MINISTRY OF TREASURY AND FINANCE
BOARD OF TREASURY CONTROLLERS

MUNICIPAL SERVICES IMPROVEMENT PROJECT
(Grant Agreement)

Implemented by
ILLER BANKASI A.S.

Financed Under World Bank Grant Agreement Numbered TF-B4957

As of December 31, 2025 and For the Year Then Ended

Prepared by

Ali ÇALIŞKAN
Senior Treasury Controller

Ezel Malik ZENGİN
Treasury Controller

Oğulcan ÇOLAK
Treasury Controller

Rumeysa İZGİ
Treasury Controller

Report's Number
183/4 – 104/19 – 67/19 – 55/15

INDEPENDENT AUDITOR'S REPORT

June 16, 2026

CONTENTS

EXECUTIVE SUMMARY

REPUBLIC OF TÜRKİYE
MINISTRY OF TREASURY AND FINANCE
Board of Treasury Controllers

EXECUTIVE SUMMARY

A. Project Summary

The Grant Agreement between the İller Bankası A.Ş. (ILBANK) and International Bank for Reconstruction and Development (IBRD-World Bank) for Municipal Services Improvement Project, Grant Agreement Numbered TF-B4957 was signed on 17.03.2021. Under this agreement, ILBANK received a grant amounting to EUR 133.633.000,00.

Project is implemented by Project Management Unit (PMU) under ILBANK International Relations Department.

The objective of the Project is to improve host and refugee communities' access to safely managed water supply, sanitation and solid waste services in Selected Municipalities affected by the influx of Syrians under Temporary Protection (SuTP) in Türkiye.

The Project consists of the following parts:

- Part 1. Environmental Infrastructure Investments.
- Part 2. Technical Assistance for Project Management, Supervision, Capacity Building, Communication and Citizen Engagement.
- Part 3. Monitoring and Evaluation of the Trust Fund Financed Portions of the Project.

B. Objectives of Audit

The objective of the audit is to express an opinion on the Financial Statements of the Municipal Services Improvement Project for the period ended 31 December 2025. The audit includes but not limited to the following tasks.

In evidencing compliance with agreed project financing arrangements, we are expected to carry out tests to confirm that:

(a) All external funds have been used in accordance with the conditions of the relevant financing agreements, with due attention to economy and efficiency, and only for the purposes for which the financing was provided. Relevant financing agreements include Grant Agreement.

(b) Goods, works, and services financed have been procured in accordance with relevant financing agreements, including specific provisions of the World Bank Procurement Guidelines.

(c) All necessary supporting documents, records, and accounts have been maintained in respect of all project activities, including expenditures reported using Statements of Expenditure (SOE) methods of reporting.

(d) Respective reports issued during the period were in agreement with the underlying books of account.

C. Scope of Audit

The audit was conducted in accordance with International Standards on Auditing. Those Standards require that the auditor plans and performs the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. The audit included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. The audit also included assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

D. Audit Methodology

Financial Statements

Verified that the financial statements have been prepared in accordance with International Public Sector Accounting Standards.

Audited all SOEs submitted to the World Bank in support of requests for periodic replenishment of the project special account(s).

Examined expenditures for eligibility based on criteria defined in the terms of the financing agreement and detailed in the Project Appraisal Document. In addition, we have examined whether;

(a) the SOEs have been prepared in accordance with the provisions of the relevant financing agreement;

(b) expenditures have been made wholly and necessarily for the realization of project objectives;

(c) information and explanation necessary for the purpose of the audit have been obtained;

(d) supporting records and documents necessary for the purpose of the audit have been retained, and

(e) the SOEs can be relied upon to support the related withdrawal applications.

Review of special accounts

During the audit of the project financial statements, we reviewed the activities of the project's special account(s) such as deposits received, payments made and reconciliation of period-end balances.

Internal controls

Evaluated significant internal controls to obtain a sufficient understanding of the design of relevant controls, policies and procedures and whether they have been in operation during the period under review.

Compliance with agreement terms and applicable laws and regulations

Reviewed, assessed and reported on compliance with the terms and conditions of the grant agreement.

Representations by implementing agency

Obtained specific written representations from management.

E. Audit Results

For the financial statements of the project; our audit resulted with an unmodified opinion. In addition, other reporting responsibilities about the project are included under the "Report on Other Legal and Regulatory Requirements" heading of the report.

F. Management Recommendation

A management letter containing comments and recommendations related to internal control deficiencies and other matters dated 16.06.2026 has been prepared and shared with ILBANK. We believe these matters warrant management's attention.

INDEPENDENT AUDITOR'S REPORT & FINANCIAL STATEMENTS OF THE PROJECT

INDEPENDENT AUDITOR'S REPORT

TO ILLER BANKASI A.S.

Opinion

We have audited the Statement of Sources and Uses of Funds, Statement of the Comparison of Budget and Actual Amount, Statement of Withdrawal Application Summary, and Statement of Special Account of the Municipal Services Improvement Project as of December 31, 2025, and for the period then ended, and notes to the financial statements including a summary of significant accounting policies. The financial statements have been prepared by ILBANK in accordance with cash basis International Public Sector Accounting Standards and financial reporting provisions outlined in Grant Agreement Numbered TF-B4957.

In our opinion;

a) The accompanying financial statements present fairly, in all material respects, the financial position and cash flows of the Municipal Services Improvement Project as of December 31, 2025 and for the period then ended in accordance with cash basis International Public Sector Accounting Standards and financial reporting provisions outlined in Grant Agreement Numbered TF-B4957.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of this report. We are independent of the ILBANK within the meaning of "IFAC Code of Ethics for Professional Accountants" and have fulfilled our other responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter in the Financial Statement

Without modifying our opinion, we draw attention to Note "2" to the financial statements, which describe the basis of accounting. The financial statements are prepared to assist Municipal Services Improvement Project Management Unit to comply with the financial reporting provisions of the Grant agreement referred to above. As a result, the financial statements may not be suitable for another purpose.

Going Concern

The Project's financial statements have not been prepared using the going concern basis of accounting. The project will end on December 31, 2026.

Responsibilities of Management and Those Charged with Governance or other appropriate terms for the Financial Statements

ILBANK is responsible for the preparation and fair presentation of these financial statements in accordance with Grant Agreement Numbered TF-B4957, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Those charged with governance are responsible for overseeing the ILBANK's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

The objectives of our audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the planning and performance of the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

• We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

• We are also required to provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Report on Other Legal and Regulatory Requirements

a) ILBANK, as of December 31, 2025 has complied with, in all material respects, the requirements of the Grant Agreement Numbered TF-B4957.

b) With respect to SOEs, adequate supporting documentation has been maintained to support claims to the World Bank for reimbursement of expenditures incurred, and these expenditures are eligible for financing under the Grant Agreement Numbered TF-B4957.

Okan SÜLER
Chairman of
The Board of Treasury Controllers

Akif Bülent BOYACIOĞLU
(Audit Partner)
Vice Chairman

Ali ÇALIŞKAN	Ezel Malik ZENGİN	Oğulcan ÇOLAK	Rumeysa İZGİ
Senior Treasury Controller	Treasury Controller	Treasury Controller	Treasury Controller

Date: 16.06.2026
Address: Ministry of Treasury and Finance
The Board of Treasury Controllers, 06420, Devlet Mh, ANKARA/TÜRKİYE

ANNEX I: Financial Statements of the Project

ILLER BANKASI A.S.
MUNICIPAL SERVICES IMPROVEMENT PROJECT
GRANT NO: TF-B4957
WITHDRAWAL APPLICATION SUMMARY
For the year ended December 31, 2025

Withdrawal application number	Date	Category 2 Grant Financed Contracts under Part 1 (Environmental Infrastructure Investments) of the project	Category-4 Grant-Financed Contracts under Part 1 (Environmental Infrastructure Investments) of the Project excluding operating costs	Total	Requested Advance Amount	Value date	Rejected / Deducted	Net reimbursed
					In Designated Account currency - Euro			
Section A: Payment method - Advance/Replenishment								
Approved withdrawals								
11 (Advance and Documentation)	22.01.2025	9.869.019,37	146.283,57	10.015.302,94	10.015.302,94	31.01.2025	-	10.015.302,94
12 (Advance and Documentation)	2.05.2025	13.677.330,26	190.036,81	13.867.367,07	13.867.367,07	9.05.2025	-	13.867.367,07
13 (Advance and Documentation)	19.08.2025	10.557.154,25	83.960,28	10.641.114,53	7.955.096,78	25.08.2025		7.955.096,78
Pending Submission	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
Sub-Total (A)		**34.103.503,88**	**420.280,66**	**34.523.784,54**	**31.837.766,79**			**31.837.766,79**
Section B: Payment method - Reimbursement								
Approved withdrawals	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
Pending Submission	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
Sub-Total (B)		**0,00**	**0,00**	**0,00**	**0,00**			**0,00**
Section C: Payment method - Direct Payment								
Approved withdrawals	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
Pending submission	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
Sub-Total (c)		**0,00**	**0,00**	**0,00**	**0,00**			
TOTAL (A+B+C)		**34.103.503,88**	**420.280,66**	**34.523.784,54**	**31.837.766,79**			**31.837.766,79**

Prepared by
5.06.2026
Gökhan ARTUN
Finance Expert

Controlled by
5.06.2026
Funda CANSU ÇETİN
Acting Manager

Approved by
5.06.2026
Gamze ASLAN
Head of Department

INTERNATIONAL OPERATIONS DEPARTMENT
İLLER BANKASI ANONİM ŞİRKETİ
İLBANK

ILLER BANKASI A.S.
MUNICIPAL SERVICES IMPROVEMENT PROJECT
GRANT NO: TF-B4957
STATEMENT of SOURCES and USES of FUNDS
For the year ended December 31, 2025
(In EURO)

	Notes	Current Period	Previous Period	Cumulative
I-SOURCES OF FUNDS				
IBRD Grant (EU Financed)		0,00	0,00	0,00
1- Special Account		31.837.766,79	67.070.281,06	133.633.000,00
Total Funds Received		**31.837.766,79**	**67.070.281,06**	**133.633.000,00**
II-A USES OF FUNDS by COMPONENT				
I-Investment Costs				
Part 1. Environmental Infrastructure Investments		36.214.872,61	72.402.002,84	125.383.821,73
Part 2. Technical Assistance for Project Management and Supervision, Capacity Building, Communication and Citizen Engagement		366.642,83	1.030.281,33	2.293.191,76
Total Investment Costs	5	**36.581.515,44**	**73.432.284,17**	**127.677.013,49**
II-B USES OF FUNDS by CATEGORY				
Category 2 Grant Financed Contracts under part1 of the project		36.214.872,61	72.402.002,84	125.383.821,73
Category-4 Grant-Financed Contracts under Part 1 of the Project excluding operating costs		366.642,83	1.030.281,33	2.293.191,76
Total Uses of Funds by Component		**36.581.515,44**	**73.432.284,17**	**127.677.013,49**

Cash at the beginning of the period	01.01.2025		10.699.735,16
Cash at the end of the period	31.12.2025	4	5.955.986,51

Prepared by	Controlled by	Approved by
5.06.2026	5.06.2026	5.06.2026
Gökhan ARTUN	Funda CANSU ÇETİN	Gamze ASLAN
Finance Expert	Acting Manager	Head of Department

INTERNATIONAL OPERATIONS DEPARTMENT
İLLER BANKASI ANONİM ŞİRKETİ
İLBANK

ILLER BANKASI A.S.
MUNICIPAL SERVICES IMPROVEMENT PROJECT
GRANT NO: TF-B4957
STATEMENT of COMPARISON BUDGET and ACTUAL AMOUNT
For the year ended December 31, 2025

		NOTES	Current Period				Cumulative		
			Actual	Final Budget	Original Budget	Variance %	Actual	Planned	Variance %
			1	2		3=1/2	4	5	6=4/5
	Sources of Funds								
	IBRD Grant (EU Financed)		31.837.766,79	83.735.364,78	83.735.364,78	38%	133.633.000,00	133.633.000,00	100%
Total Sources of Funds			**31.837.766,79**	**83.735.364,78**	**83.735.364,78**	**38%**	**133.633.000,00**	**133.633.000,00**	**100%**
	Uses of Funds								
1	**By components**								
	Part 1. Environmental Infrastructure Investments	**5**	36.214.872,61	86.755.980,85	86.755.980,85	42%	125.383.821,73	130.350.000,00	96%
	Part 2. Technical Assistance for Project Management and Supervision, Capacity Building, Communication and Citizen Engagement	**5**	366.642,83	2.952.797,63	2.952.797,63	12%	2.293.191,76	2.983.000,00	77%
	Part 3. Monitoring and Evaluation of the Trust Fund Financed Portions of the Project	**5**	-	150.130,49	150.130,49	0%		300.000,00	0%
Total			**36.581.515,44**	**89.858.908,97**	**89.858.908,97**	**41%**	**127.677.013,49**	**133.633.000,00**	**96%**
2	**By expenditure category**								
	Category 2 Grant Financed Contracts under part1 of the project	**5**	36.214.872,61	86.755.980,85	86.755.980,85	42%	125.383.821,73	130.350.000,00	96%
	Category-4 Grant-Financed Contracts under Part 1 of the Project excluding operating costs	**5**	366.642,83	2.952.797,63	2.952.797,63	12%	2.293.191,76	2.983.000,00	77%
	Category-5 Goods,consulting services and non-consulting services,under Part-3 of the Project	**5**	-	150.130,49	150.130,49	0%	-	300.000,00	0%
Total			**36.581.515,44**	**89.858.908,97**	**89.858.908,97**	**41%**	**127.677.013,49**	**133.633.000,00**	**96%**

Prepared by	Controlled by	Approved by
5.06.2026	5.06.2026	5.06.2026
Gökhan ARTUN	Funda CANSU ÇETİN	Gamze ASLAN
Finance Expert	Acting Manager	Head of Department

INTERNATIONAL OPERATIONS DEPARTMENT
İLLER BANKASI ANONİM ŞİRKETİ
İLBANK

ILLER BANKASI ANONİM ŞİRKETİ
MUNICIPAL SERVICES IMROVEMENT PROJECT
SPECIAL ACCOUNT STATEMENT
ACCOUNT NO: 00158048019550097
For the year ended. December 31, 2025
(In EURO)

Opening Balance (01.01.2025)	***Notes***		***10.699.735,16***
Reimbursements to SA			*31.837.766,79*
Refunds to SA			*0,00*
Available Funds	***4***		*42.537.501,95*
Payments Made for Expenditures		*36.581.515,44*	
Service charges for the account			
Total Project Investments		***36.581.515,44***	
Closing Balance (31.12.2025)	**4**		***5.955.986,51***

Prepared by	Controlled by	Approved by
Gökhan ARTUN	Funda CANSU ÇETİN	Gamze ASLAN
Finance Expert	Acting Manager	Head of Department
5.06.2026	5.06.2026	5.06.2026

İLLER BANKASI ANONİM ŞİRKETİ
INTERNATIONAL OPERATIONS DEPARTMENT
İLBANK

ILLER BANKASI A.S.

Municipal Service Improvement Project - No: TF0B4957

NOTES TO THE PROJECT FINANCIAL TABLES

For The Year Ended December 31, 2025

1. THE OBJECTIVES AND STRUCTURE OF THE PROJECT

Grant Agreement (TF0B4957) is signed between the International Bank for Reconstruction and Development (the World Bank) and Iller Bank A.S. (ILBANK) on 17 March 2021. With the signed Grant agreement, the Municipal Services Improvement Project (MSIP) will be carried out and the purpose of this project is; improve host and refugee communities' access to safely managed water supply, sanitation, and solid waste services in Selected Municipalities affected by the influx of Syrians under Temporary Protection ("SuTP") in Türkiye. The Project consists of Environmental Infrastructure Investments such as; water supply investments, sanitation investments, solid waste investments and Technical Assistance for Project Management, Supervision, Capacity Building, Communication and Citizen Engagement.

ILBANK is responsible for the preparation and dissemination of the data related to the loan usage regularly and in a format to be agreed with the World Bank.

PMU is responsible for coordination between the team responsible for MSIP in World Bank and ILBANK, execution of the preparatory work, cooperation with the assigned units of ILBANK, the selection of the Municipalities and/or Administrations, relations with the Presidency of Strategy and Budget and other public institutions. PMU executes the works related to procurement within the scope of projects, technical coordination of the sub-projects, and disbursement of grant proceeds.

2. ACCOUNTING POLICIES

PMU which is currently organized within the ILBANK International Relations Group and established as per the provisions of the Grant Agreement recorded the amounts withdrawn from

Funda ÇETİN
Acting Manager

Gamze ASLAN
Head Of Department

the Grant and the amounts paid to the municipalities/administrations on "cash basis" in the ILBANK accounting system. On the other hand, PMU:

- The amount of World Bank grant,
- The amount withdrawn from the grant,
- The amount paid to the suppliers/contractors/consultants and to the Municipalities/Administrations to be paid to the tax offices on behalf of them as per the provisions of the Sub-Grant Agreements,
- Accrued amounts such as credit fees and interest.
- ILBANK Accounting and Financial Affairs Department maintains records in accounting software in order to monitor in terms of credit categories and expenditure items in euro and contract currency.

The following policies shall be followed in accounting records of ILBANK:

a) ILBANK will use cash-based accounting related to the Project. According to cash basis accounting the withdrawals from the Grant to the Special Account are recorded as a "funds allocated to our bank" in Euro.

b) In accordance with the sub-grant agreements concluded with the Municipalities / Administrations, upon the request of the Municipalities / Administrations, the payment amount will be deducted from the funds allocated to our bank.

c) The amount determined after the required deductions for tax, stamp duty, decision tax, VAT withholding, etc., as per the local regulations and the conditions of the contract will be transferred directly to the account of the supplier/consultant/contractor providing the services/goods/works from the Special Account by International Relations Department PMU. The total amount of the deductions will be paid to the related account of the Municipality/Administrations who are responsible to pay to the tax offices on behalf of the contractor.

d) The amount sub-grant used by the Municipalities/Administrations based on Sub-Grant Agreements will be recorded to the following account:

3 - Deposits and Other Foreign Resources

INTERNATIONAL OPERATIONS DEPARTMENT İLLER BANKASI ANONİM ŞİRKETİ İLBANK

Funda ÇETİN
Acting Manager

Gamze ASLAN
Head Of Department

385 - Funds Allocated to Our Bank (Foreign Currency)

3852014 - World Bank Municipal Services Improvement Project

The total amount of expenses for the MSIP is EURO 127.677.013,49 at the end of the year of 2025.

e) The Special Account with *T. Vakıflar Bank Turkish Joint Stock Company* is in Euro. The prevailing selling exchange rate for Euro/TL of *T. Vakıflar Bank Turkish Joint Stock Company* will be applied for the above-mentioned payments from the Special Account.

f) Accounting transactions will be recorded in Euro as the currency of Grant Agreement. The collection in local currency is converted into Euro at the rate of *T. Vakıflar Bank Turkish Joint Stock Company* prevailing at the date of collection for preparation of the source and use of the funds and cumulative investment table. The payments in Euro are recorded using the exchange rate of Euro/TL prevailing at the date of payment.

3. STATEMENT OF FINANCE

The use of the funds in Special Account is limited by only project objectives in conformity with the provisions of the Grant Agreement between the World Bank and ILBANK. The unused project funds at the end of the project may be cancelled in accordance with the provisions of the related Grant Agreement. The assets obtained by using the Project funds are belong to the Municipality/Administrations and the usage of the assets limited by the project objectives until the project completion. The grant-user agencies keep the necessary records in accordance with the requirements of the Law no. 5018 to monitor/control the assets during period of the project and Sub-Projects.

4. CASH POSITION AT THE END OF THE FISCAL YEAR

The cash position on 31st of December 2025 indicates the balance between the withdrawals from the grant to the Special Account and the amount of disbursement from Special Account

Funda ÇETİN
Acting Manager

Gamze ASLAN
Head Of Department

INTERNATIONAL OPERATIONS DEPARTMENT
İLLER BANKASI ANONİM ŞİRKETİ

and it is 5.955.986,51 Euro. Project funds are held only in the *T. VAKIFBANK T.A.O.'s Special Account*, no other accounts or cash other than the Special Account is used.

T. VAKIFBANK T.A.O. SPECIAL ACCOUNT	
31.12.2025 Balance	5.955.986,51 EURO

5. EXPLANATION on BUDGET REALIZATION

The original budget and final budget sections under the title "Statement of Comparison Budget and Actual Amount" are the estimated expenditure and withdrawal amounts for the fiscal year stated in the Progress Report prepared for the last quarter of the year preceding the fiscal year.

INTERNATIONAL OPERATIONS DEPARTMENT
İLLER BANKASI ANONİM ŞİRKETİ
İLBANK

Funda ÇETİN
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Head Of Department

MINISTRY OF TREASURY AND FINANCE

BOARD OF TREASURY CONTROLLERS

MUNICIPAL SERVICES IMPROVEMENT PROJECT
(Grant Agreement)

Implemented by
ILLER BANKASI A.S.

Financed Under World Bank Grant Agreement Numbered TF-B4957

As of December 31, 2025 and For the Year Then Ended

Prepared by

Ali ÇALIŞKAN
Senior Treasury Controller

Ezel Malik ZENGİN
Treasury Controller

Oğulcan ÇOLAK
Treasury Controller

Rumeysa İZGİ
Treasury Controller

MANAGEMENT LETTER

Ref: Independent Auditor Report's dated June 16, 2026

REPUBLIC OF TÜRKİYE
MINISTRY OF TREASURY AND FINANCE
Board of Treasury Controllers

MANAGEMENT LETTER

TO ILLER BANKASI A.S.

We have audited the financial statements of "Municipal Services Improvement Project" (Grant Agreement Numbered TF-B4957) as of December 31, 2025, and for the year then ended.

According to International Standards on Auditing the auditors are required to obtain an understanding of internal control relevant to the audit when identifying and assessing the risk of material misstatement of the financial statements. In making those risk assessments, the auditor considers internal control in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.

We have prepared this Management Letter in order to communicate appropriately to those charged with governance and management deficiencies in internal control that we have identified during the audit and that, in our professional judgement, are of sufficient importance to merit their respective attentions. For this purpose, our recommendations in order of priorities are attached to this Letter.

Our letter is intended solely for Iller Bankası A.S., Ministry of Treasury and Finance, and World Bank, and should not be distributed or used by other parties.

Okan SÜLER
Chairman of
The Board of Treasury Controllers

Akif Bülent BOYACIOĞLU
(Audit Partner)
Vice Chairman

Ali ÇALIŞKAN	Ezel Malik ZENGİN	Oğulcan ÇOLAK	Rumeysa İZGİ
Senior Treasury Controller	Treasury Controller	Treasury Controller	Treasury Controller

<u>Date:</u> June 16, 2026
<u>Address:</u> Ministry of Treasury and Finance
The Board of Treasury Controllers
06420, Devlet Mh, ANKARA/TÜRKİYE

AUDIT FINDINGS OF THE PREVIOUS YEAR

FINDING NUMBER : 1	**Auditee (ILLER BANKASI A.S.)**
FINDING	Agreed Upon Actions on Aide Memoire

CONDITION

Regarding the final status of the actions agreed upon on the support mission dated April 24-28,2023 it is understood that although various actions have been taken on most of the issues, no action has been taken regarding the *"Prepare a detailed analysis assessing the delays encountered in project activities"* part shown in the Procurement section.

CRITERIA – CAUSE – IMPACT

Criteria:

PROJECT OPERATIONAL MANUAL (POM)

"3.2 Duties And Responsibilities Of The Project Management Unit

3.2.1 General Framework

...

j. In order to review whether or not the terms of the Grant and Loan Agreements are fulfilled, it reviews the requests received from the World Bank and the Ministry of Treasury and Finance and coordinates the necessary studies and preparation of reports. For this purpose, it assists in the fulfilment of review, examination and inspection requests of both the World Bank and the Ministry of Treasury and Finance in accordance with the terms of the Grant and Loan Agreements.

k. In accordance with the terms of the Grant and Loan Agreements, it provides all kinds of information and documents that may be requested by the World Bank and the Ministry of Treasury and Finance by means of ensuring coordination with the other departments of the ILBANK."

Cause and Impact:

The failure to prepare the information and documents requested by the World Bank in a timely manner constitutes a violation of the loan/grant agreements and other relevant sub-documents. Furthermore, conducting a detailed analysis to assess the delays encountered in project progress and taking the necessary measures to minimize these delays is crucial for the overall success and efficiency of the project. Without this analysis, there is a risk that similar delays will recur in the future.

RECOMMENDATION

It is recommended that the PMU immediately undertake the agreed-upon action of preparing a detailed analysis assessing the delays encountered in project activities. This analysis should identify the root causes of the delays, assess their impact on project progress, and propose corrective measures. Following the completion of this analysis, the PMU should develop a comprehensive action plan to address the identified issues. This plan should include specific timelines, responsible parties, and clear milestones to ensure accountability and track progress.

RESPONSE OF THE AUDITEE IN 2024

A brief report (ANNEX-I) revealing procurement status and summarizing main reasons/findings behind the delays within the scope of MSI Project was prepared and submitted to the World Bank with our e-mail dated May 18, 2023 (ANNEX-II). However, since the report mainly focused on the reasons of delay without a comprehensive remedies / action to be taken most of the remedies or actions taken by executing meetings with sub-borrowers / beneficiaries and sharing the results with the World Bank by means of particular meetings. Due to the lack of official writings or e-mails, subject report was not shared with the Auditors. As recommended, PMU will take immediate action developing a comprehensive action plan to address the issues based on the above-mentioned report. Specific timelines and clear milestones will be determined in order to ensure accountability.

FINAL OPINION OF THE AUDITORS IN 2024

Partially Addressed

Considering relevant documents are submitted to World Bank officials, part of our finding is addressed. On the other hand, more structured and documented approach is essential. The PMU must finalize and implement a comprehensive action plan promptly. Ensuring thorough documentation and sharing it with relevant stakeholders (including auditors) will be crucial for transparency.

This finding will be followed up in the next audit period.

RESPONSE OF THE AUDITEE IN 2025

As recommended, PMU has taken immediate action developing a comprehensive action plan to address the issues based on the above-mentioned report. Specific timelines and clear milestones have been determined in order to ensure accountability. Moreover, FRIT Program as a whole package has been brought to a successful level with these studies.

FINAL OPINION OF THE AUDITORS IN 2025

OPEN

Sufficient audit evidence has not been provided a comprehensive action plan developed by the Project Management Unit. Furthermore, during the Aide Memorie conducted in October 2024 by World Bank officials, it was observed that the actions related to signing a contract with the Monitoring and Evaluation (M&E) firm and delivering Occupational Health and Safety (OHS) training at all construction sites had not been implemented yet.

Accordingly, the finding will remain open and will be followed up in subsequent periods until providing a satisfactory documentation confirming whether the key implementation issues have been fulfilled.

RESPONSE OF THE AUDITEE IN 2026

Provision of assistance to carry out monitoring and evaluation of activities (Procurement Plan no: ILBANK-C4)" initially tendered by Single Source / Direct Selection method following the World

Bank's no-objection dated 28.03.2024. Identified Consultant invited to submit its proposal on 14.05.2024 and the Consultant submitted its proposal on 28.05.2024. After the completion of proposal evaluation conducted by the committee, contract negotiations were held. Negotiations failed since the contract price offered was not reasonable and proposals have been rejected by the evaluation committee. Consultant was notified for the cancellation of tender by the official letter submitted on 02.12.2024. Services required re-tendered by CQS method (ILBANK-C4/RB).

The re-tender announcement date was 24.04.2025, and the tender was held on 25.07.2025. The contract was signed on 05.11.2025, and the assignment has been successfully mobilized since then.

Regarding the Occupational Health and Safety (OHS) trainings, OHS site training sessions have been comprehensively and continuously conducted across sub-project sites under the MSIP. Continuous OHS compliance monitoring and training activities were actively in place and have been systematically sustained throughout subsequent periods. The chronological log of the OHS site audits and training programs delivered under the project is presented in the table below:

Date	**Location / Site**
05-08 October 2023	Antalya
27-28 November 2023	Konya
22-24 January 2024	Ankara
03-04 July 2024	Konya
07-10 October 2024	Kahramanmaraş
11 October 2024	Elbistan
03-04 December 2024	Ankara
23-24 December 2024	Osmaniye
21-22 January 2025	Adana
28-31 January 2025	Kahramanmaraş (Center & Elbistan)
11-14 March 2025	Adana
08-11 April 2025	Kahramanmaraş
06-09 May 2025	Kahramanmaraş
12-14 May 2025	Osmaniye
11-13 August 2025	Kahramanmaraş
15 September 2025	Osmaniye
16-17 September 2025	Adana
03-05 December 2025	Kahramanmaraş
07-08 December 2025	Adana

FINAL OPINION OF THE AUDITORS IN 2026

ADDRESSED

It has been understood that the procurement processes have been completed and the contract for the monitoring and evaluation services has been signed. Furthermore, it was observed that Occupational Health and Safety (OHS) training sessions were delivered at various dates and locations throughout the project implementation period. In conclusion, the finding has been addressed.