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| <b>AUDIT REPORT</b> | <b>Date: 31.12.2025</b> | <b>Prepared by: Maarja Kilter (Head on Internal Audit Department)</b> | <b>Reference nr: A1-1</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 (Muhu Municipal Government)   | 65%          | 5947,50  |
| Kliima2.8.01.23-0026 Improvement of energy efficiency in the Käina Hobby and Cultural Centre building (Hiiumaa Municipal Government)                | 63%          | 69230,98   |
| Kliima2.8.01.24-0063 Reconstruction of Orissaare Cultural Centre (Saaremaa Municipal Government)  | 69%          | 30304,80   |
| Kliima2.8.01.24-0060 Improvement of energy efficiency in the educational building at Lille Street 2/3 in Põltsamaa (Põltsamaa Municipal Government) | 67%          | 156519,57  |
| <b>TOTAL</b>  |              | <b>262002,85</b>   |

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## FINAL REPORT

|  |                                |                            |  |  |                       |   |  |  |
|--|--------------------------------|----------------------------|--|--|-----------------------|---|--|--|
| Programme for improvement of energy efficiency and renewable energy use in public sector buildings |                                |                            | Sub-measure: Regulation No. 36 of the Minister of Finance of 26 September 2023 „Conditions and Procedure for the Use of Support from the Modernisation Fund for Improving the Energy Efficiency of Local Government Buildings“                                     |  |                       |   |  |  |
| Project submitter / final recipient (name of institution)  |                                |                            | Hiiumaa Municipal Government ( <i>Hiiumaa Vallavalitsus</i> )  |  |                       |   |  |  |
| Project number   |                                |                            | Kliima2.8.01.23-0026   |  |                       |   |  |  |
| Project title  |                                |                            | Improvement of Energy Efficiency in the Käina Hobby and Cultural Centre Building ( <i>Käina Huvi- ja Kultuurikeskuse hoone energiatõhususe parandamine</i> )   |  |                       |   |  |  |
| Decision forming the basis for Modernisation Fund financing  |                                |                            | Decision of the Head of the Grants Implementation Department of the State Shared Service Centre, 24 May 2024, No. 11.2-54/24/535 „Approval of the application submitted by Hiiumaa Municipal Government“; amended on 28 March 2025 by Decision No. 11.3-1/25/1628. |  |                       |   |  |  |
| Project eligibility period   |                                |                            | 03.06.2024 – 28.03.2025; amended 03.06.2024 – 31.08.2025.  |  |                       |   |  |  |
| Total amount of eligible project costs (in euros)  |                                |                            | 384 933,34 (100%)  |  |                       |   |  |  |
| Maximum amount of Modernisation Fund financing (in euros)  |                                |                            | 242 508,00 (63%)   |  |                       |   |  |  |
| Minimum amount of co-financing (in euros)  |                                |                            | 142 425,34 (37%)   |  |                       |   |  |  |
| Audited period and amount of Modernisation Fund financing up to 31.12.2024 (in euros)              |                                |                            | 69 230,98  |  |                       |   |  |  |
| Amount of identified non-eligible financing (in euros)   |                                |                            | N/A  |  |                       |   |  |  |
| Audited cost documents   |                                |                            |  |  |                       |   |  |  |
| Cost document number and date  | Submitter of the cost document | Description of the expense | Total amount of the cost document (EUR, including VAT)   | Payment order for the recipient's payment to the service provider  | Eligible amount (EUR) | Paid amount of MF funding to final recipient (EUR, with rate 63%) | MF funding payment order number and date | Procurement  |
| 20530<br>(31.07.2024)  | Osaühing Ösel Consulting       | Site supervision services  | 976,00<br>(VAT 176,00)   | No. 6637 (19.08.2024) in the amount of 976 euros   | 366,09                | 230,64  | PO33352<br>(15.10.2024)                  | Procurement of a service below the simple procurement threshold, Service Agreement No. 14-1/66 |
| MA2400013<br>(12.08.2024)  | OÜ Vilton Hiiu                 | Construction works         | 98210,00<br>(VAT 17710,00)   | No. 6467 (29.08.2024) in the amount of 98210 euros (on 03.09.2024 OÜ Vilton Hiiu refunded 8050 euros, the contract includes a retention clause requiring 10% of each invoice net amount to be withheld until final acceptance) | 7722,40               | 4865,11   | PO33352<br>(15.10.2024)                  | Open tender No. 278282, Contract for Design and Construction Works                             |
| MA2400014<br>(31.08.2024)  | OÜ Vilton Hiiu                 | Construction works         | 232175.98<br>(VAT 41867.80)  | No. 7296 (19.09.2024) in the amount of 213145,16 euros (90%)   | 19653,51              | 12381,71  | PO33352<br>(15.10.2024)                  | Open tender No. 278282, Contract for Design and Construction Works                             |
| 20554<br>(30.08.2024)  | Osaühing Ösel Consulting       | Site supervision services  | 2196,00<br>(VAT 396.00)  | No. 7299 (19.09.2024) in the amount of 2196 euros  | 823.69                | 518,93  | PO33352<br>(15.10.2024)                  | Procurement of a service below the simple procurement  |



|                           |                          |                           |                             |   |          |          |                         |  |
|---------------------------|--------------------------|---------------------------|-----------------------------|---|----------|----------|-------------------------|--|
|                           |                          |                           |                             |   |          |          |                         | threshold, Service Agreement No. 14-1/66   |
| 20584<br>(30.09.2024)     | Osaühing Ösel Consulting | Site supervision services | 2196,00<br>(VAT 396,00)     | No. 8153 (21.10.2024) in the amount of 2196 euros   | 823,69   | 518,92   | PO34835<br>(27.11.2024) | Procurement of a service below the simple procurement threshold, Service Agreement No. 14-1/66 |
| 20619<br>(31.10.2024)     | Osaühing Ösel Consulting | Site supervision services | 2196,00<br>(VAT 396,00)     | No. 8844 (20.11.2024) in the amount of 2196 euros   | 823,69   | 518,92   | PO34835<br>(27.11.2024) | Procurement of a service below the simple procurement threshold, Service Agreement No. 14-1/66 |
| MA2400018<br>(30.09.2024) | OÜ Vilton Hiiu           | Construction works        | 245079,70<br>(VAT 44194,70) | No. 8332 (28.10.2024) in the amount of 245079,70 euros; (on 11.11.2024 OÜ Vilton Hiiu refunded 20 088.50 euros, the contract includes a retention clause requiring 10% of each invoice to be withheld until final acceptance) | 60005,67 | 37803,57 | PO34835<br>(27.11.2024) | Open tender No. 278282, Contract for Design and Construction Works                             |
| MA2400019<br>(31.10.2024) | OÜ Vilton Hiiu           | Construction works        | 255114,20<br>(VAT 46004,20) | No. 8843 (20.11.2024) in the amount of 234203,20 euros (90%)  | 19671,71 | 12393,18 | PO34835<br>(27.11.2024) | Open tender No. 278282, Contract for Design and Construction Works                             |

**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 were conducted in substantial compliance with applicable requirements. Minor deficiencies were identified (with no financial impact), but no violations or unfair treatment were found.

Project-related publicity and visibility activities have been carried out in accordance with EU visibility and communication requirements.

The beneficiary has also ensured the retention of all project documents and data for at least five years after the last payment, in line with the obligation set out in Article 16(5) of Regulation (EU) 2020/1001.

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

| Compliance of Project Planning with Modernisation Fund Objectives  |  |  |  |  |  |  |  | Conclusion<br>(YES / NO / N/A) |
|--|--|--|--|--|--|--|--|--------------------------------|
| <b>Auditor verified:</b>   |  |  |  |  |  |  |  |                                |
| <p>➤ 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).</p> <p><b>Explanation:</b> The target of the project is the Käina Hobby and Cultural Centre (KHKK) (Building Registry Code: 115004490), located in the centre of Käina township, on Mäe Street 2 (Cadastral Identifier: 36802:002:0104), adjacent to the Käina industrial area, a petrol station, and a residential district. The</p> |  |  |  |  |  |  |  | YES                            |

building, originally constructed in 1972 as a warehouse, was converted into offices and later repurposed by Käina Municipality for cultural, youth work, and hobby education activities. It consists of sections A, B, C, D, and E.

A reconstruction design was prepared in 2010 up to the main project stage, and partial works were initiated.

2015 (Phase I): Interior works in section A (2nd floor), sections D–E (2nd floor), and construction of technical rooms on the 1st floor.

2017 (Phase II): Insulation and replacement of openings on north and east walls of sections D–E; construction of ventilation chamber (without piping or equipment).

2023: Interior works in section D (1st floor) to support primary healthcare services; these did not significantly affect energy consumption.

At the time of application, most energy-efficiency works were pending, and sections B, C, and A (1st floor) were fully unrenovated.

The building was in poor technical condition: deteriorated envelope, roof, finishes, and structures; inadequate ventilation causing poor indoor climate; settlement cracks in load-bearing walls; uncontrolled stormwater threatening foundations; degraded façade; low thermal resistance; windows not airtight; outdated technical systems; and no accessibility for persons with reduced mobility. Despite this, usage remains high due to its central location, concentration of public services, good accessibility, and proximity to other hubs.

Under a lease agreement between Hiiumaa Municipal Government and Hiiumaa Hospital Foundation, non-residential premises requiring renovation (dental care and rental spaces) were handed over on 01.02.2023 for free use for five years to support Hiiumaa Primary Healthcare Centre activities (general medical care and related services).

The aim is to consolidate ancillary services in one location, improving sustainability and accessibility in Hiiumaa.

The 2010 main project has been repeatedly modified to ensure optimal layout and functionality. Hiiumaa Municipal Government received positive funding decisions for reconstruction and energy-efficiency works: for Sections A and B: 13.03.2024 and for Section C: 01.03.2023. Energy-efficiency works for sections D and E (heated area: 940.1 m<sup>2</sup>) remained unfunded.

**The project aims to** implement all energy-efficiency measures identified in the energy audit for sections D and E of the building: installation of heat recovery ventilation and renovation of lighting on the second floor (fully eligible), as well as insulation of the roof slab and south-facing exterior wall and replacement of openings on the south side (proportionally eligible).

**Project Objective:** To fully reconstruct the Käina Hobby and Cultural Centre into a modern, energy-efficient, and functional service hub providing social, youth, cultural, hobby education, and healthcare services in Southern Hiiumaa.

**Expected Outcome:** The project contributes to the renovation and energy-efficiency improvement of sections D and E of the Käina Hobby and Cultural Centre. Other sections of the building (A, B, and C) are not included in the scope of this project and are financed from different sources. While the overall objective is to transform the entire building into a modern, multifunctional service hub, this specific project focuses exclusively on sections D and E, implementing the energy-efficiency measures identified in the energy audit for these areas

**The scope of the audit includes costs** related to design, construction works, and site supervision that are eligible under §5(3) of Regulation No. 36 of the Minister of Finance of 26 September 2023, “Conditions and Procedure for Using Support from the Modernisation Fund for Improving the Energy Efficiency of Municipal Buildings.” According to this provision, eligible costs for energy-efficiency works include expenses for insulation, replacement of openings such as doors and windows, and upgrading heating, heat supply, and domestic hot water systems. They also cover the construction or upgrading of ventilation systems and the installation of cooling systems where necessary to ensure compliance with indoor climate requirements. Furthermore, costs related to renewable energy systems, automation, smart control devices, sensors, and data acquisition systems for monitoring project results are eligible, as are expenses for solar shading solutions and lighting upgrades.

The regulation also allows costs for modifying or replacing envelope, load-bearing, and stiffening structures where required for installing energy systems, renewable energy solutions, or insulation. Investments inseparably linked to or required for these works, including those necessary to ensure compliance with indoor climate standards, as well as partial demolition and related works, are eligible if included in the building’s energy audit package. Additionally, costs for connecting to essential utilities and district heating or cooling networks within the property are covered where such connections are required by



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| <p>the chosen energy-efficiency package. Finally, expenses for design, site supervision during construction, engagement of energy-efficiency experts, system calibration, and, in the case of cultural heritage buildings, preparation of heritage conditions and necessary studies for planning works are also considered eligible.</p> <p>When submitting the application, it was confirmed that:</p> <ul style="list-style-type: none"> <li>✓ The building will be used, in whole or in part, for providing services under § 6(1) and (2) of the Local Government Organisation Act for at least five years after the project's completion.</li> <li>✓ At least 90% of the heated net area of the building will be used for five years after the project's completion.</li> <li>✓ In the part of the building where public services are provided, or in the building or part to which such function is assigned, compliance with the requirements set out in the Regulation of the Minister of Economic Affairs and Communications of 29 May 2018, "Requirements for Buildings Arising from the Special Needs of Persons with Disabilities," will be ensured during reconstruction and extension.</li> </ul> <p>The project implementer is Hiiumaa Municipal Government. The project was carried out between 3 June 2024 and 31 August 2025. The budget included costs for construction works, including site supervision, during the same period. The estimated construction costs were based on the budget prepared by E-eelarvestus OÜ (attached to the application), while the actual price was determined through the procurement contract.</p> <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, an energy audit prepared by Energex Energy Experts OÜ on 30 April 2024 (work number E9_v05 "Energy Audit of Käina Cultural, Hobby and Business Centre") was submitted to support the objectives of the application.</p> <p>According to the project application, the aim of the project is to fully reconstruct the Käina Hobby and Cultural Centre into a modern, energy-efficient, and functional service hub. As a result of the project, the building will be renovated and energy-efficiency measures implemented throughout, improving energy performance, reducing energy consumption and maintenance costs, and ensuring compliance with indoor climate requirements. With the support of this project, energy-efficiency works will be carried out in sections D and E of the building, which are currently in poor technical condition. Upon completion, the building will become a contemporary, energy-efficient, and multifunctional centre offering social, cultural, educational, and healthcare services to the community.</p> <p>Extracts from the application indicate that the expected reduction in energy supplied to the building per square metre of heated area for municipal and other public services is 2.04 kWh/(m<sup>2</sup>·a), and the reduction in maintenance costs per square metre is €5.24 per year.</p> <p>The D and E sections of the building already use district heating, and no change in heating type will occur there. However, in sections A, B, and C (non-eligible under this project and financed through other measures), where electric heating is currently used, a transition to district heating will also take place during the project.</p> <p>Cross-sector indicators (only the indicators from sections D and E in the initial application):</p> <ul style="list-style-type: none"> <li>➤ CO<sub>2</sub> emissions saved (tonnes/year): 93.79 (baseline), 78.08 (target);</li> <li>➤ Energy supplied to the building (€ per year): 47,312.90 (baseline), 40,364.25 (target);</li> <li>➤ Energy supplied to the building (kWh per year): 212,456 (baseline), 231,844 (target)*.</li> </ul> <p>During the review of the "Cross-measure indicators" section in the final report, it was identified that the indicators presented in the application had been taken from the energy audit only for sections D and E of the building. Although the building was renovated as a whole, the energy efficiency works were carried out specifically in these two sections. Therefore, the energy audit included the necessary indicators both for the entire building and separately for sections D and E. According to the measure regulation, energy savings must be achieved for the entire building; therefore, on 27.08.2025, the data in the</p> | YES |

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| <p>application under “Cross-measure indicators” were corrected to reflect the entire building (see EA pp. 23–24, Table 6.2a and Table 6.2b).</p> <p><b>Building-wide indicators:</b></p> <ul style="list-style-type: none"> <li>➤ CO<sub>2</sub> emissions saved (tonnes/year): baseline 51.02 and final value 31.04 (EA p. 25, Table 6.4a) (decrease);</li> <li>➤ Energy supplied to the building (kWh/year): baseline 115,576 and target value 112,042 (EA p. 23, Table 6.2a) (decrease);</li> <li>➤ Energy supplied to the building (EUR/year): baseline 25,966.21 and target value 16,911.34 (EA p. 25, Table 6.3a) (decrease).</li> </ul> <p><b>The data presented in the final report are consistent with the comprehensive energy audit data and comply with the requirements of the measure regulation.</b> The change in the energy consumption structure does not conflict with energy efficiency objectives; the building’s total energy consumption and CO<sub>2</sub> emissions decrease, confirming the effectiveness of the project and its compliance with the requirements of the measure regulation.</p> <p>Energy-efficiency measures based on the energy audit include: installation of heat recovery ventilation for the second floor of section D (100% eligible), reconstruction of the heating system to serve the ventilation system (100% eligible), reconstruction of the south-facing exterior walls of sections D and E (68.95% eligible), insulation of the roof slab and replacement of roofing (68.95% eligible), replacement of windows on the south side of the first floor in sections D and E (4 out of 7 windows located in eligible areas), and renovation of lighting on the second floor of section D, including replacement of stage spotlights with LED fixtures (100% eligible). Costs inseparably linked to or required for these works, as well as design costs, are also included. A detailed description of the ordered works with estimated costs is attached to the application.</p> <p>Works planned in sections A, B, and C (including energy-efficiency measures) are not in line with the measure’s regulation and will be financed from other sources. Likewise, costs listed in the budget table for security systems, lightning protection and grounding, and fire extinguishers are not eligible.</p> <p>For reconstruction of exterior walls, roof insulation, design, and preparatory and demolition works in sections D and E, a proportional eligibility rate of 68.95% is applied, based on calculation. Total heated area of sections D and E: 940.1 m<sup>2</sup>; Eligible area: 648.21 m<sup>2</sup> (68.95%); Non-eligible area: 291.89 m<sup>2</sup> (31.05%).</p> <p>For window replacement in sections D and E, a ratio of 4/7 is applied, as four of the seven windows are located in eligible areas. Costs for installing heat recovery ventilation and renovating lighting in sections D and E are 100% eligible. No changes to the heating system or heating type are planned.</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. Therefore, it can be concluded that the final recipient’s activities are consistent with the objectives of modernising energy systems and improving energy efficiency.</b></p> |                   |
| <p>➤ Whether the activities of the final recipient support the objectives of the EU Green Deal (e.g., reduction of carbon emissions, clean energy, climate neutrality).</p> <p><b>Explanation:</b> The project application specifies the following target indicators (only the indicators from sections D and E in the initial application):</p> <ul style="list-style-type: none"> <li>➤ CO<sub>2</sub> emissions saved (tonnes/year): 93.79 (baseline), 78.08 (target);</li> <li>➤ Energy supplied to the building (€ per year): 47,312.90 (baseline), 40,364.25 (target);</li> <li>➤ Energy supplied to the building (kWh per year): 212,456 (baseline), 231,844 (target)*.</li> </ul> <p>During the review of the “Cross-measure indicators” section in the final report, it was identified that the indicators presented in the application had been taken from the energy audit only for sections D and E of the building. Although the building was renovated as a whole, the energy efficiency works were carried out specifically in these two sections. Therefore, the energy audit included the necessary indicators both for the entire building and separately for sections D and E. According to the measure regulation, energy savings must be achieved for the entire building; therefore, on 27.08.2025, the data in the application under “Cross-measure indicators” were corrected to reflect the entire building (see EA pp. 23–24, Table 6.2a and Table 6.2b).</p> <p><b>Building-wide indicators:</b></p> <ul style="list-style-type: none"> <li>➤ CO<sub>2</sub> emissions saved (tonnes/year): baseline 51.02 and final value 31.04 (EA p. 25, Table 6.4a) (decrease);</li> <li>➤ Energy supplied to the building (kWh/year): baseline 115,576 and target value 112,042 (EA p. 23, Table 6.2a) (decrease);</li> </ul>  | <p><b>YES</b></p> |

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| <p>➤ Energy supplied to the building (EUR/year): baseline 25,966.21 and target value 16,911.34 (EA p. 25, Table 6.3a) (decrease).</p> <p><b>The data presented in the final report are consistent with the comprehensive energy audit data and comply with the requirements of the measure regulation.</b> The change in the energy consumption structure does not conflict with energy efficiency objectives; the building's total energy consumption and CO<sub>2</sub> emissions decrease, confirming the effectiveness of the project and its compliance with the requirements of the measure regulation.</p> <p>These indicators confirm that, as a result of the reconstruction works, the building's energy consumption and CO<sub>2</sub> emissions should be reduced. <b>The activities planned by the final recipient support the objectives of the European Union Green Deal, including the reduction of carbon emissions, the adoption of clean energy, and progress towards climate neutrality. The project will deliver measurable improvements in environmental performance and energy efficiency, fully aligned with the strategic targets of the EU Green Deal.</b></p>   |     |
| <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> Although the construction works have been completed, the actual results and achievement of the project objectives can only be assessed one year after project completion. The project application defined the following baseline and target indicators, based on the energy audit prepared by Energex Energy Experts OÜ on 30 April 2024 (work number E9_v05) (only the indicators from sections D and E in the initial application):</p> <ul style="list-style-type: none"> <li>➤ CO<sub>2</sub> emissions saved (tonnes/year): 93.79 (baseline), 78.08 (target);</li> <li>➤ Energy supplied to the building (€ per year): 47,312.90 (baseline), 40,364.25 (target);</li> <li>➤ Energy supplied to the building (kWh per year): 212,456 (baseline), 231,844 (target)*.</li> </ul> <p>During the review of the "Cross-measure indicators" section in the final report, it was identified that the indicators presented in the application had been taken from the energy audit only for sections D and E of the building. Although the building was renovated as a whole, the energy efficiency works were carried out specifically in these two sections. Therefore, the energy audit included the necessary indicators both for the entire building and separately for sections D and E. According to the measure regulation, energy savings must be achieved for the entire building; therefore, on 27.08.2025, the data in the application under "Cross-measure indicators" were corrected to reflect the entire building (see EA pp. 23–24, Table 6.2a and Table 6.2b).</p> <p><b>Building-wide indicators:</b></p> <ul style="list-style-type: none"> <li>➤ CO<sub>2</sub> emissions saved (tonnes/year): baseline 51.02 and final value 31.04 (EA p. 25, Table 6.4a) (decrease);</li> <li>➤ Energy supplied to the building (kWh/year): baseline 115,576 and target value 112,042 (EA p. 23, Table 6.2a) (decrease);</li> <li>➤ Energy supplied to the building (EUR/year): baseline 25,966.21 and target value 16,911.34 (EA p. 25, Table 6.3a) (decrease).</li> </ul> <p><b>The data presented in the final report are consistent with the comprehensive energy audit data and comply with the requirements of the measure regulation.</b> The change in the energy consumption structure does not conflict with energy efficiency objectives; the building's total energy consumption and CO<sub>2</sub> emissions decrease, confirming the effectiveness of the project and its compliance with the requirements of the measure regulation.</p> <p>The beneficiary undertakes to submit reports via the Structural Support Register on greenhouse gas emission savings for the full years following the project by no later than <b>15 February 2027, 15 February 2028, and 15 February 2029</b>. The report must reflect at minimum the reduction in energy supplied to the building as a result of the energy efficiency works carried out, expressed both in energy and maintenance cost units, and thereby the impact on greenhouse gas emissions compared to the pre-project indicators specified in the building's energy audit.</p> <p><b>The documents submitted by the final recipient of the support define clear performance indicators and reporting obligations together with a measurement methodology that enables transparent assessment of the achievement of results in accordance with the conditions of the Modernisation Fund. Actual effectiveness can be assessed after the completion of the project and submission of the reports.</b></p> | YES |
| <p>➤ Has the planning of the use of funding (the project) complied with climate and environmental criteria (e.g., avoidance of significant harm, DNSH), and are these documented and, where necessary, justified.</p> <p><b>Explanation:</b> The Estonian Government Regulation No. 25 of 10 March 2022 "General Conditions for the Use and Reporting of Modernisation Fund</p>  | N/A |

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| <p>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 became mandatory from 1 January 2025. At the time of project planning, this requirement was not applicable; therefore, no non-compliance was identified. Future projects will need to comply with DNSH requirements effective from 1 January 2025.</b></p>  |                          |
| <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 focuses on energy-efficiency works, which will be carried out in sections D and E of the Käina Hobby and Cultural Centre, which is currently in poor technical condition. As a result, the entire building will be reconstructed and transformed into a modern, energy-efficient and functional service hub. The project will improve energy performance, reduce energy consumption and maintenance costs, and ensure compliance with indoor climate standards.</p> <p>No investments will be made in energy production facilities using fossil fuels, and there will be no use of coal, lignite, or other solid fossil fuels. Sections D and E already use district heating, and no change in heating type is planned there. However, in sections A, B, and C (non-eligible under this project and financed through other measures), where electric heating is currently used, a transition to district heating will also take place during the project.</p> <p>The application includes a formal confirmation stating: “I confirm that the project does not plan (including outside the project scope) the use of fossil fuels to meet the energy demand of the reconstructed building.”</p> <p><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)</p>  | <p><b>Conclusion</b></p> |



| or CO <sub>2</sub> reduction calculations)   | (YES / NO / N/A) |
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| <b>Auditor verified:</b>   |                  |
| <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 outlined the main activities of the project, including construction works and site supervision, with a detailed breakdown of estimated construction costs based on the calculation prepared by E-Eelarvestus OÜ, as well as the methodology for determining eligible and non-eligible costs.</p> <p>The audit confirmed that all planned procurements were carried out and properly documented. On 27 June 2024, a contract for site supervision services was signed between Hiiumaa Municipal Government and Ösel Consulting OÜ in the amount of €17,000 plus VAT. As of 31 August 2025, an outstanding cost item remains for provision of site supervision services during the warranty period in the amount of €1,000 plus VAT.</p> <p>On 17 July 2024, a construction contract was signed between Hiiumaa Municipal Government and OÜ Vilton Hiiu for the design and construction works of the Käina Hobby and Cultural Centre. The actual cost of the completed works amounted to €2,523,769.64 plus VAT, with the works completed on 5 June 2025. Construction began on 23 July 2024, four working days after the contract was signed, as recorded in the protocol dated 25 July 2024. The initial contract term was nine months, until 17 April 2025. During the reporting period, four contract amendments were signed covering change proposals 1–32. Hiiumaa Municipal Government granted an extension under §114(1) of the Law of Obligations Act, setting a new completion date of 5 June 2025. A usage permit (No. 2512371/07099) was issued for the building on 2 June 2025, and the handover and acceptance certificate was signed on 5 June 2025.</p> <p><b>Energy-efficiency works carried out during the project included:</b></p> <ul style="list-style-type: none"> <li>➤ Installation of heat recovery ventilation for the second floor of section D;</li> <li>➤ Reconstruction of the heating system to serve the ventilation system in section D;</li> <li>➤ Reconstruction of the previously unrenovated south-facing exterior wall of sections D and E;</li> <li>➤ Insulation of the roof slab and replacement of roofing, including related works;</li> <li>➤ Replacement of windows on the south side of the first floor in sections D and E, including associated works;</li> <li>➤ Renovation of lighting on the second floor of section D, including replacement of fixtures and stage spotlights with LED lights.</li> </ul> <p>One change was made to the planned energy-efficiency measures: solar shading solutions were removed from the south façade under change proposal No. 29, as the solar transmittance (g-value) of the glass used (0.3) was lower than assumed in the energy audit (0.35). According to a confirmation letter from an authorised Level 8 Energy Efficiency Specialist, this change had a negligible impact on the energy performance indicator and summer cooling load, and therefore did not require revision of the energy audit.</p> <p><b>In conclusion, the activities of the final recipients are in compliance with the project description, the agreement, and the conditions of the financing documents, and ensure the implementation, documentation, and verifiability of the activities arising from the purpose of the funding.</b></p> | YES              |
| <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 eligibility period was 03 June 2024 – 31 August 2025. The applicant has confirmed that the activities listed in the project application for which support is requested were not started before the submission of the application. The planned project activities have been completed, and the reconstruction works have been carried out. At the time of approving this audit report, the project's final report has been submitted. <b>Therefore, the activities were implemented within the prescribed timeframe and in accordance with the schedule set out in the application or other funding documents, including any approved amendments.</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</p>  | N/A              |



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| <p>photos, data records, etc.).</p> <p><b>Explanation:</b> At the time of approving the audit report, it is not possible to fully assess the achievement of the objectives set out in the application and financing documents (including improvement in energy efficiency, energy savings in MWh, and reduction of CO<sub>2</sub> emissions), as the measurement of results will take place after the completion of the facility. The beneficiary is obliged to submit reports through the Structural Funds Register on greenhouse gas emission reductions for the full years following project completion by 15 February 2027, 15 February 2028, and 15 February 2029. These reports must include, at a minimum, the reduction in energy supplied to the building as a result of the energy-efficiency works, expressed both in energy and maintenance cost units, and the corresponding impact on greenhouse gas emissions compared to the pre-project indicators specified in the building's energy audit. <b>The audit established that all activities have so far been implemented according to the planned schedule and that the project has created all necessary conditions for achieving its objectives.</b></p>  |   |
| <p><b>Accounting</b></p>   | <p><b>Conclusion</b><br/><b>(YES / NO</b><br/><b>/ N/A)</b></p> |
| <p><b>Auditor verified:</b></p> <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 (<i>Projekt=CO2 Käina Kultuurikeskuse energitõhususe parandamine</i>), ensuring a transparent link between costs, revenues, and project activities. The reconstruction works are co-financed from several sources, including:</p> <p>➤ Sections A and B funded under the measure "Accessible and High-Quality Public Services," project No. 2021-2027.5.02.23-0237;</p> <p>➤ Section C funded from the budget of the Cultural Programme activity "Cross-Sectoral Support and Development in Culture" under "Investments within the Administrative Area of the Ministry of Culture";</p> <p>➤ Sections D and E funded under the measure "Improving Energy Efficiency of Municipal Buildings from the Modernisation Fund 2023."</p> <p><b>The beneficiary's accounting system ensures direct comparability of project-related costs and revenues declared for each funding source, guaranteeing transparency and verifiability of reporting. 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>   | <p><b>YES</b></p>   |
| <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 audit examined whether, in cases where costs are shared between multiple projects, appropriate allocation keys reflecting the actual workload have been established and applied systematically and correctly. The application specifies that the Ministry of Culture (funder) allocated €600,000 on 1 March 2023 to finance the construction of section C of the building in parallel with this project. This includes the new main entrance and foyer on both floors, cloakroom, restrooms, and part of the outdoor area to ensure accessibility for essential services. An explanatory diagram was attached to the application. The procurement for construction and site supervision was carried out jointly for all building sections. The European Cohesion Policy Fund (funder) allocated €1,189,698.58 on 13 March 2024 to finance the reconstruction of sections A and B, most of the outdoor area, and parking facilities, improving and expanding the quality, range, and accessibility of services offered at KHKK. An explanatory diagram was attached to the application. The procurement for construction and site supervision was also carried out jointly for all building sections. The beneficiary has distinguished project-related invoices in its accounting system using separate codes, such as Project = CO<sub>2</sub> Käina Cultural Centre Energy Efficiency Improvement, ensuring a clear link between costs and project activities. Costs financed by other funders have been recorded under different codes, for example, Project = 5.02.23-0237 KVAT Project Käina Cultural Centre.</p> | <p><b>YES</b></p>   |

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| <p>The application also includes the following confirmation: “I confirm that no support has been received or will be received for the same cost from the state budget, the European Union, or other external financial assistance within three years prior to the application.”</p> <p><b>Invoices for costs within the audit scope were allocated across multiple projects.</b> To verify cost allocation, the auditor relied, among other sources, on the work volume table provided by OÜ Vilton Hiiu under the design and construction contract, which clearly indicates which costs on the contractor’s invoices relate to each project. <b>The auditor reviewed these allocations during the audit and concludes that only eligible costs of the assessed project have been covered from the Modernisation Fund financing. Appropriate allocation keys reflecting the actual workload have been established and applied systematically and correctly.</b></p>  |     |
| <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 final beneficiary has clearly distinguished project-related invoices in its accounting system using separate codes, such as Project = CO<sub>2</sub> Käina Cultural Centre Energy Efficiency Improvement, ensuring a direct link between costs and project activities. Costs financed by other funders have been recorded under different codes, for example, Project = 5.02.23-0237 KVAT Project Käina Cultural Centre.</p> <p>Invoices for costs within the audit scope were allocated across multiple projects. To verify these allocations, the auditor relied, among other sources, on the work volume table provided by OÜ Vilton Hiiu under the design and construction contract, which clearly identifies which costs on the contractor’s invoices relate to each project. <b>Based on this review, the auditor concludes that only eligible costs of the assessed project have been covered from the Modernisation Fund financing. Appropriate allocation keys reflecting the actual workload have been established and applied systematically and correctly. All costs are clearly identifiable in the accounting records and linked exclusively to the activities of the assessed project, ensuring full traceability and preventing any risk of 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> <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 30 September 2024 and 22 November 2024 based on the SFOS cost document control sheet, ensuring that the same cost has not been declared for other EU funds or national financing during the same period and to the same extent. <b>The risk of double financing for project costs has been adequately mitigated, and the implemented controls ensure that costs are correctly declared solely within the scope of this project.</b></p>  | YES |
| <p>➤ whether the costs are recorded in the final recipient’s accounting system or reflected in tax documents.</p> <p><b>Explanation:</b> The final recipient provided an extract from its accounting system confirming that the costs are recorded in the accounting records. <b>The project costs are properly registered in the accounting system and reflected in tax documents, ensuring traceability and verifiability of the expenditures.</b></p>   | YES |
| <p>➤ (A) for the Ministry of Climate: whether the funding has been transferred through payments to the final recipients or to the responsible ministries;</p> <p>➤ (B) for the responsible ministries: whether the funding has been forwarded to the final recipients or to the State Shared Service Centre for making payments to the final recipients;</p> <p>➤ (C) for State Shared Service Centre: whether the funding has been disbursed to the final recipients based on supporting documents.</p>   | YES |

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| <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>   |                                |
| <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 costs related to site supervision, design, and construction works. All these costs are eligible under §5(3) of Regulation No. 36 of the Minister of Finance of 26 September 2023, “Conditions and Procedure for Using Support from the Modernisation Fund for Improving the Energy Efficiency of Municipal Buildings.”</p> <p>According to this provision, eligible costs for energy-efficiency works include expenses for insulation; replacement of openings such as doors and windows; upgrading heating, heat supply, and domestic hot water systems; construction or upgrading of ventilation systems; installation of cooling systems where necessary to ensure compliance with indoor climate requirements; procurement and installation of renewable energy systems, automation, smart control devices, sensors, and data acquisition systems for monitoring project results; solar shading solutions; lighting upgrades; and modification or replacement of envelope, load-bearing, and stiffening structures where required for installing energy systems, renewable energy solutions, or insulation. The regulation also covers investments inseparably linked to or required for these works, including costs for ensuring compliance with indoor climate standards, partial demolition and related works, if included in the building’s energy audit package; costs for connecting to essential utilities and district heating or cooling networks within the property, where required by the chosen energy-efficiency package; and costs for design, site supervision during construction, engagement of energy-efficiency experts, system calibration, and, in the case of cultural heritage buildings, preparation of heritage conditions and necessary studies for planning works.</p> <p>Both eligible and non-eligible cost calculations, including allocation across different projects, have been documented. Under the design and construction contract, the contractor issues invoices based on this allocation. The application indicated eligible costs for construction, including site supervision, of €384,933.34, with the final amount executed at €383,805.13.</p> <p><b>All invoices declared and financed within the audit scope represent costs eligible under the grant conditions and the funding decision. These costs correspond to the activities described in the application and have been verified and accepted by the State Shared Service Centre as justified, confirming full compliance with the funding decision and support conditions</b></p> | <p><b>YES</b></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 audit scope includes costs related to site supervision during construction, design, and construction works, all of which are eligible under Regulation No. 36 of the Minister of Finance dated 26 September 2023. These activities and costs were described in the application, which indicated eligible expenses for construction, including site supervision, amounting to €384,933.34. Both eligible and non-eligible cost calculations, including allocation across different projects, have been documented. Under the design and construction contract, the contractor submitted invoices and certificates based on this allocation. The final amount executed during project implementation was €383,805.13.</p> <p>Invoices from Ösel Consulting OÜ for site supervision services are described as „<i>Site supervision of construction works for Stage 3 of the reconstruction of Käina Hobby and Cultural Centre</i>” and reference the relevant monthly work completion certificates. The amounts correspond to the budgeted figures and the activities described in the project plan.</p> <p>Invoices from OÜ Vilton Hiiu for design and construction works are described as “<i>Reconstruction of Käina Hobby and Cultural Centre – Stage 3</i>” and likewise reference the relevant monthly work completion certificates. The amounts align with the project budget and the activities set out in the application.</p>   | <p><b>YES</b></p>              |

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| <p><b>The cost amounts and descriptions are consistent with the approved project budget and planned activities. Original cost documents ensure full traceability and verification of the link to the project, guaranteeing transparency and compliance with the funding decision.</b></p>  |     |
| <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 invoices from Ösel Consulting OÜ for site supervision services and from OÜ Vilton Hiiu for design and construction works include references to the relevant interim certificates and/or contracts (Ösel Consulting invoices refer to Service Agreement No. 14-1/66), confirming their direct link to project activities. The works were carried out on the order of the final recipient, and all invoices were paid directly by the recipient. <b>Costs were incurred economically and in line with project objectives, ensuring the efficient use of resources. All supporting documentation—invoice, payment order, and interim certificates—has been provided, guaranteeing full traceability and verifiability within the project framework.</b></p>   | YES |
| <p>➤ Whether the costs were incurred within the eligible project period and do not exceed the eligibility timeframe.</p> <p><b>Explanation:</b> The project's eligibility period, as defined in the approval decision and its amendment, was from 3 June 2024 to 31 August 2025. The invoices from Ösel Consulting OÜ for site supervision services and from OÜ Vilton Hiiu for design and construction works fall within this period. The site supervision contract between Hiiumaa Municipal Government and Ösel Consulting OÜ was signed on 27 June 2024, and the construction contract with OÜ Vilton Hiiu was signed on 17 July 2024, under which the design and reconstruction works of the Käina Hobby and Cultural Centre commenced. According to the construction log, works began on 23 July 2024. Hiiumaa Municipal Government granted an extension under §114(1) of the Law of Obligations Act, setting a new completion date of 5 June 2025. A usage permit (No. 2512371/07099) was issued on 2 June 2025, and the handover and acceptance certificate was signed on 5 June 2025. <b>All verified costs were incurred within the eligible project period and meet the requirements of the funding decision.</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.</p> <p><b>Explanation:</b> According to the approval decision of 24 May 2024 (No. 11.2-54/24/535 "Approval of Hiiumaa Municipal Government's Application"), as amended on 28 March 2025 (No. 11.3-1/25/1628), the eligible support rate for the project is 63%. The payments made on the basis of invoices from Ösel Consulting OÜ for site supervision services and from OÜ Vilton Hiiu for design and construction works have been disbursed in accordance with the established support rate, and the maximum grant amount has not been exceeded. <b>The disbursed support is in line with the funding decision and the established limits, ensuring compliance with the approved conditions.</b></p>   | YES |
| <p>➤ Whether the costs comply with applicable tax and social legislation</p> <p><b>Explanation:</b> Within the scope of the audit, the invoices from Ösel Consulting OÜ for site supervision services and from OÜ Vilton Hiiu for design and construction works issued to Hiiumaa Municipal Government include 22% VAT. The invoices meet all legal requirements and were paid directly by the final beneficiary in compliance with statutory obligations. <b>The costs are consistent with applicable tax and social regulations, properly documented, and incurred in accordance with the law, ensuring transparency, traceability, and verifiability within the project framework.</b></p>  | YES |
| <p>➤ Whether the cost description is clear and, based on the description, demonstrably linked to the project activity.</p> <p><b>Explanation:</b> The audit covers invoices from:</p> <p>➤ Ösel Consulting OÜ for site supervision services, described as "Site supervision of construction works for Stage 3 of the reconstruction of Käina Hobby and Cultural Centre" and referencing the relevant monthly work completion certificates. The amounts correspond to the project budget and agreed activities. Each invoice includes a reference to Service Agreement No. 14-1/66.</p> <p>➤ OÜ Vilton Hiiu for design and construction works, described as "Reconstruction of Käina Hobby and Cultural Centre – Stage 3" and referencing the relevant monthly work completion certificates. The amounts align with the project budget and planned activities.</p> <p><b>The cost descriptions are clear and directly linked to the project activities, enabling verification of the direct connection between the expense and</b></p>  | YES |

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| <b>the project's objectives.</b>   |  |
| <p>➤ Whether the costs are, in the auditor's opinion, reasonable, justified, and in line with the principles of sound financial management.</p> <p><b>Explanation:</b> Prior to signing the site supervision contract, a simple procurement procedure was conducted for services below the threshold, involving comparable offers based on a request for quotations. For design and construction works, an open tender procedure was carried out through the Public Procurement Register. The invoices included in the audit scope were issued for works performed under contracts concluded following these procedures and are documented with corresponding completion certificates. <b>In the auditor's opinion, the costs are reasonable, justified, and comply with the principles of sound financial management.</b></p>   | <b>YES</b>                                 |
| <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> The scope of the audit includes invoices for site supervision services provided by Ösel Consulting OÜ and invoices for design and construction works by OÜ Vilton Hiiu, which are based on signed work completion certificates and have been carried out in accordance with the contracts. Hiiumaa Municipal Government has paid the invoices in full, confirming that the expenses have actually been incurred. <b>The funding covers only project-related costs that have been actually incurred and are in compliance with the grant conditions.</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> On 27 June 2024, a contract for site supervision services was signed between Hiiumaa Municipal Government and Ösel Consulting OÜ in the amount of €17,000 plus VAT, of which the first four invoices were reviewed within the scope of the audit.</p> <p>On 17 July 2024, a design and construction works contract was signed between Hiiumaa Municipal Government and OÜ Vilton Hiiu in the amount of €2,385,148.26, of which the first four invoices were reviewed within the scope of the audit.</p> <p><b>The descriptions and volumes of the invoices correspond to the contracts and approved work completion certificates, confirming that the works have been performed and services delivered. No discrepancies were identified between the contracts and the invoices. This ensures traceability and compliance with the project requirements.</b></p> | <b>YES</b>                                 |
| <b>Own contribution</b>  | <b>Conclusion<br/>(YES / NO<br/>/ 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 co-financing in monetary form as required by the funding decision. The scope of the audit includes invoices for site supervision services by Ösel Consulting OÜ and invoices for design and construction works by OÜ Vilton Hiiu, which have been fully paid by Hiiumaa Municipal Government. The grant in the amount of €69,230.98 has been disbursed to Hiiumaa Municipal Government in accordance with the support rate specified in the grant approval decision. <b>Based on the audit review, co-financing has been ensured, complies with the conditions of the funding decision, and is supported by actual payments.</b></p>  | <b>YES</b>                                 |
| <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 date of cost incurrence and payment. The support portion and the co-financing share are clearly distinguished using a project-specific code and are reflected in the financial accounting system in</p>  | <b>YES</b>                                 |



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| 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>  |  |
| <b>Value Added Tax (VAT)</b>   | <b>Conclusion<br/>(YES / NO / N/A)</b> |
| <b>Auditor verified:</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. Hiiumaa Municipal Government (77000424) has held VAT payer status (EE102848131) since 8 April 2025, as confirmed on 29 August 2025 based on a check in the Estonian Tax and Customs Board's VAT register (<a href="https://apps.emta.ee/saqu/public/kmkrnr">https://apps.emta.ee/saqu/public/kmkrnr</a>). The activities of this project do not generate taxable turnover. Therefore, the municipality is not entitled to deduct or reclaim the VAT paid as input VAT, in accordance with § 29 and § 32(1) of the Value Added Tax Act. Hiiumaa Municipal Government has confirmed by certificate No. 17-2/5 dated 22 May 2025 that it is a VAT payer only for heat energy production and transmission in Suuremõisa village. <b>The grant conditions stipulate that VAT is eligible if it is non-recoverable for the beneficiary. Since this criterion is met in the present case, VAT is considered an eligible cost under the project.</b></p>   | <b>YES</b>                             |
| <p>➤ Have only VAT amounts that are non-refundable and non-recoverable been declared.</p> <p><b>Explanation:</b> The invoices within the scope of the audit were issued, and the underlying works were carried out in 2024. Hiiumaa Municipal Government (77000424) has held VAT payer status (EE102848131) since 8 April 2025, as confirmed on 29 August 2025 based on a check in the Estonian Tax and Customs Board's VAT register (<a href="https://apps.emta.ee/saqu/public/kmkrnr">https://apps.emta.ee/saqu/public/kmkrnr</a>). The activities of this project do not generate taxable turnover. Therefore, the municipality is not entitled to deduct or reclaim the VAT paid as input VAT, in accordance with § 29 and § 32(1) of the Value Added Tax Act. Hiiumaa Municipal Government has confirmed by certificate No. 17-2/5 dated 22 May 2025 that it is a VAT payer only for heat energy production and transmission in Suuremõisa village. <b>The grant conditions stipulate that VAT is eligible if it is non-recoverable for the beneficiary. Since this criterion is met in the present case, VAT is considered an eligible cost under the project and has been correctly declared.</b> Although the municipal government obtained VAT payer status in 2025, this does not affect the right to deduct VAT on costs incurred in 2024, as the project activities do not generate taxable turnover.</p>  | <b>YES</b>                             |
| <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> The invoices within the scope of the audit were issued, and the underlying works were carried out in 2024. Hiiumaa Municipal Government (77000424) has held VAT payer status (EE102848131) since 8 April 2025, as confirmed on 29 August 2025 based on a check in the Estonian Tax and Customs Board's VAT register (<a href="https://apps.emta.ee/saqu/public/kmkrnr">https://apps.emta.ee/saqu/public/kmkrnr</a>). The activities of this project do not generate taxable turnover. Therefore, the municipality is not entitled to deduct or reclaim the VAT paid as input VAT, in accordance with § 29 and § 32(1) of the Value Added Tax Act. Hiiumaa Municipal Government has confirmed by certificate No. 17-2/5 dated 22 May 2025 that it is a VAT payer only for heat energy production and transmission in Suuremõisa village. The grant conditions stipulate that VAT is eligible if it is non-recoverable for the beneficiary. Since this criterion is met in the present case, VAT is considered an eligible cost under the project and has been correctly declared. <b>No possibility of VAT recovery was identified during the review.</b></p> | <b>YES</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>   | <b>YES</b>                             |

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| <p><b>Explanation:</b> Hiiumaa Municipal Government (77000424) has held VAT payer status (EE102848131) since 8 April 2025, as confirmed on 29 August 2025 based on a check in the Estonian Tax and Customs Board's VAT register (<a href="https://apps.emta.ee/saqu/public/kmkrnr">https://apps.emta.ee/saqu/public/kmkrnr</a>). Hiiumaa Municipal Government does not engage in economic activities under this project that would fall outside the scope of sovereign authority. Therefore, the beneficiary has not declared VAT for activities that could be considered taxable. All project-related activities are carried out in the performance of local government duties as a public authority. <b>Since VAT has not been declared and the activities fall under sovereign authority, no confirmation from a competent state authority is required.</b></p>  |                                |
| <p><b>Implementation of Procurement and Purchasing</b></p>  | <p><b>Conclusion</b></p>       |
| <p><b>Auditor verified:</b></p>   | <p><b>(YES / NO / N/A)</b></p> |
| <p>➤ Were the principles of transparency, proportionality, and equal treatment of tenderers observed during the procurement or purchasing procedure.</p> <p><b>Explanation:</b> Hiiumaa Municipal Government conducted an open tender through the Public Procurement Register under procurement notice No. 278282 "Reconstruction of Käina Hobby and Cultural Centre, Stage 3 – Design and Construction Works" covering construction works (CPV 45212110-0 – Construction of leisure facilities) and architectural design services (CPV 71220000). The estimated value did not exceed the international threshold. The procurement notice was published on 16 April 2024, the deadline for submission of tenders was 3 June 2024 at 10:00, tenders were opened on 3 June 2024 at 11:00, and the contract was signed on 17 July 2024 with OÜ Vilton Hiiu for the tender price of €2,385,148.26 plus VAT.</p> <p>The procurement was largely carried out in compliance with the requirements of the Public Procurement Act. 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. The open tender procedure adhered to the principles of transparency (information accessible to all potential bidders via the register), proportionality (requirements matched the scope and complexity of the services), and equal treatment of bidders (conditions were identical for all participants, and evaluation was based on objective criteria). No violations or unfair treatment were identified.</p> <p>For the procurement of site supervision services, Hiiumaa Municipal Government applied a below-threshold simplified procedure (comparable offers requested based on an invitation to tender). Invitations were prepared and sent; in the repeated tender held from 14 June to 28 June, six companies participated. The successful bidder was OÜ Ösel Consulting, which submitted the lowest-priced offer. A contract was signed on 17 June 2024 for €17,000 plus VAT.</p> <p>The simplified procedure adhered to the principles of transparency (identical invitation description), proportionality (requirements matched the scope and complexity of the services), and equal treatment of bidders (conditions were identical for all invitees, and evaluation was based on objective criteria). No violations or unfair treatment were identified.</p> <p><b>Therefore, all costs incurred under these procurements, including the invoices included in the project, are justified and eligible.</b></p> | <p><b>YES</b></p>              |
| <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, Hiiumaa Municipal Government largely complied with the key requirements of the Public Procurement Act when conducting the below-threshold procurement procedure for site supervision services.</p> <p>For the open tender No. 278282 "Reconstruction of Käina Hobby and Cultural Centre, Stage 3 – Design and Construction Works", procedures set out in Public Procurement Act were followed, including bidder notification, equal treatment of conditions, transparency and proportionality in evaluation. The procurement process was substantially in line with applicable legislation.</p> <p><b>Observation 1:</b> The procurement No. 278282 for the reconstruction of Käina Hobby and Cultural Centre, Stage 3, was a public procurement below the international threshold. The contracting authority specified the following qualification requirement in the tender documents: C: Technical and professional capacity, education and professional qualifications: The following education and professional qualifications must be held by the service provider or contractor and/or (depending on the requirements set out in the notice or referenced tender documents) the company's management.</p>   | <p><b>YES</b></p>              |

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| <p><u>Reference to law:</u> Public Procurement Act § 101(1)(6): “Information on the education and professional qualifications of the tenderer or applicant, its managers or persons responsible for providing services or managing construction works, if these are necessary for the provision of the relevant services or management of construction works and such information is not used for tender evaluation.”</p> <p><u>Condition explanation:</u> The tenderer must have the right to perform construction works. To perform the contract, the tenderer must hold registration in the Construction Register (MTR) for the activity category: general construction. The contracting authority verifies the registration of the successful tenderer independently in the MTR database. If the tenderer lacks the required registration, the contracting authority disqualifies the tenderer.</p> <p><b>Auditor’s conclusion:</b> This does not constitute an education or professional qualification requirement under Public Procurement Act § 99(1). The Ministry of Finance has clarified the use of the MTR requirement (Q&amp;A No. 8): <a href="https://fin.ee/riigihanked-riigiabi-osalused/riigihanked/korduma-kippuvad-kusimused/#kvalifikatsioon">https://fin.ee/riigihanked-riigiabi-osalused/riigihanked/korduma-kippuvad-kusimused/#kvalifikatsioon</a>. The MTR requirement is not a correct qualification condition; however, since the condition could have been set as a compliance requirement, the qualification requirement was not fully aligned with the law; <b>nevertheless, this had no financial impact.</b></p> <p><b>Observation 2:</b> Under Public Procurement Act § 123(5), the contracting authority must submit a notice of contract amendment to the register within ten days of making the amendment under § 123(1)(3) or (4), except for amendments under a framework agreement. For procurement No. 278282, the total scope of amendments was €251,061.02 (10.5%) under § 123(1)(1), €29,146 (1.6%) under § 123(1)(3), and €28,561.23 (1.2%) under § 123(1)(4). Reviewing the information in the Public Procurement Register on contract performance and amendments, the amendments were not correctly and timely recorded. <b>The contracting authority made corrections retrospectively during the audit.</b></p> <p><b>The procurements were conducted in substantial compliance with applicable legislation. No violations or instances of unfair treatment were identified during the audit, and the noted deficiencies have no financial impact.</b></p> |     |
| <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> Hiiumaa Municipal Government conducted an open tender through the Public Procurement Register under procurement notice No. 278282 “Reconstruction of Käina Hobby and Cultural Centre, Stage 3 – Design and Construction Works,” covering construction works (CPV 45212110-0 – Construction of leisure facilities) and architectural design services (CPV 71220000). The contract was signed on 17 July 2024 with OÜ Vilton Hiiu for the tender price of €2,385,148.26 plus VAT. <b>The procurement fell below the international threshold, and the actual contract value was consistent with the selected procedure type.</b></p> <p>Following a below-threshold procurement procedure for site supervision services, a contract was signed with OÜ Ösel Consulting for €17,000 plus VAT. <b>The actual contract value was consistent with the selected procedure type.</b></p>  | YES |
| <p>➤ Did the successful tenderer and its bid comply with the procurement notice and the tender documents.</p> <p><b>Explanation:</b> In the open tender No. 278282 “Reconstruction of Käina Hobby and Cultural Centre, Stage 3 – Design and Construction Works,” the <b>successful bidder OÜ Vilton Hiiu and its offer complied with the procurement notice and tender documents.</b> The evaluation criterion was the lowest price, and OÜ Vilton Hiiu submitted the lowest-priced bid, which is why it was selected as the contractor under the procurement contract.</p> <p>For the below-threshold procurement procedure for site supervision services, the <b>successful bidder OÜ Ösel Consulting and its offer complied with the tender documents.</b> The evaluation criterion was the lowest price, and OÜ Ösel Consulting submitted the lowest-priced bid, which is why it was selected as the contractor under the procurement contract.</p>  | YES |
| <p>➤ Was the procurement procedure transparent, justified, and non-discriminatory.</p> <p><b>Explanation:</b> In the open tender No. 278282 “Reconstruction of Käina Hobby and Cultural Centre, Stage 3 – Design and Construction Works,” the procurement procedure was conducted through the Public Procurement Register as an open tender, with the scope of services and evaluation criteria clearly defined in advance. The procurement notice was published on 16 April 2024, and the deadlines for submission and opening of tenders were fixed, ensuring equal opportunities for all interested bidders. <b>Therefore, the procedure can be assessed as transparent, justified, and non-discriminatory.</b></p> <p>For the below-threshold procurement of site supervision services, the procedure was carried out via email, with the scope of services and evaluation criteria</p>  | YES |

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| <p>clearly defined in advance (as set out in the invitation to tender). Invitations were sent to several companies, and the deadlines for submission and opening of tenders were fixed, ensuring equal opportunities for all potential bidders. Six companies submitted bids, and the successful bidder was selected based on the criteria established in the invitation. <b>Therefore, the procedure can be assessed as transparent, justified, and non-discriminatory.</b></p>   |     |
| <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> In the open tender No. 278282 “Reconstruction of Käina Hobby and Cultural Centre, Stage 3 – Design and Construction Works,” the successful bidder OÜ Vilton Hiiu and its offer fully complied with the procurement notice and tender documents. The evaluation criterion was the lowest price, and OÜ Vilton Hiiu submitted the lowest-priced bid, which is why it was selected as the contractor under the procurement contract.</p> <p>For the below-threshold procurement procedure for site supervision services, the successful bidder OÜ Ösel Consulting and its offer fully complied with the tender documents. The evaluation criterion was the lowest price, and OÜ Ösel Consulting submitted the lowest-priced bid, which is why it was selected as the contractor under the procurement contract.</p> <p><b>Both contracts were concluded in accordance with the evaluation criteria specified in the tender documents, with the tenderer offering the lowest price.</b></p>  | YES |
| <p>➤ Was the contract concluded under conditions consistent with the tender and the procurement documents.</p> <p><b>Explanation:</b> In the open tender No. 278282 “Reconstruction of Käina Hobby and Cultural Centre, Stage 3 – Design and Construction Works,” a procurement contract was signed with the successful bidder OÜ Vilton Hiiu, <b>fully consistent with its bid and the tender documents.</b></p> <p>For the below-threshold procurement of site supervision services, a procurement contract was signed with the successful bidder OÜ Ösel Consulting, <b>fully consistent with its bid and the tender documents.</b></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 with OÜ Vilton Hiiu (registry code 16712553) without any apparent conflict of interest. During the audit, no evidence was found that the company’s managers or employees were connected to officials of Hiiumaa Municipal Government in a way that could compromise the impartiality of the procurement process. Therefore, it can be concluded that the contract was signed independently and that the contracting party was not a related person. The auditors verified connections using the Business Register (<a href="#">OÜ Vilton Hiiu   e-Business Register</a>).</p> <p>Similarly, the procurement contract was signed with OÜ Ösel Consulting (registry code 11218239) without any apparent conflict of interest. During the audit, no evidence was found that the company’s managers or employees were connected to officials of Hiiumaa Municipal Government in a way that could compromise the impartiality of the procurement process. Therefore, it can be concluded that the contract was signed independently and that the contracting party was not a related person. The auditors verified connections using the Business Register (<a href="#">OÜ Ösel Consulting   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 in the open tender No. 278282 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.</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</p>   | YES |

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| <p>conditions.</p> <p><b>Explanation:</b> During contract execution, amendments were made to the procurement contract signed with OÜ Vilton Hiiu (Contract No. 14-1/65, Annexes No. 6-1, 6-2, 6-3, and 6-4). The total scope of amendments amounted to €251,061.02 (10.5%) under Public Procurement Act § 123(1)(1), €29,146 (1.6%) under Public Procurement Act § 123(1)(3), and €28,561.23 (1.2%) under Public Procurement Act § 123(1)(4). As a result of these amendments, the contract term was extended. Documentation (meeting minutes) confirms the circumstances of the amendments, and their implementation complies with the requirements of the Public Procurement Act and the grant conditions.</p> <p>The procurement contract signed with OÜ Ösel Consulting was not amended</p>  |  |
| <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<br/>(YES / NO / N/A)</b> |
| <ul style="list-style-type: none"> <li>➤ What methodology is used for determining personnel costs and linking them to the funding;</li> <li>➤ Does the calculation of personnel costs comply with the applicable grant conditions and permitted accounting principles;</li> <li>➤ Is the link between personnel costs and the project sufficiently evidenced (including project-related tasks, working time, and workload proportion);</li> <li>➤ Are relevant documents such as employment contracts, job descriptions, or task allocations available to demonstrate the employees' connection to funded activities;</li> <li>➤ Is the portion of working time reimbursed from the funding correctly calculated and documented;</li> <li>➤ Are tasks not related to the funding correctly separated;</li> <li>➤ Are travel expenses and daily allowances correctly defined and linked to the project, in accordance with the beneficiary's internal rules and applicable legislation;</li> <li>➤ Do training costs (if any) comply with applicable legislation and are they justified in the context of the project objectives.</li> </ul> <p><b>Explanation:</b> No personnel costs, travel expenses, training costs, or similar expenses occurred in the final recipient's project during the audit scope period (2023 and 2024).</p> | N/A                                    |
| <ul style="list-style-type: none"> <li>➤ What methodology is used for determining other costs and linking them to the funding;</li> <li>➤ Are "other costs" (including office supplies, software, administrative expenses, etc.) eligible and directly related to project implementation;</li> <li>➤ Are the costs correctly identified and attributed to the project;</li> <li>➤ Are the items listed on invoices not recorded as fixed assets, and is the accounting treatment consistent with the beneficiary's usual accounting practices;</li> <li>➤ Do other costs comply with internal cost-handling rules and are they proportionate to the scope and objectives of the project;</li> <li>➤ For procurements classified under "other costs," have procurement or purchasing procedures been followed (see section "Procurement and Purchasing").</li> </ul> <p><b>Explanation:</b> No other costs were incurred in the final recipient's project during the audit scope period (2023 and 2024).</p>  | N/A                                    |
| <b>Document Retention</b>  | <b>Conclusion<br/>(YES / NO / N/A)</b> |
| <b>Auditor verified:</b>   |  |
| <ul style="list-style-type: none"> <li>➤ Has the final recipient retained all cost documentation and project reports in a manner that ensures a clear and traceable audit trail for activities and expenditures.</li> </ul> <p><b>Explanation:</b> The final recipient has retained all cost documentation and project reports in a way that guarantees a clear and traceable audit trail. During</p>  | YES                                    |



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| <p>the on-site review 14.10.2025, 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>Accounting documents are retained in accordance with § 17 of the internal accounting regulations, which require electronic storage of documents, paper storage where necessary, creation of backups, and retention of documents evidencing the grant funding for the period required by the grantor.</p> <p>Hiiumaa Municipal Government uses the document management system ENVOICE and the accounting software PMEN. All project-related costs are recorded under a distinct project code: “Käina Cultural Centre Energy Efficiency Improvement Kliima2.08.01.23-0026.” The linkage of costs, revenues, and payments to the project is clearly identifiable within the systems.</p> <p><b>In the auditor’s opinion, the document retention and traceability requirements have been met, and the systems ensure cost control and transparency.</b></p>  |                                |
| <p>➤ Has it been ensured that the final recipient retains all documents and data related to the grant, including information on payments and expenditures, for at least five years from the date of the last payment of the project or measure (as required by Article 16(5) of Regulation (EU) 2020/1001).</p> <p><b>Explanation:</b> Retention of documents for at least five years from the last project payment is ensured. According to § 17 of Hiiumaa Municipal Government’s internal accounting regulations, the operator of the ENVOICE e-invoice system is responsible for retaining electronic purchase invoices for seven years. Accounting documents are stored in accordance with § 12 of the Accounting Act, and documents evidencing the use of the grant are retained for the period required by the grantor. The retention of other documents is regulated by § 19 of Hiiumaa Municipal Government’s Records Management Rules. <b>In the auditor’s opinion, the document retention obligation has been met and complies with both EU and national requirements. This obligation is also known to officials involved in the project.</b></p>   | YES                            |
| <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 Hiiumaa Municipal Government has installed an information board at the site. During the on-site visit as part of the audit procedures, the board was present and complied with the requirements.</p> <ul style="list-style-type: none"> <li>○ If the final recipient has used informational materials (e.g., printed publications, websites, videos) when utilizing the funding or presenting projects and their results, it is verified whether these materials include proper references to EU and Modernisation Fund co-financing and whether the visual identity complies with the EU and grant conditions guidelines;</li> <li>○ If information on the use of funding has been published in the final recipient’s public communications (e.g., on its website, in annual reports, press releases, or other sources aimed at the general public), the presence of proper references to EU and Modernisation Fund co-financing is assessed, along with compliance of the visual identity with the EU and grant conditions guidelines, and the accuracy and timeliness of the information (e.g., funding amounts, purpose of the support, project period, etc.);</li> </ul> <p><b>Explanation:</b> The Hiiumaa Municipal Government has shared information about the project and the funding source on its website.</p> | YES                            |

Project details are available at: <https://hiiumaavald.kovtp.ee/all-kaina-huvi-ja-kultuurikeskuse-3.-etapi-rekonstrueerimine>

Press release and photo gallery: [Uuenenud Käina Huvi- ja Kultuurikeskuse hoone on avatud - Uudised ja teated - Hiiumaa vald](#)

If the final recipient has informed the public about receiving the support (e.g., when presenting projects and their results), it is assessed whether appropriate, coherent, effective, and proportionate information has been provided to different target groups, including the media and the general public.

**Explanation:** During the audit, it was established that the Hiiumaa Municipal Government has fulfilled its communication obligations related to the project and installed a compliant information board at the site. The board clearly displays info, that “The reconstruction is supported by the Modernisation Fund”, in accordance with the established communication and visibility requirements. In addition, information about the project and its funding has been published in the media. This ensures transparency of the project’s financing and public awareness.