



**MINISTRY OF TREASURY AND FINANCE
BOARD OF TREASURY CONTROLLERS**

MUNICIPAL SERVICES IMPROVEMENT PROJECT

(Loan Agreement)

**Implemented by
ILLER BANKASI A.S.**

Financed Under World Bank Grant Agreement Numbered 9077-TR

As of December 31, 2024 and For the Year Then Ended

Prepared by

**Ezel Malik ZENGİN
Treasury Controller**

**Servan KUTLUCAN
Treasury Controller**

**Oğulcan ÇOLAK
Treasury Controller**

**Ömer Faruk KOCAMIŞ
Treasury Controller**

**Rumeysa İZGİ
Treasury Controller**

Report's Number

70/10 - 32/4 - 32/6 - 41/7 - 21/4



INDEPENDENT AUDITOR'S REPORT

June 18, 2025



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

CONTENTS

EXECUTIVE SUMMARY	3
A. Project Summary	3
B. Objectives of Audit	5
C. Scope of Audit	5
D. Audit Methodology	6
E. Audit Results	7
F. Management Recommendation	7
INDEPENDENT AUDIT REPORT'S & FINANCIAL STATEMENTS OF THE PROJECT	8
Opinion	9
Basis for Opinion	9
Emphasis of Matter in the Financial Statement	9
Going Concern	9
Responsibilities of Management and Those Charged with Governance or other appropriate terms for the Financial Statements	10
Auditor's Responsibilities for the Audit of the Financial Statements	10
Report on Other Legal and Regulatory Requirements	11

EXECUTIVE SUMMARY



EXECUTIVE SUMMARY

A. Project Summary

The Loan Agreement between the İller Bankası A.S. (İLBANK) and International Bank for Reconstruction and Development (IBRD-World Bank) for Municipal Services Improvement Project, Loan Agreement Numbered 9077-TR was signed on 17.03.2021 and received a loan of 135.355.000,00 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



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

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 Loan 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).
- (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.

There was no limitation in our scope for the Project's audit.



D. Audit Methodology

Financial Statements

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

Audited all SOE 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 Loan agreement.

Representations by implementing agency

Obtained specific written representations from management.



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

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 Loan Agreement Numbered 9077-TR.

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 Loan Agreement Numbered 9077-TR.

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 Loan 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 Loan Agreement Numbered 9077-TR, 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.



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

- 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 Loan Agreement Numbered 9077-TR.

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 Loan Agreement Numbered 9077-TR.

Okan SULER
Chairman of
The Board of Treasury Controllers

Akif Bülent 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
LOAN NO: 9077-TR
WITHDRAWAL APPLICATION SUMMARY
For the year ended December 31, 2024

Withdrawal application number	Date	Category 1 Loan Financed Contracts under part 1	Category 3 Loan Financed Contracts under Part 2 of the project training and operating cost under Part 2	Total	Requested Advance Amount	Value date	Rejection / Deduction	Net reimbursed
In Designated Account currency - Euro								
Section A: Payment method - Advance/Replenishment								
Approved withdrawals								
6 (Documentation and Advance)	15.05.2024	4.228.762,43	2.065.529,65	6.294.292,08	8.000.000,00	22.05.2024	-	8.000.000,00
7 (Documentation and Advance)	16.09.2024	4.489.170,42	975.728,58	5.464.899,00	9.000.000,00	27.09.2024	-	9.000.000,00
8 (Documentation and Advance)	10.12.2024	8.640.082,85	998.115,28	9.638.198,13	6.000.000,00	18.12.2024	-	6.000.000,00
Pending Submission	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
Sub-Total (A)	-	17.358.015,70	4.039.373,51	21.397.389,21	23.000.000,00	-	-	23.000.000,00
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)	-	17.358.015,70	4.039.373,51	21.397.389,21	23.000.000,00	-	-	23.000.000,00

Prepared by
Gökhan ARTUN
Finance Expert
12.06.2025

Controlled by
Turhan Alakan GÜLYURDU
Acting Manager
12.06.2025

Approved by
Şevket Aliuş TAŞDEMİR
Head of Department
12.06.2025



ILLER BANKASI A.S.
MUNICIPAL SERVICES IMPROVEMENT PROJECT (9077-TR)
STATEMENT of SOURCES and USES of FUNDS
LOAN NO: 9077-TR
For the year ended December 31, 2024
(In EURO)

	Notes	Current Period (2024)	Previous Period (2023)	Cumulative
I-SOURCES OF FUNDS				
A- IBRD Loan	2	23.000.000,00	0,00	34.300.000,00
1- Special Account		23.000.000,00	0,00	34.300.000,00
B- Front-End-Fee		0,00	0,00	338.387,50
Total Funds Received		23.000.000,00	0,00	34.638.387,50
II-A USES OF FUNDS by COMPONENT				
I-Investment Costs				
Component 1. Environmental Infrastructure Investments		16.179.348,87	2.158.336,04	21.158.201,87
Component 2. Technical Assistance for Project Management and Supervision, Capacity Building, Communication and Citizen Engagement		3.034.943,52	1.615.084,45	5.410.032,93
Total Investment Costs	2	19.214.292,39	3.773.420,49	26.568.234,80
II-Recurring Costs				
Front-End-Fee		0,00	0,00	338.387,50
Total Recurring Costs		0,00	0,00	338.387,50
Total Uses of Funds by Component		19.214.292,39	3.773.420,49	26.906.622,30
II-B USES OF FUNDS by CATEGORY				
Category 1-Loan-Financed Contracts under Part 1		16.179.348,87	2.158.336,04	21.158.201,87
Category 3- Loan-Financed Contracts under Part 2 of the Project, Training, and Operating Costs under Part 2		3.034.943,52	1.615.084,45	5.410.032,93
Category 6- Front-End-Fee		0,00	0,00	338.387,50
Total Uses of Funds by Category	2	19.214.292,39	3.773.420,49	26.906.622,30
Cash at the beginning of the period	1.01.2024	3.946.057,59		
Cash at the end of the period	31.12.2024	7.731.765,20		

Prepared by
Gökhan ARTUN
Finance Expert
12.06.2025

Controlled by
Turhan Atakan GÜLYURDU
Acting Manager
12.06.2025

Approved by
Şevket Alioğlu TAŞDEMİR
Head of Department
12.06.2025



ILLER BANKASI A.Ş.
MUNICIPAL SERVICES IMPROVEMENT PROJECT
LOAN NO: 9077-TR
STATEMENT of COMPARISON BUDGET AND ACTUAL AMOUNT
For the year ended December 31, 2024
(In EURO)

	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								
IBRD Loan		23.000.000,00	54.513.636,16	54.513.636,16	42,19%	34.300.000,00	65.513.636,16	52,36%
Front-End-Fee		0,00	0,00	0,00	100,00%	338.387,50	338.387,50	100,00%
Total Sources of Funds		23.000.000,00	54.513.636,16	54.513.636,16	42,19%	34.638.387,50	65.513.636,16	52,87%
Uses of Funds								
1 By components								
Component 1. Environmental Infrastructure Investments	6	16.179.348,87	45.073.511,49	45.073.511,49	35,90%	21.158.201,87	51.737.181,37	40,90%
Component 2. Technical Assistance for Project Management and Supervision, Capacity Building, Communication and Citizen Engagement	6	3.034.943,52	4.669.049,85	4.669.049,85	65,00%	5.410.032,93	5.359.322,38	100,95%
Total		19.214.292,39	49.742.561,34	49.742.561,34	38,63%	26.568.234,80	57.096.503,75	46,53%
2 By expenditure category								
Category 1 - Loan-Financed Contracts under Part 1	6	16.179.348,87	45.073.511,49	45.073.511,49	35,90%	21.158.201,87	51.737.181,37	40,90%
Category 2 - Loan-Financed Contracts under Part 2 of the Project, Training, and Operating Costs under Part 2	6	3.034.943,52	4.669.049,85	4.669.049,85	65,00%	5.410.032,93	5.359.322,38	100,95%
Total		19.214.292,39	49.742.561,34	49.742.561,34	38,63%	26.568.234,80	57.096.503,75	46,53%

Prepared by
Gökhan ARTUN
 Finance Expert
 12/06.2025

Controlled by
Turhan Atakan GÜLYURDU
 Acting Manager
 12.06.2025

Approved by
Şevket Altuğ TAŞDEMİR
 Head of Department
 12.06.2025



İLLER BANKASI A.S.
MUNICIPAL SERVICES IMPROVEMENT PROJECT
LOAN NO: 9077-TR
SPECIAL ACCOUNT STATEMENT
ACCOUNT NO: 00158048019550147
For the year ended December 31, 2024
(In EURO)

Opening Balance (01.01.2024)			3.946.057,59
Reimbursements to SA			23.000.000,00
Refunds to SA			0,00
Available Funds	5	0,00	26.946.057,59
Payments Made for Expenditures		19.214.292,39	
Service charges for the account		0,00	
Total Project Investments		19.214.292,39	
Closing Balance (31.12.2024)	5		7.731.765,20

Prepared by
Gökhan ARTUN
Finance Expert
12.06.2025

Controlled by
Turhan Atakan GÜLYURDU
Acting Manager
12.06.2025

Approved by
Şevket Altuğ TAŞDEMİR
Head of Department
12.06.2025



ILLER BANKASI A.S.

Municipal Services Improvement Project - No: 9077-TR

NOTES TO THE PROJECT FINANCIAL TABLES

For The Year Ended December 31, 2024

1. THE OBJECTIVES AND STRUCTURE OF THE PROJECT

Loan Agreement (9077-TR) was signed between the International Bank for Reconstruction and Development (the World Bank) and Iller Bank A.S. (ILBANK) under the guarantorship of the Ministry of Treasury and Finance on 17 March 2021. The objective of Municipal Services Improvement Project (MSIP); 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 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.

Bank extended sub-loans and sub-grants to the Municipalities and/or Administrations for their infrastructure investments through Sub-Loan and Sub Grants Agreements on the basis of an appraisal, carried out in accordance with the eligibility criteria and procedures set forth in the Operational Manual, the Environmental and Social Commitment Plan ("ESCP").

Bank is responsible from preparation of Environmental Assessment documents which are prepared within the scope of Environmental Framework and World Bank Environmental Policies.

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.

Turhan Atakan GÜLYURDU
Contract Management Manager



Şevket Altuğ TAŞDEMİR
Head Of
Department



The project will be managed under the coordination of Project Management Unit (PMU) that has been established in ILBANK International Relations Department. The Operational Manual that guides PMU to carry out the activities properly was become effective with the ILBANK's board resolution, dated May 27, 2021 and 23/918 numbered.

PMU is established with a project director and Technical Management, Contract Management, Financial Management and Business Development Units.

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 loan proceeds and also repayment of the loan.

2. ACCOUNTING POLICIES

PMU which is currently organized within the ILBANK International Relations Department and established as per the provisions of the Loan Agreement recorded the amounts withdrawn from the Loan 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 loan,
- The amount withdrawn from the loan,
- 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-Loan Agreements,
- Accrued amounts such as credit fees and interest.

Turhan Atakan GÜLYURDU
Contract Management Manager



Şevket Altuğ TAŞDEMİR
Head Of
Department



- 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 MSIP bookkeeping is done within ILBANK accounting system by Accounting and Financial Affairs Department. By the current software, the data of the progress payment are entered to the software by International Relations Department Staff and the system controls the calculations automatically. If the calculations are right, the staff enter the value dates and send the progress payment to the Accounting department for recognition.

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 Loan to the Special Account are recorded as a “loan liability” in Euro.
- b) The amount of payments to the suppliers/contractors/consultants upon the demand of the Municipalities/Administrations” as per the Sub-Loan Agreements will be debited to the loan account opened for each one of the Municipalities/Administrations, i.e. as a “receivable”.
- 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 payments by ILBANK PMU for the objectives of the Project will be recorded as “non-interest expenses” account in the ILBANK’s accounts in local currency.
- e) The amount of exchange rate gain or loss arising from the revaluation of the Euro dominated receivables and payables revalued using the Euro/TL exchange rate

Turhan Atakan GÜLYURDU
Contract Management Manager



Şevket Altuğ TAŞDEMİR
Head Of
Department



prevailing at the date of the balance sheet will be recorded as foreign exchange gain or loss.

- f) The amount sub-loan used by the Municipalities/Administrations based on Sub-Loan Agreements will be recorded to the following account:

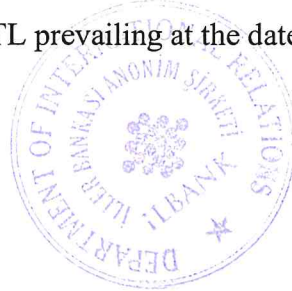
1 - Loans

143 – Mid-Term and Long -Term Special Area Loan (Foreign Currency)

1430015- World Bank Municipal Services Improvement Project

The total amount of expenses for the MSIP is € 26.906.622,30 at the end of the year of 2024. (Front-end-fee included)

- g) The disbursements related to the sub projects will be recorded into the legal books of ILBANK and the Municipality/Administrations which are using the loan proceeds. A copy of the disbursement is received and reviewed by ILBANK upon submission by the Municipality/Administrations. Because the disbursements/expenses belong to the agency (ie., Municipality/Administrations) they will be recorded as “loan receivable” in ILBANK’s books by Municipality/Administrations.
- h) The Special Account with T. Vakıflar Bank Turkish Joint Stock Company. 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.
- i) Accounting transactions will be recorded in Euro as the currency of Loan 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.



Turhan Atakan GÜLYURDU
Contract Management Manager

[Handwritten signature]

Şevket Altuğ TAŞDEMİR
Head Of
Department

[Handwritten signature]

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 Loan 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 Loan 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 loan-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. WORLD BANK LOAN

The debt service (principal, interest, front-end-fee) will be made by ILBANK in accordance with the provisions of the Loan Agreement that concluded on 17 March 2021 between World Bank and ILBANK.

ILBANK required from all the Municipality/Administrations to open an "Escrow Account" to fulfill the debt service liability according to the provisions of the Sub Loan Agreements. The Municipality/Administrations are required to deposit the amounts determined by applying the rates as indicated in the Sub-Loan Agreements to the amount of the water bills collected by both their own collection offices and/or via the banks. The balance of the Escrow Accounts cannot be withdrawn by the Municipality/Administrations without a written permission of ILBANK yet the Municipality/Administrations can use the account balances to earn revenues from the investment areas as specified in the Sub-Loan Agreement.

The required debt service shall be made by purchasing Euro with the amounts accumulated in the Escrow accounts and transferred to ILBANK before the due date of the debt service. In other words, in essence the revenues from the water bills of the Municipality/Administrations constitute the security of the loan. In the case in which the amount transferred to the Escrow Account is not sufficient to pay for the debt service

Turhan Atakan GÜLYURDU
Contract Management Manager



Şevket Altuğ TAŞDEMİR
Head Of
Department



ILBANK has the right to appeal to the Municipality/Administrations' general budget tax shares, rent incomes, etc. respectively.

5. 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 loan to the Special Account and the amount of disbursement from Special Account and it is 7.731.765,20 Euro. Project funds are held only in the T. Vakıflar Bank Turkish Joint Stock Company'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	7.731.765,20 EURO

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

[Handwritten signature]

Şevket Altuğ TAŞDEMİR
Head Of
Department

[Handwritten signature]



MINISTRY OF TREASURY AND FINANCE
BOARD OF TREASURY CONTROLLERS

MUNICIPAL SERVICES IMPROVEMENT PROJECT
(Loan Agreement)

Implemented by
ILLER BANKASI A.S.

Financed Under World Bank Loan Agreement Numbered 9077-TR

As of December 31, 2024 and For the Year Then Ended

Prepared by

Ezel Malik ZENGİN
Treasury Controller

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



MANAGEMENT LETTER

TO İLLER BANKASI A.S.

We have audited the financial statements of "Municipal Services Improvement Project" (Loan Agreement Numbered 9077-TR) 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 İller Bankası A.S., Ministry of Treasury and Finance, and World Bank, and should not be distributed or used by other parties.

Okan SÜLER
Chairman
The Board of Treasury Controllers

Akif Bülent BOYACIOĞLU
(Audit Partner)
Vice Chairman

Ezel Malik ZENGİN
Treasury Controller

Servan KUTLUCAN
Treasury Controller

Ogulcan ÇOLAK
Treasury Controller

Ömer Faruk KOCAMIŞ
Treasury Controller

Rumeysa İZGİ
Treasury Controller

Date: June 18, 2025

Address: Ministry of Treasury and Finance
The Board of Treasury Controllers
06420, Çankaya, ANKARA/TÜRKİYE



AUDIT FINDINGS OF THE CURRENT YEAR

FINDING NUMBER :1	Auditee (İLLER BANKASI AŞ)
FINDING	Ineligible Expenditure Related to the Cancelled Tender
CONDITION During the audit of the contract titled “Consultancy Services for Design Review and Preparation of Bidding Documents for Kayseri Wastewater Treatment Plant” (reference: KAYSERİ-C1-A), it was observed that the contractor rendered the related services and submitted the tender documents to the administration as planned. The objective of the project is to provide consultancy services for the design review and preparation of bidding documents. However, the tender for Construction of Kayseri Wastewater Treatment Plant” held on 14.04.2023 received only one bid, which exceeded the estimated cost. Consequently, based on the request of the General Directorate of Kayseri Water and Sewerage Administration (KASKİ), the tender was cancelled. It was further noted that the tender has not been relaunched, and KASKİ has decided not to continue with the project. As a result, there are no plans to proceed with a new tender in the near future. Therefore, the studies, documentation, and technical specifications previously prepared for the cancelled tender have become redundant and are not expected to be utilized for any upcoming investments.	
CRITERIA - CAUSE – IMPACT Criteria: General Conditions for IBRD Financing Investment Project Financing Section 2.05. Eligible Expenditures “Expenditures eligible to be financed out of the Loan proceeds shall, except as otherwise provided in the Legal Agreements, satisfy the following requirements (“Eligible Expenditure”): (a) the payment is for the <u>reasonable cost of Project activities</u> that meet the requirements of the relevant Legal Agreements;” Section 5.06. Use of Goods, Works and Services; Maintenance of Facilities “ (a) Except as the Bank shall otherwise agree, the Borrower and the Project Implementing Entity shall ensure that all goods, works and services financed out of the proceeds of the Loan are used exclusively for the purposes of the Project. ...” According to Contract; “ ...	



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

c) *The Client has applied for a Loan from the International Bank for Reconstruction and Development (IBRD) toward the cost of the Services and intends to apply a portion of the proceeds of this loan to eligible payments under this Contract*

...

Cause:

The tender was cancelled due to receiving only one bid above the estimated cost, and no alternative implementation plan or revised tendering strategy was developed thereafter.

Effect:

The consultancy services, technical studies, and documents prepared for the cancelled tender have become redundant, resulting in ineffective use of project resources.

RECOMMENDATION

The payment of €188,720.00 for consultancy services related to the cancelled tender has been deemed ineligible under the IBRD-financed project. Therefore, it is recommended that ILBANK either take the necessary action regarding this ineligible expenditure or encourage the KASKI to make use of the prepared tender documents and technical studies in future investments.

RESPONSE OF THE AUDITEE IN 2024

Although, "Phase-II capacity expansion of the Kayseri Central Advanced Biological Wastewater Treatment Plant (KAYSERİ-W1) tender was cancelled, requirement for the subject investment persists. Proposed financing under Earthquake Recovery project is planned to be utilized for the construction of wastewater treatment plant where the bidding documents previously prepared, including; drawings, technical specifications, material technical specifications, unit price analyses, special unit price analyses, estimated costs and administrative documents, will be modified and used for the future procurement/s.

FINAL OPINION OF THE AUDITORS IN 2024

It will be monitored whether the tender documents, which were initially prepared for the cancelled tender, are revised and effectively utilized in the upcoming tenders within the scope of the mentioned Project. Based on the outcome of this follow-up, the eligibility of the initial consultancy expenditures under World Bank financing will be re-evaluated.



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

FINDING NUMBER : 2	Auditee (İLLER BANKASI AŞ)			
FINDING	Potential Risk to Acceptance Due to Delays in the Transmission Line			
CONDITION During on the spot check of the Adana W2 Water Treatment Plant it was detected that neither transmission pipes of raw water to the plant nor the distribution pipes of treated water from the plant are constructed. The Construction of the Transmission Line, originally planned to commence in 2019, has not progressed to the implementation stage due to COVID-19 and other various reasons. This infrastructure is critical to the functionality of the Adana W2 project, as it includes both the transmission of raw water to the Water Treatment Plant and the distribution of treated water from the plant to the supply network. The delay in this construction directly affects the ability to perform the continuous performance tests required for the provisional acceptance of the Adana W2 Water Treatment Plant. These tests necessitate an uninterrupted water flow by gravity. Given the current progress and the scale of remaining works, it appears unlikely that the transmission line can be completed within the remaining time period. As a result, meeting the scheduled contract completion date of 01.10.2025 and conducting the acceptance procedures on time seems improbable.				
CRITERIA - CAUSE – IMPACT Criteria: English Translation: Special Conditions of the Contract Article 1.1 The planned completion period for the entire scope of the Work is 720 days from the commencement date of the work, as specified in the Notice to Commence issued by the Project Manager. Contract Date: 05.10.2023 Commencement of Work: latest by 22.10.2023 (within 7 days) Contract End Date: 01.10.2025 Special Conditions of the Contract Article 58.1 The Employer shall, within 14 days from the official receipt of the Work Completion Certificate issued by the Project Manager (representative of the Consultant Firm), carry out the Provisional Acceptance by forming a commission and shall take over the site and the works. Contract Section 9.4 – Commissioning and Performance Testing Specifications Table 1 – Commissioning Trial Phases <table><tr><td>Phase 1 Commissioning 5 days</td><td>Phase 2 Performance Testing: 20 days</td><td>Phase 3 Defects Liability Period Testing</td></tr></table>		Phase 1 Commissioning 5 days	Phase 2 Performance Testing: 20 days	Phase 3 Defects Liability Period Testing
Phase 1 Commissioning 5 days	Phase 2 Performance Testing: 20 days	Phase 3 Defects Liability Period Testing		



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

The test sheets for water quality and the main control panel provided under "Article 9.4 – Appendices" shall be fully completed as described under the heading "Article 9.3 – Tests," signed by both parties, and submitted to the Project Manager for approval.	The water quality and main control panel test sheets provided under "Article 9.4 – Appendices" shall be duly completed in full, as described under the heading "Article 9.3 – Tests," signed by both parties, and submitted to the Project Manager for approval.	The test sheets for water quality and the main control panel, provided under "Article 9.4 – Appendices," shall be fully and accurately completed as described under the heading "Article 9.3 – Tests," signed by both parties, and submitted to the Project Manager for approval.
--	--	---

Cause:

The initiation and implementation of the "Yedigöze Dam Transmission Line" project were significantly delayed due to the COVID-19 pandemic, administrative and logistical challenges. Additionally, inadequate progress planning and coordination among stakeholders may have contributed to the prolonged postponement.

Impact:

The delay jeopardizes the timely commissioning and acceptance of the Adana W2 Water Treatment Plant, as continuous performance tests—which require a stable raw water supply from the transmission line—cannot be performed. This may lead to postponed service delivery, extended contractor obligations, and potential financial or operational inefficiencies for the overall investment.

RECOMMENDATION

It is recommended that the construction work of both the transmission of raw water to the Water Treatment Plant and the distribution of treated water from the plant to the supply network started immediately and that this work be completed under the close supervision of the employer and the ILBANK.

RESPONSE OF THE AUDITEE IN 2024

The contractual completion date of the Yedigöze Drinking Water Treatment Plant, which is being constructed by the Contractor MİTAŞ A.Ş., is 1 October 2025. As of the current situation, it has been identified that there is a delay on the part of the Employer in supplying the raw water required for the commissioning and performance tests to the facility, and therefore the Employer has failed to deliver raw water to the plant.

According to the provisions of the Contract, the Contractor is responsible for performing all hydraulic/water-tightness tests of the water structures and the dry and wet tests of mechanical equipment. The testing of the electrical and automation systems must also be completed. The Employer is responsible for supplying raw water of the specified quality only after these tests are completed, for the purpose of commissioning and performance testing.



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

Under the current circumstances, since raw water cannot be supplied, it is not possible to conduct the performance tests at the Taking Over stage. In this context, it is recommended to proceed with a "Conditional Taking Over" of the facility, on the condition that the Contractor completes all dry and wet tests, including water-tightness tests, for which it is responsible. The performance tests, which are mandatory under the Contract but cannot be carried out due to the absence of water, are planned to be conducted between the Taking Over and Final Acceptance stages, during the Defects Liability Period, after the related project—tendered by the Municipality and currently under construction—is completed and water is supplied to the facility. The project which supplies water to the WTP is now in mobilization stage and the project is planned to be completed in 8 months (the part which supplies water to WTP), so that in the DLP period of Adana WTP Project the water will be supplied for required tests.

FINAL OPINION OF THE AUDITORS IN 2024

OPEN

According to the General Conditions of the Contract, the Project Manager shall issue the Completion Certificate once it has been determined that the Works have been fully completed. Additionally, the Special Conditions of the Contract stipulate that the issuance of the Taking-Over Certificate is subject to the Employer's formal receipt of the Completion Certificate.

In this regard, we would like to urge that the Completion Certificate should not be issued for the parts of the Works where performance and operational tests have not yet been completed, in order to ensure the proper fulfilment of obligations during the Defects Liability Period.

This finding will be followed up until all required tests have been conducted and the related Completion and Taking-Over Certificates have been formally issued.



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

FINDING NUMBER : 3	Auditee (İLLER BANKASI AŞ)				
FINDING	Ineligible Expenditure and Tracking Method of Ceilings for Reimbursable Expenditures in the Contract				
CONDITION A discrepancy has been identified between the reimbursable expenditures claimed under the 5th progress payment of Contract No. ADANA C1-B, and the contractual provisions governing such expenditures. The detected discrepancies are as follows: For Item No. 10 "Transportation Costs / Vehicle Rental (4 vehicles)", the contract stipulates a monthly budget of EUR 1,800.00 for this item. However, an amount of EUR 2,287.39 was claimed. This amount corresponds to the rental of only 3 vehicles, whereas the contract foresees 4 vehicles. The excess was reported as 1.27 units (2.287,39 / 1.800,00). For Item No. 12 "Vehicle Operating Costs for 4 Vehicles (fuel, maintenance, tires, etc.)", the contract stipulates a monthly budget of EUR 1,800.00 for this item. However, a total of EUR 2,001.47 was claimed, also for 3 vehicles only, whereas the contract foresees it for 4 vehicles. The excess was reported as 1.67 units (2.001,47 / 1.200,00). In summary, although supporting documentation was provided, the amounts claimed under both items exceed the contractual monthly limits and are not consistent with the number of vehicles stipulated in the contract.					
CRITERIA – CAUSE – IMPACT Request for Proposals Consulting Services Section 2. Instructions to Consultants 14. Financial Proposal <i>"All the reimbursable costs should be authenticated and supported by the invoices, bills, payment certificates and etc."</i> Appendix D – 2 Reimbursable Expenses Cost Estimates <i>"All reimbursable expenses shall be reimbursed at <u>actual cost</u>, unless otherwise explicitly provided in this Appendix, and in no event shall reimbursement be made in excess of the Contract amount."</i> Form FIN-4B: Breakdown of Other Expenses Phase 2- TIME-BASED Part of the CONTRACT (UNIT PRICES)					
NO	Type of Other Expenses	Unit	Unit Cost Euro	Quantity	Total Euro
10	Transportation cost / Rental of cars (1 for main office / 1 for WTP site / 1 for 2 sites) totaling in <u>4 cars</u>	Month	1.800,00	24	43.200,00



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

12	Vehicle expenditures (such as fuel, maintenance, tire etc.) for <u>4 cars</u>	Month	1.200,00	24	28.800,00
----	---	-------	----------	----	-----------

Cause and Impact:

Failure to comply with the contractual provisions during implementation may lead to budget overruns in both quantity and amount basis. This indicates a control deficiency stemming from an incomplete understanding of the contract type and the reimbursable expenditure structure.

As stated in the criteria section, reimbursable expenses must be claimed based on actual costs. The unit prices listed in Form FIN-4B (Breakdown of Other Expenses) represent the maximum payable amounts—not fixed rates. The quantities specified in FIN-4B form is also a part of the Contractor's binding offer and serve as ceilings. Any justified need to exceed these limits must be formalized through an addendum with the beneficiary. Relying solely on monetary tracking, without monitoring quantities, increases the risk of unnecessary spending and contradicts sound financial management principles.

RECOMMENDATION

Due to the expenditures exceeding the allocated monthly budgets and covering only 3 vehicles, it is recommended that the maximum payable amount for each item be calculated at 75% of the corresponding budget ceiling. And for the exceeding amounts it is recommended that ILBANK take the necessary action regarding this ineligible expenditures.

RESPONSE OF THE AUDITEE IN 2024

Below is the response provided by the Administration (Adana ASKİ) -summarized by PMU for brevity- to the related Finding:

“The amounts requested under reimbursable budget items, including vehicle rental and operating costs, have been claimed based on the actual costs incurred on site, provided that the ceiling budget specified in the contract has not been exceeded. During this process, depending on the current status of the project in the relevant month, expenditures in some items were realized below or above the unit prices defined in the contract.

To convert such variability into the progress payment format, the following type of table is used:

Sözleşme Toplam adedi / Total Number of Units in the Contract	Birim Fiyat / Unit price (€)	Bu Hakedişte Harcanan / Number Charged with this invoice (€)	Bir Önceki Hakedişle Harcanan Toplam Adet /Total number of units charged with the previous invoice	Bu Hakedişle Harcanan Adet /Number of Units Charged with this invoice	Toplam Harcanan Adet / Total Number of Units Charged	Kalan Adet /Number of Remaining Units
A	B	C	D	E=C/B	F=D+E	G=A-F
28,00	60,00	0,00	0,00	0,00	0,00	28,00



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

Using this table, the actual expenditure amount is divided by the unit price to calculate the corresponding number of units, and the progress payment is prepared accordingly. For example, an expense of €90 is recorded as 1.5 units by dividing it by the unit price of €60.

Similarly, for **Item No. 10** and **Item No. 12**, only one vehicle was rented during the first progress payment (IPC No.2) period since not all sites were operational at that time. Therefore:

- Item No. 10 : 0.22 units,
- Item No. 12 : 0.74 units

were reflected in the progress payment. In this context, as described above, expenses exceeding the unit prices based on the actual needs during that period were documented and claimed without exceeding the total ceiling amount. At every payment certificate, all payments were submitted with supporting documents such as invoices and contracts, and included as annexes to the progress payment.

Therefore, it is not possible to achieve the exact monthly unit quantities every time. Depending on the project's evolving needs, some items had to be invoiced at less than or more than one unit in certain periods. This method fully complies with the principle stated in the relevant provisions of the **Request for Proposals Consulting Services**, namely: "**All reimbursable expenses shall be reimbursed at actual cost, unless otherwise explicitly provided in this Appendix, and in no event shall reimbursement be made in excess of the Contract amount.**" "

On the other hand, as PMU, our final response is that the necessary actions will be taken in light of the Auditors' recommendation and subject to their final opinion.

FINAL OPINION OF THE AUDITORS IN 2024

OPEN

Given that the expenditures exceeded the allocated monthly budgets and covered only 3 vehicles, response provided by the Administration is deemed inappropriate. Therefore, it is concluded that the amounts exceeding the allocated budget for 3 vehicles are ineligible and recovery procedures should be initiated by ILBANK for the ineligible expenditures identified.

The calculation of the ineligible amount for the 5th progress payment is as follows: Total amount claimed under the items subject to finding (2.287,39 + 2.001,47) – %75 of monthly budget for the items [%75 x. (1.800,00+1.200,00)].

This finding will be followed up in the next audit period to check whether the ineligible amount of EUR **2.038,86** is recovered by the ILBANK and audit concerns regarding the tracking method of unit quantities are adequately addressed or not (*Please refer to the Final Opinion issued in 2024 for Finding No. 3 under the previous year's audit findings concerning the tracking method.*).



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 <i>"SCHEDULE 2, Project Execution,</i> <i>Section III. Withdrawal of Grant Proceeds,</i> <i>B. Withdrawal Conditions; Withdrawal Period</i> <i>1. ...</i> <i>2. The Closing Date is December 31,2022"</i> Disbursement and Financial Information Letter <i>"SCHEDULE 1-Disbursement Provisions</i> <i>Disbursement Deadline Date: Four (4) months after the closing date"</i> Extension of Closing Date Letter <i>"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</i>	



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

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



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

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

OPEN

Although remarkable improvement has been made compared to the previous period, there remains a risk that the necessary progress may not be achieved by the extended date of the Loan Agreement, 31 December 2026. Therefore, the finding will be followed up in the next audit period to verify whether the necessary actions are taken regarding the audit concern.

Additionally, key implementation issues concerning the construction of transmission line to transfer water from the Yedigoze Dam to the Water Treatment Plant (WTP), which is critical to the functionality of the Adana W2 project, remain to be resolved. This matter is covered under new finding (*Please refer to the Final Opinion issued in 2024 for Finding No. 2 under audit findings of current year*).



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

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) 3.2 Duties And Responsibilities Of The Project Management Unit 3.2.1 General Framework <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.	



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.



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

FINDING NUMBER : 3	Auditee (ILLER BANKASI A.S.)
FINDING	Tracking Method of Ceilings in the Contract
CONDITION During the examination of the expenditure for Payment No. 3 of the ASKİ/Adana C1-B Institutional Consultancy, it was observed that the reimbursable expenditures were defined in terms of unit quantities such as "month" - "trip" etc. in Section Form FIN-4B of the contract. On the other hand, it was understood that these expenditures were shown with fractional units based on monetary values in the invoices, and calculations were made accordingly. For example, while the lodging expenses should be financed for 24 months, they are shown as 3,10 months in the invoices. In this way, cumulative units cannot be tracked through the progress payment. This representation method poses the risk of exceeding the unit quantities permitted in the contract. When information was requested from the finance department about the tracking method, it was stated that their tracking is based on the maximum amounts specified for each expenditure item in the contract.	
CRITERIA – CAUSE – IMPACT Criteria: Request for Proposals Consulting Services Section 2. Instructions to Consultants 14. Financial Proposal <i>All the reimbursable costs should be authenticated and supported by the invoices, bills, payment certificates and etc.</i> Appendix D – Reimbursable Expenses Cost Estimates 2. All reimbursable expenses shall be reimbursed at <u>actual cost</u>, unless otherwise explicitly provided in this Appendix, and in no event shall reimbursement be made in excess of the Contract amount. Cause and Impact: The lack of full understanding of the contract type and the nature of expenditures made within this type results in a control deficiency. As understood from the Criteria section, reimbursable expenditures should be claimed based on actual prices. The unit prices listed in Section Form FIN-4B of the contract represent the maximum payment that can be made per unit. In some cases, it is natural for actual costs to be below these maximum prices. The quantity of reimbursable expenses is part of the Contractor's bid and is binding. Therefore, the quantities listed in Form FIN-4B should be considered as ceilings. If exceeding these quantities is necessary and essential for the project, it should be justified and agreed upon with the beneficiary organization (via addendum). In a scenario where only amounts are tracked and quantities are not monitored, there is a risk that contractors may incur unnecessary expenses to reach the maximum expenditure limits. In	



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

this context, tracking expenditures solely based on price is not an example of good financial management principles.

RECOMMENDATION

It is recommended that control processes be updated to include tracking of unit quantities.

RESPONSE OF THE AUDITEE IN 2023

We, as ILBANK PMU, have been focusing on the ceiling amounts for each reimbursable item since the main concern was not to exceed the upper limit. Control processes will be updated to include the tracking of unit quantities, ensuring more accurate monitoring and verification of expenses.

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

To be in line with the contract conditions, parties (Administrations and Contractors) have been contacted and amendments have been made to the contracts in order to eliminate the risk of exceeding the permitted unit quantities for such expenditures.

FINAL OPINION OF THE AUDITORS IN 2024

OPEN

In order to mitigate the risk of exceeding the quantity stipulated in the contract for the reimbursable expenditures, arising from the current tracking method of ceilings, contractual amendments should ensure budget allocations can be effectively monitored both in terms of financial ceilings and quantities. This finding will be followed up in the next audit period to check whether the audit concerns are adequately addressed or not.



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

FINDING NUMBER : 4	Auditee (ILLER BANKASI A.S.)
FINDING	Inadequate Management Controls and Audit Trail - C1-2-B Institutional Consultancy
CONDITION During the examination of the expenditure for Payment No. 3 of the KASKİ/Kahramanmaraş C1-2-B Institutional Consultancy, the following issues regarding the use and documentation of reimbursable expenses were detected: 1- Various invoices related to Per-Diem (R1), transportation expenses (R2), and transfer expenses (R3) were observed, but none of related documents contains any name information and contains information regarding the mission. Therefore, it is not possible to obtain precise and undisputed information on location of the mission, duration and purpose of visit. (Total amount € 1.020,00) 2- In the expenditure for Company Cars (1 Car for Site) (R4), the bid document shows "Unit 1" and a quantity of 36. It is understood that one car will be available for the site for 36 months. However, the controls revealed that two cars are claimed per month. (Total amount € 1.200,00) 3- The same situation as expressed in the previous point applies to the vehicle expenses (R-5). Paying for the operating expenses of two cars per month is not in accordance with the contract. (Total amount € 200,00) 4- No documents were provided regarding operating expenses (R-7-a). (Total amount € 300,00)	
CRITERIA – CAUSE – IMPACT Request for Proposals Consulting Services Section 2. Instructions to Consultants14. Financial Proposal <i>All the reimbursable costs should be authenticated and supported by the invoices, bills, payment certificates and etc.</i> Appendix A. Financial Negotiations - Breakdown of Remuneration Rates <i>(vi) Profit is normally based on the sum of the Salary, Social costs, and Overheads. If any bonuses paid on a regular basis are listed, a corresponding reduction shall be made in the profit amount. Profit shall not be allowed on travel or any other reimbursable expenses.</i> APPENDIX D – REIMBURSABLE EXPENSES COST ESTIMATES 2. All reimbursable expenses shall be reimbursed at <u>actual cost</u>, unless otherwise explicitly provided in this Appendix, and in no event shall reimbursement be made in excess of the Contract amount. Section 8. Conditions of Contract and Contract Forms (Time Based) 50. Remuneration and Reimbursable Expenses	



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

50.1. ... (ii) reimbursable expenses that are actually and reasonably incurred by the Consultant in the performance of the Services.

Cause and Impact:

These expenditures are documented through mirroring invoice due to agreement between consortium members. This mirroring invoice submitted to ILBANK as supporting document but quality and quantity of the document received is insufficient,

As can be understood from the Criteria section, reimbursable expenses must be claimed at the actual prices, no profit should be made from these expenses, and there must be sufficient invoices and supporting documents for all these expenses. Although various documents are currently provided, these documents are insufficient to document that the expenditure is requested based on actual costs and that it is actually used for project purposes. Failure to establish adequate control over expenses may lead to inefficient use of project resources and resource insufficiency in the future.

RECOMMENDATION

1. For per-diem expenses; missions should be conducted with prior approval from the beneficiary organization, ensuring submission of appropriate supporting document set (mission approval, boarding passes showing, hotel invoices, attendance sheets, etc.) for payment requests. All these documents should contain information regarding experts.
2. If the use of additional vehicles is deemed necessary, it should be agreed upon with the beneficiary and documented appropriately through contract amendment. Expenses related to the current use of additional vehicles fall under inappropriate spending categories. These expenses should be deducted from subsequent progress payments or recovery procedures should be initiated.
3. The same evaluation stated in the above point apply to vehicle expenses (R-5), and again these expenses should be deducted from subsequent progress payments or recovery procedures should be initiated.
4. Documents proving the relevance of operating expenses to the project should be obtained and reviewed. If such a document set cannot be obtained, these expenses should be deducted from subsequent progress payments or recovery procedures should be initiated.

RESPONSE OF THE AUDITEE IN 2023

- 1) - Attached are the payment vouchers and meeting attendance records and hotel accommodation invoices for JV of Liv Mühendislik & Liban Consult employees who participated in the meeting held on Kahramanmaraş Elbistan Water Transmission Line & Water Network Projects. Per diem expenses are shown as 560€ in the progress reports.
- Attached are the details of the transportation expenses and non-flight transfer costs for employees who attended the meeting. Due to fact that domestic flight expenses are shown as 400€ in the progress reports, appendix A demonstrates remaining balance. This exceeding expense will be deducted from subsequent payments.



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

2-3) The cost allocation contract dated December 20, 2022 between Liv Mühendislik and JV of Liv Mühendislik and Liban Consult forms the basis for expenditures related to reimbursable item (R4) and (R5). The expenses related to the vehicle with the license plate 06FT4923 for the third progress payment is documented in detail. Since necessary contract amendment for additional vehicle has not been made, renting car expenses and related vehicle expenses will be deducted from subsequent payments. (Renting expense for the second car/ 1200€ -R4 and Operating expenses for the second car/ R5-200 €)

4) The attached invoice (GIB2023000000414) which is about operating expenses for the third progress payment is provided.

Based on the information provided, necessary actions will be taken in line with the above findings. Moving forward, a more detailed and comprehensive process will be implemented to ensure proper contract management and expense documentation

FINAL OPINION OF THE AUDITORS IN 2023

Partially Addressed

It has been understood that PMU agrees with our finding regarding expenditures of R4 and R5. As for the operating expenses R-7-a supporting document have been submitted.

For the remaining issues, controls have been conducted based on the newly submitted documents. For Per-diem expenses 62,56 € found eligible, as for the domestic flight transportation expenses 273,64 € found eligible. As a result, ineligible € 685,8 (=1.020,00 - 62,56 - 273,64) should be deducted from subsequent progress payments or recovery procedures should be initiated. (Annex: Finding No.4 Working Paper)

In addition, quantity ceiling is reached for domestic flight expenses therefore, it would not be appropriate for the contractor to claim more tickets within the scope of the project.

RESPONSE OF THE AUDITEE IN 2024

Ineligible € 683,8 (=1.020,00 - 62,56 - 273,64) was deducted in the progress payment No. 13. (Please see Annex II: KMARAS C1-2-B Progress Payment No 13)

FINAL OPINION OF THE AUDITORS IN 2024

ADDRESSED

Since the supporting document, KMARAS C1-2-B Progress Payment No 13, confirms that the ineligible amount has been recovered, the finding has been addressed.