



**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, 2024 and For the Year Then Ended

Prepared by

**Ezel Malik ZENGİN
Treasury Controller**

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Report's Number

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INDEPENDENT AUDITOR'S REPORT

June 18, 2025



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

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EXECUTIVE SUMMARY



EXECUTIVE SUMMARY

A. Project Summary

The Grant Agreement between the İller Bankası A.Ş. (İLBANK) 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 and received a Grant of 133.633.000,00 Euro.

Project is implemented by Project Management Unit (PMU) under İLBANK 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.**

Financing of demand-driven, environmental infrastructure investments, through the provision of Sub-loans and Sub-grants to Selected Municipalities and SKIs to finance goods, works, non-consulting services, and consulting services required for the construction and rehabilitation works for water supply, sanitation, and solid waste management infrastructure in the Selected Municipalities to achieve improvements in access, service quality, and continuity of municipal services, and for smaller scale critical facilities to address immediate municipal service needs of vulnerable SuTP and host communities at the neighborhood or settlement level; such investments comprise, *inter alia*, those set forth below.

- a) **Water supply investments:** (i) construction and/or rehabilitation of water treatment plants; (ii) construction and/or rehabilitation of water transmission and distribution networks; (iii) expansion of water reservoir capacities; (iv) provision of non-revenue water reduction activities; (v) provision of priority people-facing public hygiene facilities or interventions at the individual settlement or neighborhood level to ensure access to safely managed water supply services by all persons, including the most vulnerable; and (vi) other demand-driven water supply investments, as approved by the Bank.
- b) **Sanitation investments:** (i) construction of new wastewater treatment plants or interventions to increase capacity; (ii) construction of new or rehabilitation or extension of existing sewerage collection networks; (iii) targeted priority sanitation



or related public hygiene facilities to address needs in the most vulnerable settlements among host and refugee communities; and (iv) other demand-driven sanitation investments, as approved by the Bank.

- c) Solid waste investments:** (i) construction of new solid waste landfill in one municipality; (ii) closing of existing dump sites, provision of waste collection and transfer equipment; (iii) construction of two transfer stations in Selected Municipalities; and (iv) other demand-driven solid waste management investments, as approved by the Bank.
- **Part 2. Technical Assistance for Project Management, Supervision, Capacity Building, Communication and Citizen Engagement.**
- a)** Provision of support for Project management, coordination, monitoring and evaluation, including for financial management, procurement and compliance of environmental and social requirements, including those related to climate change and dam safety; said support includes (i) Operating Costs, (ii) consulting services Provision of support for Project management, coordination, monitoring and evaluation, including for financial management, procurement, and compliance of environmental and social requirements, including those related to climate change and dam safety; said support includes (i) Operating Costs, (ii) Consulting Services for the PMU, and (iii) video conference systems for the Borrower's headquarters and regional directorates.
- b)** Provision of technical assistance for design review, preparation of bidding documents (taking into account climate change considerations), and supervision of construction and rehabilitation works for environmental infrastructure investments under Part 1 of the Project.
- c)** Provision of institutional capacity building activities, including training and workshops, for the Borrower, the Selected Municipalities, and SKIs to, *inter alia*, improve performance efficiency, increase capacity to further modernize operations, optimize efficiency and effectiveness in municipal service delivery, and support sustainable and equitable service delivery.
- d)** Provision of support for citizen and community engagement activities to facilitate engagement among stakeholders, including Turkish citizens, SuTP, Selected Municipalities, and SKIs to identify the needs and priorities for enhancing service delivery to all people in beneficiary communities.
- e)** Provision of support for communication and visibility activities, including preparation of a detailed communication and visibility plan, information and outreach campaigns, brochures, promotional and audio-visual materials and awareness raising events.



- **Part 3. Monitoring and Evaluation of the Trust Fund Financed Portions of the Project.**

Provision of assistance to carry out monitoring and evaluation of activities implemented under the Trust Fund financed portions of the Project, including data collection and preparation of reports in support of the related results framework under the Facility for Refugees in Türkiye.

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 2024. 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 examined;

- (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 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 18.06.2025 has been prepared and shared with ILBANK. We believe these matters warrant management’s attention.

**INDEPENDENT AUDIT REPORT'S & 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, 2024, 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;

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, 2024 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 November 30, 2025.



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

The conclusions drawn from the audits conducted within the scope of the other reporting requirements are as follows;

a) ILBANK, as of December 31, 2024 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 SULER
Chairman of
The Board of Treasury Controllers

Akif Bulent BOYACIOĞLU
(Audit Partner)
Vice Chairman

Ezel Malik ZENGİN
Treasury Controller

Servan KUTLUCAN
Treasury Controller

Oğulcan ÇOLAK
Treasury Controller

Ömer Faruk KOCAMIŞ
Treasury Controller

Rumeysa İZGİ
Treasury Controller

Date: 18.06.2025

Address: Ministry of Treasury and Finance

The Board of Treasury Controllers 06420, Devlet Mh, ANKARA/TÜRKİYE



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

ANNEX I: Financial Statements of the Project

İLLER BANKASI A.Ş.
MUNICIPAL SERVICES IMPROVEMENT PROJECT
GRANT NO: TF-B4957
WITHDRAWAL APPLICATION SUMMARY
For the year ended December 31, 2024

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
Section A: Payment method – Advance/Replenishment								
Approved withdrawals								
5 (Advance and Documentation)	3.04.2024	10.545.323,25	316.465,80	10.861.789,05	10.861.789,05	15.04.2024	-	10.861.789,05
6 (Advance and Documentation)	28.05.2024	6.656.526,08	97.062,88	6.753.588,96	6.753.588,96	5.06.2024	-	6.753.588,96
7 (Advance and Documentation)	25.07.2024	8.294.753,35	29.792,17	8.324.545,52	8.324.545,52	1.08.2024	-	8.324.545,52
8 (Advance and Documentation)	5.09.2024	16.056.324,45	67.423,92	16.123.748,37	16.123.748,37	13.09.2024	-	16.123.748,37
9 (Advance and Documentation)	30.10.2024	16.481.134,44	220.627,50	16.701.761,94	16.701.761,94	6.11.2024	-	16.701.761,94
10 (Advance and Documentation)	10.12.2024	8.088.194,27	216.652,95	8.304.847,22	8.304.847,22	18.12.2024	-	8.304.847,22
Pending Submission	-	-	-	-	-	-	-	-
Sub-Total (A)	-	66.122.255,84	948.025,22	67.070.281,06	67.070.281,06	-	-	67.070.281,06
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	-	-	-	-	-	-
TOTAL (A+B+C)	-	66.122.255,84	948.025,22	67.070.281,06	67.070.281,06	-	-	67.070.281,06

Prepared by
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Finance Expert
12.06.2025

Controlled by
Türhan Atakan GÜLYURDU
Acting Manager
12.06.2025

Approved by
Şevket Altuğ TAŞDEMİR
Head of Department
12.06.2025



ILLER BANKASI A.Ş.
MUNICIPAL SERVICES IMPROVEMENT PROJECT
GRANT NO: TF-B4957
STATEMENT of COMPARISON BUDGET and ACTUAL AMOUNT
For the year ended December 31, 2024

	NOTES	Current Period				Cumulative		
		Actual	Final Budget	Original Budget	Progress %	Actual	Planned	Progress %
		1	2		3=1/2	4	5	6=4/5
Sources of Funds								
		67.070.281,06	83.735.364,78	83.735.364,78	80%	101.795.233,21	133.633.000,00	76%
		67.070.281,06	83.735.364,78	83.735.364,78	80%	101.795.233,21	133.633.000,00	76%
Uses of Funds								
1 By components								
	6	72.402.002,84	86.755.980,85	86.755.980,85	83%	89.168.949,12	101.340.502,39	88%
	6	1.030.281,33	2.952.797,63	2.952.797,63	35%	1.926.548,93	3.100.000,00	62%
	6	-	150.130,49	150.130,49	0%	-	150.130,49	0%
		73.432.284,17	89.858.908,97	89.858.908,97	82%	91.095.498,05	104.590.632,88	87%
2 By expenditure category								
	6	72.402.002,84	86.755.980,85	86.755.980,85	83%	89.168.949,12	101.340.502,39	88%
	6	1.030.281,33	2.952.797,63	2.952.797,63	69%	1.926.548,93	3.100.000,00	62%
	6	-	150.130,49	150.130,49	0%	-	150.130,49	0%
		73.432.284,17	89.858.908,97	89.858.908,97	83%	91.095.498,05	104.590.632,88	87%



Approved by
 Şevket Altug TAŞDEMİR
 Head of Department
 12.06.2025

Controlled by
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 Acting Manager
 12.06.2025

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 12.06.2025

İLLER BANKASI A.Ş.
MUNICIPAL SERVICES IMPROVEMENT PROJECT
GRANT NO: TF-B4957
STATEMENT of SOURCES and USES of FUNDS
For the year ended December 31, 2024
(In EURO)

	Notes	Current Period (2024)	Previous Period (2023)	Cumulative
I-SOURCES OF FUNDS				
IBRD Grant (EU Financed)		67.070.281,06	14.521.679,31	101.795.233,21
<i>1- Special Account</i>	5	67.070.281,06	14.521.679,31	101.795.233,21
Total Funds Received		67.070.281,06	14.521.679,31	101.795.233,21

II-A USES OF FUNDS by COMPONENT

I-Investment Costs

Part 1. Environmental Infrastructure Investments		72.402.002,84	12.964.652,39	89.168.949,12
Part 2. Technical Assistance for Project Management and Supervision, Capacity Building, Communication and Citizen Engagement		1.030.281,33	503.697,23	1.926.548,93
Total Investment Costs	5	73.432.284,17	13.468.349,62	91.095.498,05

II-B USES OF FUNDS by CATEGORY

Category 2- Grant Financed Contracts under Part 1 of the Project		72.402.002,84	12.964.652,39	89.168.949,12
Category 4- Grant-Financed Contracts under Part 1 of the Project Excluding Operating Costs		1.030.281,33	503.697,23	1.926.548,93
Total Uses of Funds by Component	5	73.432.284,17	13.468.349,62	91.095.498,05

Cash at the beginning of the period	01.01.2024		17.061.738,27
Cash at the end of the period	31.12.2024	4	10.699.735,16

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12.06.2025

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Acting Manager
12.06.2025

Approved by
Şevket Altuğ TAŞDEMİR
Head of Department
12.06.2025



İLLER BANKASI A.Ş.
MUNICIPAL SERVICES IMPROVEMENT PROJECT
GRANT NO: TF-B4957
SPECIAL ACCOUNT STATEMENT
ACCOUNT NO: 00158048019550097
For the year ended December 31, 2024
(In EURO)

Opening Balance (01.01.2024)	Notes		17.061.738,27
Reimbursements to SA			67.070.281,06
Refunds to SA	5		61.055,56
Available Funds			84.193.074,89
Payments Made for Expenditures	5	73.493.339,73	
Service charges for the account		0,00	
Total Project Investments		73.493.339,73	
Closing Balance (31.12.2024)	4		10.699.735,16

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12.06.2025



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Turhan Atakan GÜLYURDU
Acting Manager
12.06.2025



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Şevket Altuğ TAŞDEMİR
Head of Department
12.06.2025



ILLER BANKASI A.S.

Municipal Service Improvement Project - No: TF0B4957

NOTES TO THE PROJECT FINANCIAL TABLES

For The Year Ended December 31, 2024

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 Department and established as per the provisions of the Grant Agreement recorded the amounts withdrawn from

Turhan Atakan GÜLYURDU
Contract Management Manager



Şevket Altuğ TAŞDEMİR
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,
- 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

Turhan Atakan GÜLYURDU
Contract Management Manager



Şevket Altuğ TAŞDEMİR
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 91.095.498,05 at the end of the year of 2024 .

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 2024 indicates the balance between the withdrawals from the grant to the Special Account and the amount of disbursement from Special Account

Turhan Atakan GÜLYURDU
Contract Management Manager

[Signature]

Şevket Altuğ TAŞDEMİR
Head Of
Department

and it is 10.699.735,16 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	
31.12.2024 Balance	10.699.735,16 EURO

5. EXPLANATION on REFUNDS to SA

The advance payment for a sub-project was inadvertently made without applying income tax withholding, causing an overpayment amounting to €61.055,56 made to the contractor. Upon realizing the mistake, the contractor was instructed to refund the overpaid amount.

Thus, there was not any additional fund transfer from the funding organization to the Special Account, and the aforementioned refunding also caused the difference between the expenditure amount in Statement of Uses of Funds and the expenditure amount in the Special account Statement.

6. EXPLANATION on BUDGET REALIZATION

The original budget and final budget sections under the titles “Sources of Funds” and “Uses of Funds in “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.



Turhan Atakan GÜLYURDU
Contract Management Manager

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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, 2024 and For the Year Then Ended

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Ezel Malik ZENGİN
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Servan KUTLUCAN
Treasury Controller

Oğulcan ÇOLAK
Treasury Controller

Ömer Faruk KOCAMIŞ
Treasury Controller

Rumeysa İZGİ
Treasury Controller



MANAGEMENT LETTER

Ref: Independent Auditor Report's dated June 18, 2025



REPUBLIC OF TÜRKİYE
MINISTRY OF TREASURY AND FINANCE
The 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, 2024, 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 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.

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Date: June 18, 2025

Address: Ministry of Treasury and Finance
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AUDIT FINDINGS OF THE PREVIOUS YEAR

FINDING NUMBER : 1	Auditee (ILLER BANKASI A.S.)
FINDING	Deficiency in Programming
CONDITION The closing date for both the Loan Agreement numbered 90770-TR and the Grant Agreement numbered TF-B4957 is determined as 31.12.2024 (TF-B4957 was previously extended). As of 2024, it has been observed that the program is far from completion, and an extension request was submitted to the World Bank on 11.01.2024 due to this delay. Upon examination of the program schedule prepared by the PMU, it was detected that: • Out of the 26 projects, 1 has been cancelled and 11 contracts have been signed, resulting in a Contracting Rate of 44%. • Of the 11 signed contracts, physical and financial progress is below 20% in 6 of them. • Progress is also below 35% in the remaining 5 projects. As an example of the above mentioned situation, during the on-site audit on 21.05.2024, we have been informed that the physical and financial progress of the 'KOSKI/KON W1 Akşehir Potable Water Network and Transmission Lines Construction Work' is 31.90% as of April 2024. In addition to the findings from desk reviews and on-site inspections, significant deviations are detected in the "Statement of Comparison Budget and Actual Amount" table of the project financial statements. Furthermore, from the financial statements and notes, it appears that annual budgeting and planning were not realistically done.	
CRITERIA - CAUSE - IMPACT Criteria: European Commission Development Fund Grant Agreement - Municipal Services Improvement Project - Facility for Refugees in Turkey) - Grant Number TF0B4957 "SCHEDULE 2, Project Execution, Section III. Withdrawal of Grant Proceeds, B. Withdrawal Conditions; Withdrawal Period 1. ... 2. The Closing Date is December 31,2022" Disbursement and Financial Information Letter "SCHEDULE 1-Disbursement Provisions Disbursement Deadline Date: Four (4) months after the closing date" Extension of Closing Date Letter	



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"I am pleased to inform you that the World Bank agrees to your request and has therefore established December 31, 2024, as the later date for purposes of Section III.B.2 of Schedule 2 to the Grant Agreement.

Accordingly, this is to advise you that, in accordance with the World Bank's current practice, further disbursements from the above-referred Grant will be made for withdrawal applications received by the World Bank by close of business on April 30, 2025 in respect of eligible expenditures made before the Closing Date (i.e. payments made or payments due for goods, works and services or other eligible expenditures that have been provided prior to the Closing Date). Proceeds of the Grant remaining unwithdrawn after disbursements have been made in respect of these withdrawal applications will be cancelled."

Cause and Impact:

The events such as the pandemic that occurred in 2020, the Russia-Ukraine conflict, and the destructive earthquake that affected the project areas in 2023 have led to an increase in raw material and labor costs and shortages in resources. However, especially considering the diminishing effects of the pandemic, the stabilization of the Russia-Ukraine conflict, and the time since the earthquake, it could be expected that the PMU would adapt more quickly to the situation.

If the World Bank grants no extension, a significant loss of funds will occur. Even if the World Bank grants an extension, a risk of significant fund loss remains.

RECOMMENDATION

In case the IBRD grants a second project extension, contractors and municipalities should be informed about the importance of timely completion of sub-projects and the consequences of non-completion.

All projects should be planned by considering time constraints, budget, and country conditions, and should be closely monitored. Immediate action should be taken if any deviation is observed in financial or technical progress at any point. Actions taken will be monitored through annual plans prepared in following years.

RESPONSE OF THE AUDITEE IN 2023

- In finding number 1 it has been written that in FRIT program there is 26 projects, in fact there is total number of 22 projects. 17 out of 22 projects are construction contracts. And 5 out of 22 are good contracts. The status of all projects are summarised below;

Out of 17 Construction Contracts;

- 12 contracts are ongoing
- 2 contracts will be signed in June-2024.
- 1 contract in SPN now.
- 1 contract will be in SPN in June-2024.
- 1 contract will be in SPN in July-2024.

Out of 5 Good Contracts;

- 2 good contracts have been signed.



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- 3 good contracts will be signed in June-2024.

For 12 ongoing contracts, projects are being monitored very closely. Team, equipment and machinery numbers are being increased continuously. In most of the 12 contracts, mobilization stages have been completed and site activities have been started. Due to summer season, there will be longer working day times. In most of the projects additional shifts are being organized too. The weather conditions also enable the the construction of projects to be done efficiently. All of the precautions have been taken so that in FRIT projects we will see the positive return of these precautions in following months. It has already been observed that we get as progress payments higher monetary values in the last month which proves that these precautions will enable the success of projects. Moreover we would like to declare that physical progresses are much more above the financial progresses (in all projects the physical progresses are approximately 5-10 % above the financial progress rates).

FINAL OPINION OF THE AUDITORS IN 2023

OPEN

The statistical information in the condition section of the finding have been prepared using the documents brought to our attention by the ILBANK PMU. Within this framework, it has been understood that canceled projects are more than the previous list submitted for our attention. It is recommended to be more diligent about the accuracy of the information and documents presented to us to avoid unnecessary workload and to maintain the transparency of project.

The physical and financial progress of the project will be monitored in the following period.

RESPONSE OF THE AUDITEE IN 2024

There has been a very significant progress in all of the projects, 3 Konya KOSKİ Projects (Grant) have been completed and temporary acceptances have been done, 4 Kahramanmaraş KASKİ Projects (2 Grant, 2 Loan) are being completed and temporary acceptance procedures are ongoing. Almost % 40 of projects are being completed, other projects mostly are being executed according to the work schedules. Therefore the FRIT program has experienced a very significant progress and evaluated as Satisfactory.

FINAL OPINION OF THE AUDITORS IN 2024

ADDRESSED

Considering the progress observed in the current status of the construction works and goods contracts as of February 28, 2025, the finding has been addressed.



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FINDING NUMBER : 2	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 <i>"Prepare a detailed analysis assessing the delays encountered in project activities"</i> part shown in the Procurement section.	
CRITERIA – CAUSE – IMPACT Criteria: PROJECT OPERATIONAL MANUAL (POM) <i>"3.2 Duties And Responsibilities Of The Project Management Unit"</i> <i>3.2.1 General Framework</i> ... <i>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.</i> <i>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."</i> 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.	



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RESPONSE OF THE AUDITEE IN 2023

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 2023

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 2024

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 2024

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.



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FINDING NUMBER : 3	Auditee (ILLER BANKASI A.S)
FINDING	Deficiencies in Tendering Processes
CONDITION 1) For "Kozan İmamoğlu Yedigöze Transmission Line Project" (ADANA-W1), it was understood that an addendum (Addendum No. 1) was issued while the tender process was ongoing. Upon reviewing the published addendum document, it was detected that the original dates in this document did not match the dates in the original tender document. In summary, it has been understood that the dates in the tender documents kept by the PMU differ from those in the published tender documents. When an explanation was requested on the matter, it was stated by ILBANK PMU that conditional approval was given to the tender document by changing the dates. However, it was noted that the Consultancy Firm and Municipalities/SKIs announced the tender without paying attention to these dates. 2) During the examination of the tender dossier of the "ILBANK NCS 3/B - Capacity Building Training for ILBANK and Final Beneficiaries - 2", the "Bid Envelope Opening Report" which includes the time and date information regarding the opening of the bids was not prepared.	
CRITERIA – CAUSE – IMPACT Criteria: PROJECT OPERATIONAL MANUAL (POM) <i>"3.4 Tasks Carried Out By The Contract Management Unit - 3.4.5.1.2.2 Preparation of Bidding Documents</i> <i>a. The Consultancy Firm prepares the draft bidding documents with all provisions stipulated in Para. 5.4 of the Bank's Procurement-Regulations incorporated and submits the documents to Municipality/Utility. The Draft Addendum, Replies to Queries and Clarifications documents are sent to PMU Contract Management Unit by Municipality/Utility for review/clearance.</i> <i>b. The Contract Management Unit receiving inputs from the relevant technical units of the PMU, ILBANK departments and Municipalities/SKIs reviews and provides its comments/clearance on the draft bidding documents which shall be conveyed to the Consultant/s by the respective Municipality/Utility.</i> <i>c. The Bidding Documents as prepared by the Consultancy Firm shall be revised as necessary until its clearance by the Contract Management Unit for post review contracts.</i> <i>d. ...</i> <i>e. The Municipality/SKI is informed by the Contract Management Unit on the final version of the Bidding Documents."</i> THE WORLD BANK PROCUREMENT REGULATIONS FOR IPF BORROWERS "Bid/Proposal Opening	



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5.40 *The date and time for the Bid/Proposal opening shall be the same as for the deadline for receipt of Bids/Proposals or promptly thereafter, and shall be announced, together with the place for Bid/Proposal opening, in the request for bids/request for proposals document and/or the SPN. In a single stage, two-envelope process, the date, time and place for opening the second envelope shall also be appropriately announced.*

..

5.43 *In a single stage, one-envelope process, the Borrower shall:*

- a. open in public all Bids/Proposals received by the submission deadline; and*
- b. read aloud and record the name of each Bidder/Proposer/Consultant that submitted a Bid/Proposal, the total amount of each Bid/Proposal, any discounts, Bid/Proposal Security, Bid/Proposal securing declaration, if required, and any alternative Bids/Proposals offered if they have been requested or permitted."*

Cause - Impact:

- 1) The current procedures appear to be sufficient, and since similar errors were not encountered in other examined tenders, it was concluded that the error was isolated. However, as an additional control step, a procedure can be added to check the items given conditional approval after the tender is published. The error stems from the carelessness of the Consultancy Firm and the Municipalities/SKIs. Failure to comply with the instructions of the ILBANK PMU, designated as the approval authority, along with the grant agreement and other relevant sub-documents, may lead to problems that are difficult to remedy.
- 2) "The Bid Envelope Opening Report" was not issued during the tender opening. This prevents an accurate conclusion as to whether the bid openings were conducted in compliance with "The World Bank Procurement Regulations for IPF Borrowers" and casts doubt regarding the transparency of the tender process.

RECOMMENDATION

- 1) It would be appropriate to warn the Consultancy Firm and Municipalities/SKIs to comply with the instructions of the ILBANK PMU and to remind them of their obligations under the Contracts/Agreements.

Although the current procedures appear to be sufficient, an additional control step could involve the Contract Management Unit reviewing the tender documents, especially the items given conditional approval, after they are published.

- 2) It is recommended that procurement processes be conducted in such a way as to provide audit evidence that World Bank procedures have been fully complied with.

RESPONSE OF THE AUDITEE IN 2023

- 1) Due to the risk of creating non-compliance with the provisions stated in the Project Operational Manuel (POM) and The World Bank Regulations, if there is a conditional approval in the documents that ILBANK PMU approves, Municipalities/SKIs will be reminded to send



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document to ILBANK PMU for review before publication and this issue will be monitored.

2) The "ILBANK NCS 3/B - Capacity Building Training for ILBANK and Final Beneficiaries - 2" tender was carried out by the request of quotation method.

Unlike construction works, purchase of goods and other consultancy services, the "Bid Envelope Opening Report" which includes the time and date information has not been prepared for this method so far.

In accordance with your recommendation, The Bid Envelope Opening Report will be prepared in the relevant format in the following request of quotation tenders.

FINAL OPINION OF THE AUDITORS IN 2023

OPEN

It is understood that our finding is welcomed and ILBANK PMU will take steps to further strengthen controls. This finding will be followed up in the next audit period to verify audit concerns are adequately addressed or not.

RESPONSE OF THE AUDITEE IN 2024

As stated under the section "RESPONSE OF THE AUDITEE IN 2023" ILBANK PMU monitors the consistency of the documents conditionally approved and the issued versions before the publication. You may see ANNEX-I where conditional approval provided for KASKI2-W1 on April 29, 2024 and the issued/final documents submitted by the Utility before SPN advertisement date (May 3, 2024).

"The Bid Envelope Opening Report will be prepared in the relevant format in the following request of quotation tenders." Since there is no similar procurement conducted in 2024, PMU has no update for this practice by 2025.

FINAL OPINION OF THE AUDITORS IN 2024

ADDRESSED

The deficiencies identified in the tender processes during the previous audit period have not been observed in the current audit period. Furthermore, based on the supporting documents submitted, it appears that changes made to the documents are now properly incorporated, and conditional approvals are granted accordingly. Additionally, it has been noted that the final versions of the tender documents are now being requested from the contracting authorities/municipalities in digital format.



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FINDING NUMBER : 4	Auditee (ILLER BANKASI A.S.)
FINDING	Missing Equipment
CONDITION During the on-site audit of KONYA-W1 Construction of Akşehir Water Supply Project on 21.05.2024, while controls of 4th and 5th progress payment were carried out, it was detected that the valve chambers (Busakle) were not installed. Therefore, there is contradiction on site with quantities and analyses section of contract. Contractor and Supervisor stated that these parts had been installed before, but they were stolen. This situation was confirmed by KOSKİ.	
CRITERIA - CAUSE - IMPACT Criteria: Contract of Construction of Akşehir Water Supply Project <i>"AKS. SEB.014: Making Subscriber Connection with Valve with 32-40 PE100 PN10 Pipe from Potable Water Supply Line to Each Length</i> <i>...</i> <i>The service valve shall be placed together with the extension shaft and valve chamber.</i> <i>..."</i> Cause and Impact: It has been understood that Interim payments were not realised in accordance with the contract because the valve covers were not on site during the on-site audit.	
RECOMMENDATION The price of the missing valve covers on the site should be calculated and deducted from subsequent progress payments or recovery procedures should be initiated in case these valve chambers are not reinstalled. Reinstallation must be made at latest by provisional acceptance. In addition, necessary security measures must be taken on site where those installations are made.	
RESPONSE OF THE AUDITEE IN 2023 For KONYA-W1 Construction of Akşehir Water Supply Project, in the site visit there has been observed that some of the valve chambers covers (Busakle) were not available at places. It has been asked to Administration and they have told that these covers were stolen and this is noticed by themselves at the site visit. Ilbank Konya Regional Directorate, Consultant, Administration and Contractor have been warned with an official letter requesting to take	



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serious precautions in order to prevent such theft cases and to complete missing covers at site quickly. Required actions have been taken by KOSKI and missing number of valve chamber covers (Busakle) have been determined, contractor has started to install new covers instead of missing ones. In June 2024 all of the missing covers will be installed and all covers will be checked by Konya İlbank Regional Directorate.

FINAL OPINION OF THE AUDITORS IN 2023

OPEN

It is understood that our finding is welcomed, this finding will be followed up in the next audit period to verify audit concerns are adequately addressed or not.

RESPONSE OF THE AUDITEE IN 2024

All of the valve chamber covers (Busakle) have been installed and necessary actions have been taken in order to obtain that these covers were not been stolen. Project has been completed successfully and temporary acceptance has been done.

FINAL OPINION OF THE AUDITORS IN 2024

ADDRESSED

Installation report, photographs, and provisional acceptance documents confirming the installation of the valve chambers (Busakle) have been reviewed. Therefore, the finding has been addressed.