audit – lines 712–714 and 748, 754 were pointed out as non-eligible.

**The scope of the audit includes** design-related costs, which are eligible under § 5(3)(12) of 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.” According to this provision, eligible costs for energy efficiency works include design necessary for the works listed in points 1–9, construction

YES



<p>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><u>When submitting the application, the beneficiary confirmed that:</u></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 years after project completion.</li> <li>• At least 90% of the heated net area of the building will be used for five years after project 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>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, Energy Audit No. EA240127, prepared by Säästuenergia OÜ, which supports the project objectives was submitted. The aim of the project is to bring the Orissaare Cultural Centre into compliance with modern energy efficiency standards and thereby reduce energy consumption. Planned works include insulating the plinth and first-floor floors, replacing all windows and doors with energy-efficient alternatives, insulating or covering the walls below windows, installing a new ventilation system with heat recovery, reconstructing the water supply and sewerage system, and upgrading the electrical system with the installation of 29 kW solar panels. The heating system will remain district heating.</p> <p>As a result of these works, an estimated heat energy saving of 3.4 MWh/year and electricity saving of 10.5 MWh/year will be achieved, with an annual financial saving of approximately €1,500. After reconstruction, the building’s energy performance indicator will be 171 kWh/(m<sup>2</sup>·year), achieving energy efficiency class C.</p> <p>The cross-sector indicators provided in the application confirm the impact:</p> <ul style="list-style-type: none"> <li>• Reduction of CO<sub>2</sub> emissions from 45.50 tonnes/year to 38.30 tonnes/year;</li> <li>• Decrease in the cost of energy supplied to the building from €21,070/year to €19,540/year;</li> <li>• Reduction in the amount of energy supplied to the building from 219,500 kWh/year to 205,600 kWh/year.</li> </ul> <p>In addition to energy efficiency works, the application notes that some measures identified in the energy audit (lines 712–714 and 748, 754) are non-eligible.</p> <p><b>The project’s objective and planned activities are clearly aimed at improving energy efficiency. They comply with the eligibility conditions for energy efficiency measures and contribute to achieving the objectives of the Modernisation Fund in accordance with Regulation (EU) 2020/1001 and national support conditions. It can therefore be concluded that the beneficiary’s activities are consistent with the goals of modernising energy systems and improving energy efficiency.</b></p>	YES
<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 indicators directly linked to energy efficiency and carbon emission reduction:</p> <ul style="list-style-type: none"> <li>• CO<sub>2</sub> emissions saved (tonnes/year): 45.50 (initial), 38.30 (target)</li> <li>• Energy supplied to the building (€ per year): €21,070.00 (initial), €19,540.00 (target)</li> <li>• Energy supplied to the building (kWh per year): 219,500.00 (initial), 205,600.00 (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</b></p>	YES

<p><b>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>	
<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 in the implementation phase, and actual effectiveness can only be assessed after project completion and submission of reports. The project application defined initial and target objectives based on Säästuenergia OÜ's report No. EA240127 "Energy Audit of Orissaare Cultural Centre." The application sets out the following performance indicators:</p> <ul style="list-style-type: none"> <li>• CO<sub>2</sub> emissions saved, tonnes/year: 45.50 (initial), 38.30 (target)</li> <li>• Energy supplied to the building, EUR/year: 21,070.00 (initial), 19,540.00 (target)</li> <li>• Energy supplied to the building, kWh/year: 219,500.00 (initial), 205,600.00 (target)</li> </ul> <p>The beneficiary is obliged to submit reports via the Structural Funds Register on greenhouse gas emission savings for the full years following the project, no later than <b>15 February 2029, 15 February 2030, and 15 February 2031</b>. The report must reflect at least the reduction in energy supplied to the building as a result of energy efficiency works, expressed both in energy and maintenance cost units, and thus the impact on greenhouse gas emissions compared to the pre-project indicators specified in the building's energy audit.</p> <p>At the time of the energy audit and application submission, the building's gross floor area was 1,281.6 m<sup>2</sup>. The application referred to the possibility of increasing the area by approximately 200 m<sup>2</sup>, assuming that necessary technical rooms (e.g., ventilation, server rooms) would be accommodated by reorganizing underutilized spaces. During the design phase, it became clear that existing rooms were too small to allow installation of modern equipment. There is a significant need for a modern ventilation chamber—currently, the building lacks a contemporary ventilation system and suitable rooms. According to the reconstruction design, the gross floor area will increase by 436.9 m<sup>2</sup> to 1,718.5 m<sup>2</sup>, of which technical rooms account for 259.6 m<sup>2</sup>. The heated area will be 1,709.7 m<sup>2</sup>. Säästuenergia OÜ updated the energy audit (Work No. EA250814, revised on 19 August 2025) in connection with the clarification of space utilization options during the design process.</p> <p>The final recipient's documentation defines clear performance indicators and reporting obligations together with a methodology that enables transparent assessment of results in line with Modernisation Fund requirements. However, changes in building size and technical systems during implementation may affect the originally defined objectives and indicators. Therefore, these must be reviewed and aligned with the final approved project to ensure compliance.</p> <p><b>Observation for the State Shared Service Centre and the final recipient:</b></p> <p>According to the Regulation of the Minister of Finance of 26 September 2023 No. 36 "Conditions and Procedure for the Use of Support from the Modernisation Fund for Improving the Energy Efficiency of Local Government Buildings" (§ 2 (2)), the State Shared Service Centre processes support applications, makes funding decisions, executes payments, and exercises supervision over projects.</p> <p>Project Kliima2.8.01.24-0063 "Reconstruction of Orissaare Cultural Centre" is in the implementation phase. The project application defined initial and target objectives based on Säästuenergia OÜ's report No. EA240127 "Energy Audit of Orissaare Cultural Centre." The application sets out the following performance indicators:</p> <ul style="list-style-type: none"> <li>• CO<sub>2</sub> emissions saved, tonnes/year: 45.50 (initial), 38.30 (target)</li> <li>• Energy supplied to the building, EUR/year: 21,070.00 (initial), 19,540.00 (target)</li> <li>• Energy supplied to the building, kWh/year: 219,500.00 (initial), 205,600.00 (target)</li> </ul> <p>At the time of the energy audit and application submission, the building's gross floor area was 1,281.6 m<sup>2</sup>. The application referred to the possibility of increasing the area by approximately 200 m<sup>2</sup>, assuming that necessary technical rooms would be accommodated by reorganizing underutilized spaces. During the design phase, it became clear that existing rooms were too small to allow installation of modern equipment. According to the reconstruction</p>	<p><b>YES</b></p>

<p>design, the gross floor area will increase by 436.9 m<sup>2</sup> to 1,718.5 m<sup>2</sup>, of which technical rooms account for 259.6 m<sup>2</sup>. The heated area will be 1,709.7 m<sup>2</sup>. Säästuenergia OÜ updated the energy audit in connection with the clarification of space utilization options during the design process (Work No. EA250814, updated on 19 August 2025).</p> <p><b>Recommendation to the State Shared Service Centre and the final recipient (resolved during the audit):</b></p> <p>Ensure that the changes in building size compared to the application (initial gross floor area 1,281.6 m<sup>2</sup>, after reconstruction 1,718.5 m<sup>2</sup>) and the resulting changes in project objectives (energy savings, CO<sub>2</sub> reduction) are reviewed and aligned with the final approved project objectives. This affects both the achievement of project goals and the calculation of costs and indicators. Failure to do so may result in a risk that project outcomes do not correspond to the indicators forming the basis of the funding decision, which could lead to partial recovery of funds. If changes during implementation affect the indicators underlying the funding decision, these must be reviewed and, if necessary, adjusted in cooperation between State Shared Service Centre and the beneficiary to ensure compliance with the regulation.</p> <p><b>Response dated 30.12.2025 (State Shared Service Centre):</b> The State Shared Service Centre has approved the change in the building's floor area and endorsed the updated energy audit. According to the measure regulation, building extensions are not supported, except where expansion is necessary for the installation of technical systems specified in the energy audit. In this project, the increase in floor area results from the unavoidable need to install modern technical systems and is fully in line with the exception set out in the regulation. The updated energy audit accurately reflects the change in floor area (EA pp. 21 and 23), and the extension volume is clearly distinguished in the audit calculations. The project continues to be implemented in compliance with the decision approving the application and the requirements of the measure regulation.</p> <p><b>Auditor's Note: The project is ongoing. A final assessment of the achievement of objectives cannot be provided until the project is completed and reports have been submitted. Responsibility for achieving the objectives lies with the final recipient.</b></p>	
<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" principle (applicable as of 1 January 2025). 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 harm" 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."</i></p> <p><b>The 'Do No Significant Harm' (DNSH) principle becomes 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>	N/A

<p>➤ 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.</p> <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> <p>➤ 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;</p> <p>➤ 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.</p> <p><b>Explanation:</b> The project aims to bring the Orissaare Cultural Centre building into compliance with modern energy efficiency standards, thereby reducing energy consumption. No investments are made in energy production facilities operating on fossil fuels; coal, lignite, or other solid fossil fuels are not used. The application includes the following confirmation: “I confirm that the project does not plan (including outside the project) to use fossil fuels to cover 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>	<p><b>Conclusion</b> <b>(YES / NO</b> <b>/ N/A)</b></p>
<p><b>Auditor verified:</b></p> <p>➤ 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;</p> <p><b>Explanation:</b> The application listed the following main activities: design, including expert review: EUR 109,800.00; construction, including owner’s supervision: EUR 998,448.00 (including owner’s supervision; external walls; windows EUR; external doors; ceiling insulation; water supply and sewerage; heating, ventilation and cooling; electrical installation; low-voltage installation and automation and other construction-related costs). Energy efficiency works according to the energy audit – lines 712–714 and 748, 754 – are not eligible.</p> <p>As a result of audit procedures, it was established that the planned procurements have been carried out, design work has been completed and documented. At the time of approval of this audit report, construction works are ongoing, but according to the schedule presented in the application, they are expected to be completed no later than January 2027.</p> <p><b>The activities of the final recipient are consistent with the project description, the contract, and the conditions of the funding documentation, ensuring the implementation, documentation, and verifiability of activities in line with the purpose of the funding.</b></p>	
<p>➤ whether the activities have been implemented within the prescribed timeframe and in accordance with the schedule presented in the application or other financing document, including any approved modifications;</p> <p><b>Explanation:</b> The project’s eligibility period is from 1 February 2024 to 30 January 2027. The applicant has confirmed that the activities listed in the application for which support is requested were not started before the submission of the application. The planned procurements have been carried out, and design works have been completed. According to the schedule submitted by the final recipient in the application, construction works are expected to be completed no later than January 2027. At the time of approval of this audit report, construction works are ongoing. <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>	YES

<p>➤ 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.).</p> <p><b>Explanation:</b> It is not possible at the time of approval of this audit report to provide a final assessment of the achievement of the objectives set out in the application and the funding documentation (including improvement of energy efficiency, energy savings in MWh, and reduction of CO<sub>2</sub> emissions), as construction works are still ongoing. The beneficiary is obliged to submit reports via the Structural Funds Register on greenhouse gas emission savings for the full years following the project, no later than 15 February 2029, 15 February 2030, and 15 February 2031. These reports must reflect at least the reduction in energy supplied to the building as a result of energy efficiency works, expressed both in energy and maintenance cost units, and thus the impact on greenhouse gas emissions compared to the pre-project indicators specified 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 that the project has created all prerequisites for achieving the objectives by the end of the project.</b></p>	N/A
<b>Accounting</b>	<b>Conclusion</b>
<b>Auditor verified:</b>	<b>(YES / NO / N/A)</b>
<p>➤ 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.</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 = 82248 Orissaare Cultural Centre Interior Reconstruction), 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>	YES
<p>➤ 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.</p> <p><b>Explanation:</b> The project application included 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 assistance for reimbursement of the same cost during the three years preceding the application." Within the scope of the audit, no costs were found to be shared between multiple projects (Kompro OÜ invoice No. 2024058 dated 28 June 2024 and invoice No. 20204077 dated 23 September 2024, described as "Design works for the reconstruction of Orissaare Cultural Centre," are fully related to a single project activity). <b>Since the costs are fully related to a single project activity, it was not necessary to establish separate allocation keys.</b></p>	N/A
<p>➤ 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 payment documents reflecting these costs from other documents).</p> <p><b>Explanation:</b> Within the scope of the audit, the costs under review were not allocated across multiple projects (Kompro OÜ invoice No. 2024058 dated 28 June 2024 and invoice No. 20204077 dated 23 September 2024, described as "Design works for the reconstruction of Orissaare Cultural Centre"). <b>The costs are 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>	YES
<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>	YES



<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 checks on 13 November 2024 based on the SFOS cost document control sheets, ensuring that the same costs 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.). <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>	
<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. The project costs are properly registered in the accounting system and reflected in tax documents, ensuring traceability and verifiability of the expenditures.</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
<p><b>Overall Financial Accounting Aspects</b></p>	<p><b>Conclusion</b></p>
<p><b>Auditor verified:</b></p>	<p><b>(YES / NO / N/A)</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 scope of the audit includes design-related costs, which are eligible under § 5 (3) point 12 of the Regulation of the Minister of Finance No. 36 of 26 September 2023. This provision regulates the eligibility of costs for design, construction supervision during works, involvement of an energy efficiency expert, and other costs necessary for planning energy efficiency works. In the application, one of the requested costs was design, including expert review, in the amount of EUR 109,800.00, which formed the basis for the amounts set out in the funding decision.</p> <p>The declared costs for design and related services are essentially eligible and in line with the funding decision and the conditions for granting support. 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. However, based on the construction procurement, the proportion of eligible design costs must be reassessed. It is not necessary to adjust the eligibility of the first invoices already reimbursed; the proportion of eligible design costs can be corrected in subsequent invoices so that the final proportion across the entire design contract is accurate and compliant.</p> <p><b>Observation for the State Shared Service Centre and the final recipient:</b></p> <p>According to the Regulation of the Minister of Finance No. 36 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” (§ 2 (2)), the State Shared Service Centre processes support applications, makes funding decisions, executes payments, and exercises supervision over projects.</p> <p>Project Kliima2.8.01.24-0063 “Reconstruction of Orissaare Cultural Centre” is in the implementation phase. At present, State Shared Service Centre has considered two invoices related to design as 100% eligible and reimbursed them at the support rate of 69% in accordance with the funding decision. However, project documentation and email correspondence indicate that the eligibility of costs related to the construction contract No. 2-7.451-1 (dated 19</p>	YES

<p>May 2025) is being clarified by activity and cost line as of December 2025. Based on this correspondence, it is foreseeable that not all construction activities will be eligible. Consequently, it is not justified to treat all design costs as fully eligible if the eligibility of construction works proves to be partial.</p> <p><b>Recommendation to the State Shared Service Centre and the final recipient:</b></p> <p>Ensure that all reimbursed costs comply with the eligibility conditions set out in the regulation and adjust cost accounting as necessary before making payments. Once the proportion of eligible construction costs has been determined, the eligibility proportion of design costs under the Kompro OÜ contract must also be assessed. For subsequent payment applications, proportional accounting must be applied according to the established eligibility rates, and any necessary adjustments or corrections must be made to ensure that financial accounting reflects the actual eligibility of the project. Otherwise, there is a risk that Modernisation Fund resources will be used to cover partially ineligible costs, which may result in recovery of funds and affect the reliability of the report submitted to the European Commission.</p> <p><b>Response dated 30.12.2025 (State Shared Service Centre):</b> The eligibility check of costs is carried out in accordance with the measure regulation and State Shared Service Centre's internal procedures. State Shared Service Centre emphasizes that cost eligibility is assessed and support is paid based on the information and project data available at the time of payment. We hereby confirm that once the final proportion of eligible construction costs has been determined, the eligibility of design costs will also be assessed according to the same principle, including retroactively. For costs already paid, an offset will be applied.</p> <p><b>Response dated 31.12.2025 (Saaremaa Municipal Government):</b> We agree that the calculation of eligible design costs must apply the same proportion as used for determining the eligibility of construction costs. The calculation of the construction cost eligibility ratio is currently in progress in cooperation with the State Shared Service Centre.</p> <p><b>Auditor's Note:</b> The project is ongoing. A final assessment of the achievement of objectives cannot be provided until the project is completed and reports have been submitted. Responsibility for achieving the objectives lies with the final recipient.</p>	
<p>➤ Whether the amount and description of the costs correspond to the project budget and what was presented in the application.</p> <p><b>Explanation:</b> The scope of the audit includes design-related costs, which are eligible under § 5 (3) point 12 of the Regulation of the Minister of Finance No. 36 of 26 September 2023. The corresponding activities and costs were described in the application (design, including expert review, EUR 109,800.00). The final recipient explained to the State Shared Service Centre on 13 November 2024 the reasons for determining the eligible amount of costs as follows:</p> <p><i>The project manager explained the objectives of the design: "The objectives mainly describe the intended uses of the building, which the designer must consider when designing an energy-efficient building. Energy efficiency primarily concerns the building's structures, technical systems, and processes that take place in the building, regardless of what activities occur there. This building does not have architectural or structural solutions or technical systems whose design would not require consideration of energy efficiency. Orissaare Cultural Centre is a heritage-protected site. The resulting conditions increase the complexity of designing and constructing an energy-efficient building."</i></p> <p>State Shared Service Centre accepted these explanations and agreed to review the proportions once construction works on site have commenced. At the time of the audit, the final recipient had not yet reached a definitive conclusion regarding the proportion of eligible design costs.</p> <p>The funded costs (Kompro OÜ invoice No. 2024058 dated 28 June 2024 and invoice No. 20204077 dated 23 September 2024, described as design works for the reconstruction of Orissaare Cultural Centre) correspond to the activities planned in the application, and State Shared Service Centre has accepted their eligibility and justification, confirming compliance with the purpose of the funding. It is not necessary to adjust the eligibility of the first invoices already reimbursed; the proportion of eligible design costs can be corrected in subsequent invoices so that the final proportion across the entire design contract is accurate and compliant.</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.</p> <p><b>Explanation:</b> The costs were incurred and paid directly by the final recipient of the support, in accordance with the activities permitted under the</p>	YES

<p>project. Kompro OÜ invoice dated 28 June 2024, No. 2024058, in the amount of €24,400 including VAT, and invoice dated 23 September 2024, No. 20204077, in the amount of €19,520 including VAT, both described as design works for the reconstruction of Orissaare Cultural Centre for Saaremaa Municipal Government, correspond to the amounts foreseen in the approved project budget and the activities described in the application. Although the invoices do not contain an explicit reference to the works contract, when reviewed together with the related acceptance certificates and contracts, they confirm the direct link between the costs and the project activities. During the audit, no circumstances were identified that would indicate the costs were not incurred economically and efficiently, in line with the project objectives and ensuring the prudent use of resources. <b>The invoices are duly justified, recorded in the final beneficiary's accounting system, and supported by original cost documentation, which enables verification of the expenditure's link to the project. The total amount and description of the costs are consistent with the project budget and the activities planned in the application, thereby guaranteeing transparency and verifiability of the expenditures within the project framework.</b></p>	
<p>➤ Whether the costs were incurred within the eligible project period and do not exceed the eligibility timeframe.  <b>Explanation:</b> The eligible period, as defined in the approval decision of 24 May 2024 (No. 11.2-54/24/532), is from 1 February 2024 to 31 January 2027. Kompro OÜ invoice dated 28 June 2024, No. 2024058, in the amount of €24,400 including VAT, and invoice dated 23 September 2024, No. 20204077, in the amount of €19,520 including VAT, fall fully within this period.  The open procurement procedure "Design of Orissaare Cultural Centre" (reference No. 276773) was announced in the Public Procurement Register on 7 March 2024, confirming that the costs were incurred during the eligible period and in compliance with the support conditions. <b>All verified costs were incurred within the eligible project period and meet the funding requirements.</b></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 set out in the approval decision of 24 May 2024 (No. 11.2-54/24/532) is 69%. Within the scope of the audit, the disbursed support has been paid in accordance with the established support rate, and the maximum support amount has not been exceeded as of the date of this audit report. The project implementation is still ongoing; therefore, the final use of the maximum support amount cannot yet be assessed. The disbursed support payments are consistent with the support rate and the ceiling defined in the funding decision; a final review of the ceiling will be possible upon project completion (see also <b>Observation No. 2</b>).</p>	YES
<p>➤ Whether the costs comply with applicable tax and social legislation.  <b>Explanation:</b> Kompro OÜ invoice dated 28 June 2024, No. 2024058, in the amount of €24,400 including VAT, and invoice dated 23 September 2024, No. 20204077, in the amount of €19,520 including VAT, both described as design works for the reconstruction of Orissaare Cultural Centre, include 22% VAT and have been prepared and submitted in accordance with applicable tax and social legislation. <b>The invoices meet all legal requirements, and the final beneficiary has settled them in compliance with statutory obligations. 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> Kompro OÜ invoice dated 28 June 2024, No. 2024058, in the amount of €24,400 including VAT, and invoice dated 23 September 2024, No. 20204077, in the amount of €19,520 including VAT, both described as design works for the reconstruction of Orissaare Cultural Centre, reflect the design activities specified in the works contract.  According to Acceptance Certificate No. 1 (28 June 2024), the activities include "Concept design and studies" and "Interim payment for preliminary design". Acceptance Certificate No. 2 (23 September 2024) describes activities as "Concept design, studies and interim payment for preliminary design" and "Completion of preliminary design and submission to the EHR". <b>The cost descriptions are clear and consistent with the project activities, enabling identification of a direct link between the expenditures and the project objectives.</b></p>	YES
<p>➤ Whether the costs are, in the auditor's opinion, reasonable, justified, and in line with the principles of sound financial management.  <b>Explanation:</b> To conclude the works contract, an open procurement procedure titled "Design of Orissaare Cultural Centre" (reference No. 276773) was</p>	YES

<p>carried out through the Public Procurement Register. Kompro OÜ invoice dated 28 June 2024, No. 2024058, in the amount of €24,400 including VAT, and invoice dated 23 September 2024, No. 20204077, in the amount of €19,520 including VAT, both described as design works for the reconstruction of Orissaare Cultural Centre, were issued for the execution of works agreed under the contract and are documented by the corresponding acceptance certificates. <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>	
<p>➤ 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).</p> <p><b>Explanation:</b> Kompro OÜ invoice dated 28 June 2024, No. 2024058, in the amount of €24,400 including VAT, and invoice dated 23 September 2024, No. 20204077, in the amount of €19,520 including VAT, both described as design works for the reconstruction of Orissaare Cultural Centre, were carried out in accordance with the works contract. Saaremaa Municipal Government settled these invoices via payment order No. 38932 (26 July 2024) for €24,400 and payment order No. 55361 (23 October 2024) for €19,520, confirming that the costs were actually incurred and the work was accepted.</p> <p><b>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. The funding therefore covers only project-related and actually incurred costs, in line with the conditions of the support.</b></p>	<b>YES</b>
<p>➤ 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.</p> <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>	<b>N/A</b>
<p>➤ Whether the cost documents and contracts are consistent (including invoices, quantities, and delivered services/works).</p> <p><b>Explanation:</b> Saaremaa Municipal Government signed a works contract with Kompro OÜ on 29 April 2024 for €88,000 plus VAT, covering design works for the reconstruction of Orissaare Cultural Centre and author supervision. The contract specifies payment in stages based on project milestones. Within the audit scope, Kompro OÜ invoices dated 28 June 2024 (€24,400 incl. VAT) and 23 September 2024 (€19,520 incl. VAT) correspond to the agreed milestones and acceptance certificates:</p> <p>Certificate No. 1 (28 June 2024): concept design and studies and interim payment for preliminary design.</p> <p>Certificate No. 2 (23 September 2024): concept design, studies and interim payment for preliminary design and completion of preliminary design and submission to EHR.</p> <p><b>Invoice descriptions and volumes match the contract and confirmed certificates, evidencing the delivery of services. No discrepancies between the contract and invoices were identified. This ensures traceability and compliance with the project requirements.</b></p>	<b>YES</b>
<b>Own contribution</b>	<b>Conclusion (YES / NO / N/A)</b>
<b>Auditor verified:</b>	
<p>➤ 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).</p> <p><b>Explanation:</b> The final recipient has provided its own financial contribution in monetary form in accordance with the funding decision. Final recipient has paid Kompro OÜ invoices as follows: Invoice No. 2024058 (28 June 2024) for €24,400 incl. VAT, paid via payment order No. 38932 (26 July 2024); Invoice No. 20204077 (23 September 2024) for €19,520 incl. VAT, paid via payment order No. 55361 (23 October 2024).</p> <p>Support in the amount of €30,304.80 has been disbursed to the final recipient in accordance with the 69% support rate set out in the funding decision. The existence of own contribution is further confirmed by Saaremaa Municipal Government's guarantee letter No. 7-4/499-1 (29 January 2024), which guarantees coverage of the project's own share (31% of eligible costs) and, if necessary, non-eligible costs from the municipal budget.</p>	<b>YES</b>



<p>In addition, Saaremaa Municipal Council Regulation No. 22 (28 September 2023) approved the Saaremaa Municipality Budget Strategy 2024–2027, which allocates €200,000 in 2024 and €1,000,000 in 2025 for the reconstruction of Orissaare Cultural Centre.</p> <p><b>In the auditor's opinion, the own contribution is secured, complies with the conditions of the funding decision, and is covered by actual payments, the guarantee letter, and the budget strategy.</b></p>	
<p>➤ Whether the co-financing is correctly recorded in the beneficiary's accounting system and relevant reports.</p> <p><b>Explanation:</b> Co-financing has been properly recorded in the beneficiary's accounting system in accordance with the dates of cost incurrences and payments. 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>	YES
<b>Value Added Tax (VAT)</b>	<b>Conclusion</b>
<b>Audiitor kontrollis:</b>	<b>(YES / NO / N/A)</b>
<p>➤ Whether VAT is eligible for the beneficiary,</p> <p>a) it is permitted under the conditions for granting the support, and</p> <p>b) the beneficiary has no right to deduct or reclaim the VAT paid as input VAT in accordance with applicable VAT regulations.</p> <p><b>Explanation:</b> VAT is considered an eligible cost for this project. Saaremaa Municipal Government (77000306) is a VAT-registered entity (EE102037395 since 04 January 2018), as confirmed by the Estonian Tax and Customs Board's VAT register on 09 September 2025 (<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 VAT registration beyond the existing status. Therefore, the municipality has no right to deduct or reclaim the VAT paid as input VAT, in accordance with Sections 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 considered an eligible cost under the project. <b>The treatment of VAT in the project complies with the support conditions and applicable tax legislation. The beneficiary cannot deduct or reclaim VAT, making its inclusion as an eligible cost correct.</b></p>	YES
<p>➤ Have only VAT amounts that are non-refundable and non-recoverable been declared.</p> <p><b>Explanation:</b> VAT is considered an eligible cost for this project. Saaremaa Municipal Government (77000306) is a VAT-registered entity (EE102037395 since 04 January 2018), as confirmed by the Estonian Tax and Customs Board's VAT register on 09 September 2025 (<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 VAT registration beyond the existing status. Therefore, the municipality has no right to deduct or reclaim the VAT paid as input VAT, in accordance with Sections 29 and 32(1) of the Value Added Tax Act. The audit scope includes two invoices from Kompro OÜ: Invoice No. 2024058 (28 June 2024) for €24,400 incl. VAT; Invoice No. 20204077 (23 September 2024) for €19,520 incl. VAT. <b>The support conditions stipulate that VAT is eligible only if it is non-recoverable for the beneficiary. In this case, the criterion is met. Therefore, VAT has been correctly declared and is eligible.</b></p>	YES
<p>➤ 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.</p> <p><b>Explanation:</b> VAT is considered an eligible cost for this project. Saaremaa Municipal Government (77000306) is a VAT-registered entity (EE102037395 since 04 January 2018), as confirmed by the Estonian Tax and Customs Board's VAT register on 09 September 2025 (<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 VAT registration beyond the existing status. Therefore, the municipality has no right to deduct or reclaim the VAT paid as input VAT, in accordance with Sections 29 and 32(1) of the Value Added Tax Act. The terms of the grant specify that VAT is eligible if it is non-recoverable for the beneficiary. As this criterion is met in the present</p>	YES



case, VAT is regarded as an eligible cost in the project. <b>No possibility of VAT recovery was identified during the review.</b>	
<p>➤ Have public sector beneficiaries refrained from declaring VAT for activities falling under the exercise of sovereign powers? If VAT has been declared for activities outside the scope of sovereign powers, has the beneficiary provided confirmation from the competent state authority.</p> <p><b>Explanation:</b> Saaremaa Municipal Government (77000306) is a VAT-registered entity (EE102037395 since 04 January 2018), as confirmed by the Estonian Tax and Customs Board's VAT register on 09 September 2025 (<a href="https://apps.emta.ee/saqu/public/kmkrnr">https://apps.emta.ee/saqu/public/kmkrnr</a>). The project does not involve any economic activity falling outside the scope of the local authority's sovereign powers. Therefore, the beneficiary has not declared VAT for activities that could be considered taxable economic activities. All project-related activities are carried out within the framework of the municipality's public authority functions.</p> <p>Since VAT has not been declared and the activities fall under sovereign powers, there is no requirement to provide confirmation from a competent state authority. <b>The treatment of VAT is consistent with applicable legislation and the support conditions. The public sector beneficiary has not declared VAT for activities outside its sovereign powers.</b></p>	<b>YES</b>
<b>Implementation of Procurement and Purchasing</b>	<b>Conclusion</b>
<b>Auditor verified:</b>	<b>(YES / NO / N/A)</b>
<p>➤ Were the principles of transparency, proportionality, and equal treatment of tenderers observed during the procurement or purchasing procedure.</p> <p><b>Explanation:</b> Saaremaa Municipal Government conducted an open procurement procedure via the Public Procurement Register for the acquisition of services under the contract "<u>Design of Orissaare Cultural Centre</u>" (reference No. 276773, CPV 71240000-2: architectural and engineering design and planning services). The procurement notice was published on 7 March 2024, the deadline for submission of tenders was 1 April 2024 at 13:00, tenders were opened on 1 April 2024 at 14:00, and the contract was signed with Kompro OÜ on 29 April 2024 for the amount of €88,000 plus VAT.</p> <p>The procurement was largely carried out in compliance with the requirements of the Public Procurement Act. The procedure was conducted as a open procurement, as the estimated value fell within the open procurement thresholds set out in the Public Procurement Act (below international threshold). 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.</p> <p>The procurement process adhered to the principles of transparency (information accessible to all potential bidders via the register), proportionality (conditions and requirements were appropriate to the scope and complexity of the service), and equal treatment of bidders (identical conditions for all participants, evaluation based on objective criteria). <b>No violations or unfair treatment were identified during the audit. Therefore, all costs incurred under the procurement, including the invoices included in the project, are justified and eligible.</b></p>	<b>YES</b>
<p>➤ Have the requirements of the Public Procurement Act been complied with in the case of public sector beneficiaries.</p> <p><b>Explanation:</b> As a public sector beneficiary, Saaremaa Municipal Government complied with the requirements of the Public Procurement Act when conducting open procurement via the Public Procurement Register for the acquisition of services under the contract "<u>Design of Orissaare Cultural Centre</u>" (reference No. 276773, CPV 71240000-2: architectural and engineering design and planning services). The open procurement procedure adhered to the provisions set out in the Public Procurement Act, including notification of tenderers, equal treatment, transparency of evaluation, and proportionality. <b>The procurement was largely carried out in compliance with applicable legislation. No violations or unfair treatment were identified during the audit.</b></p>	<b>YES</b>
<p>➤ 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.</p> <p><b>Explanation:</b> The procurement was conducted below the international threshold, in accordance with national legislation. Saaremaa Municipal Government conducted an open procurement procedure via the Public Procurement Register for the acquisition of services under the contract "<u>Design of Orissaare Cultural Centre</u>" (reference No. 276773, CPV 71240000-2: architectural and engineering design and planning services). The contract was signed with</p>	<b>YES</b>

<p>Kompro OÜ on 29 April 2024 for €88,000 plus VAT.</p> <p>The procurement was carried out in compliance with the Public Procurement Act and public funding thresholds, as the cost of design services exceeded the threshold set in the Act, requiring a formal tender procedure. <b>The selected procedure type—open 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></p>	
<p>➤ Did the successful tenderer and its bid comply with the procurement notice and the tender documents.</p> <p><b>Explanation:</b> In open procurement No. 276773 “Design of Orissaare Cultural Centre”, the successful tenderer, Kompro OÜ, and its bid complied with the procurement notice and the tender documentation. The sole evaluation criterion was the lowest price, and Kompro OÜ submitted the most economically advantageous offer based on price (€88000 plus VAT). Therefore, it was selected as the service provider under the procurement contract.</p>	YES
<p>➤ Was the procurement procedure transparent, justified, and non-discriminatory.</p> <p><b>Explanation:</b> Procurement No. 276773 “Design of Orissaare Cultural Centre” was conducted through the Public Procurement Register as an open procedure, with the scope of services and evaluation criteria clearly defined in advance. The procurement notice was published on 07 March 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></p>	YES
<p>➤ 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.</p> <p><b>Explanation:</b> According to Saaremaa Municipal Government Order No. 2-3/340 of 9 April 2024 titled “Recognition of the successful tender for the procurement „Design of Orissaare Cultural Centre“, Kompro OÜ’s tender in the amount of €88,000 excluding VAT was declared successful in the procurement procedure (reference No. 276773).</p> <p>The contract was signed on 29 April 2024 with Kompro OÜ for the tendered amount of €88,000 plus VAT, in accordance with the evaluation criteria set out in the procurement documents, awarding the contract to the bidder offering the lowest price.</p>	YES
<p>➤ Was the contract concluded under conditions consistent with the tender and the procurement documents.</p> <p><b>Explanation:</b> The conditions set out in the procurement documentation for the tender “Design of Orissaare Cultural Centre” (reference No. 276773) and in the contract signed with Kompro OÜ on 29 April 2024 are consistent and have not been altered.</p>	YES
<p>➤ Was the procurement contract concluded without a conflict of interest, and is the contracting partner not a related party.</p> <p><b>Explanation:</b> The procurement contract was signed on 29 April 2024 with Kompro OÜ without any apparent conflict of interest. During the audit, no evidence was found indicating that the company’s management or employees were connected to officials of Saaremaa Municipal Government in a way that could compromise the impartiality of the procurement process. Therefore, it can be concluded that the contract was concluded independently and that the contracting partner was not a related party. The auditors verified connections using the Estonian Business Register (<a href="#">KOMPRO OÜ   e-Business Register</a>).</p>	YES
<p>➤ If a framework agreement was used, was it concluded in compliance with the principles of transparency and best price-quality ratio.</p> <p><b>Explanation:</b> No framework agreement was used within the scope of the project; therefore, the question of compliance with transparency and price-quality principles in the context of a framework agreement is not applicable.</p>	N/A
<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 Orissaare Cultural Centre were procured through a single, transparent procedure in compliance with applicable public procurement requirements.</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> The contract concluded with Kompro OÜ was not amended.</p>	YES
<b>Personnel-related costs and other costs, including administrative costs for implementing State Shared Services Centre measures</b>	
<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>
<p>➤ What methodology is used for determining personnel costs and linking them to the funding;</p> <p>➤ Does the calculation of personnel costs comply with the applicable grant conditions and permitted accounting principles;</p> <p>➤ Is the link between personnel costs and the project sufficiently evidenced (including project-related tasks, working time, and workload proportion);</p> <p>➤ Are relevant documents such as employment contracts, job descriptions, or task allocations available to demonstrate the employees' connection to funded activities;</p> <p>➤ Is the portion of working time reimbursed from the funding correctly calculated and documented;</p> <p>➤ Are tasks not related to the funding correctly separated;</p> <p>➤ Are travel expenses and daily allowances correctly defined and linked to the project, in accordance with the beneficiary's internal rules and applicable legislation;</p> <p>➤ Do training costs (if any) comply with applicable legislation and are they justified in the context of the project objectives.</p> <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
<p>➤ What methodology is used for determining other costs and linking them to the funding;</p> <p>➤ Are "other costs" (including office supplies, software, administrative expenses, etc.) eligible and directly related to project implementation;</p> <p>➤ Are the costs correctly identified and attributed to the project;</p> <p>➤ Are the items listed on invoices not recorded as fixed assets, and is the accounting treatment consistent with the beneficiary's usual accounting practices;</p> <p>➤ Do other costs comply with internal cost-handling rules and are they proportionate to the scope and objectives of the project;</p> <p>➤ For procurements classified under "other costs," have procurement or purchasing procedures been followed (see section "Procurement and Purchasing").</p> <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
<b>Document Retention</b>	
<b>Auditor verified:</b>	<b>Conclusion (YES / NO / N/A)</b>
<p>➤ 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.</p> <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> <p>Saaremaa Municipal Government uses PMen accounting software, a cloud-based solution designed for public sector needs, enabling the management of all accounting processes in a single environment.</p>	YES

<p>All purchase documents are processed in the electronic environment Envoice, where invoices are stored digitally. Each project's accounting is organised to clearly distinguish project-related revenues and expenses. For this purpose, each project is assigned a unique project code, which is used to tag all project-related accounting transactions in PMen.</p> <p>Payment order numbers are recorded in the cash/bank module of PMen, where they are linked to the corresponding transactions. In internet banking, payment documents can be searched by payment date and the payment document number indicated in PMen, ensuring accurate identification of documents and consistency with transactions recorded in the accounting registers.</p> <p>Saaremaa Municipal Government follows Section 42 of the internal accounting rules when managing and organising the accounting of earmarked projects. A project manager is appointed by order of the Mayor for each project, responsible for ensuring that all financing-related documents— including reports, funding decisions, notifications, and other relevant materials—are submitted to accounting in a timely manner. In managed institutions, the project manager is appointed by the head of the respective institution. Each project's accounting is organised to clearly separate project-related revenues and expenses; a unique project code is assigned to each project to tag all project-related transactions in PMen. This ensures transparent and targeted use of support and simplifies reporting and oversight.</p> <p>This arrangement ensures compliance with both the municipality's internal requirements and the regulations of funding measures. <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> In accordance with Saaremaa Municipality's internal accounting rules (§ 8 "Retention of invoices and other accounting documents"), the retention of documents and data related to the grant is ensured as follows:</p> <ul style="list-style-type: none"> <li>All purchase documents, travel reports, and expense reimbursement reports are processed in the electronic system Envoice, which is the official platform for managing invoices and cost documents. Supplier invoices are stored electronically in Envoice. Original accounting documents are retained for seven years from the end of the financial year in which the transaction was recorded in the accounting register.</li> <li>Copies of payment orders are obtained and submitted by downloading them from internet banking.</li> </ul> <p><b>Retention of documents for at least five years after the final project payment is guaranteed. This obligation is also communicated to officials involved in the project.</b></p>	YES
<p><b>Communication and Visibility (Article 17)</b></p>	<p><b>Conclusion</b></p>
<p><b>Auditor verified:</b></p>	<p><b>(YES / NO / N/A)</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 Saaremaa 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 mostly with the requirements, but <b>additional wording: "The reconstruction is supported by the Modernisation Fund" was missing.</b></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</li> </ul>	YES

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;

- 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.);

**Explanation:** Information about the project has been published on Saaremaa Municipal Government's website: <https://www.saaremaaavald.ee/projektid/orissaare-kultuurimaja-rekonstrueerimine> and in Saaremaa Teataja on 8 May 2025: <https://www.saaremaaavald.ee/sites/default/files/documents/2025-05/Saaremaa%20Teataja%202025.05.08.pdf>, but the published information does not indicate that this is a project financed by the Modernisation Fund.

- 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:** For the project-related publicity and visibility activities within the scope of the audit, the requirements have been met; **however, for activities outside the scope, they have not been fully carried out in accordance with EU visibility and communication requirements.** During the audit, it was established that the Saaremaa Municipal Government has partly fulfilled its communication obligations related to the project and installed an information board at the site, but **additional wording: "The reconstruction is supported by the Modernisation Fund" was missing.** In addition, information about the project has been published in the media, but the published information does not indicate that this is a project financed by the Modernisation Fund. The activities do not ensure sufficient transparency of the project's financing and public awareness.

**Recommendation to the State Shared Service Centre and the final recipient:** Ensure that the information board is brought into compliance with the requirements of 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“.

**Response dated 30.12.2025 (State Shared Service Centre):** State Shared Service Centre has drawn the beneficiary's attention to the fulfilment of publicity requirements on 30.05.2024 (see project mailbox). At present, State Shared Service Centre has not received any costs related to the construction contract, during the processing of which it would be possible to verify compliance with the publicity requirements in accordance with the measure regulation.

**Response dated 31.12.2025 (Saaremaa Municipal Government):** We will correct the information displayed on the information board at the earliest opportunity and ensure compliance with the requirements of the regulation.