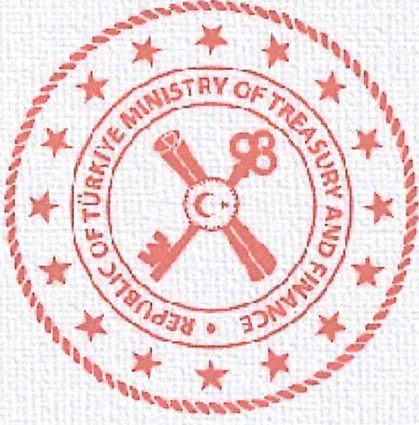




**MINISTRY OF TREASURY AND FINANCE
BOARD OF TREASURY CONTROLLERS**

SUSTAINABLE CITIES PROJECT - I

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

**Financed Under International Bank for Reconstruction and Development
(IBRD) Loan Agreement Numbered 8677-TR**

For the Period between 01.01.2024-31.07.2024

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

73/13 - 35/7 - 35/9 - 44/10 - 24/7



INDEPENDENT AUDITOR'S REPORT

June 18, 2025

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EXECUTIVE SUMMARY



EXECUTIVE SUMMARY

A. Project Summary

The Loan Agreement between the İller Bankası A.S. and International Bank for Reconstruction and Development (IBRD-World Bank) for Sustainable Cities Project – I, Loan Numbered 8677-TR was signed on 26.12.2016 and received a loan of 121.200.000,00 Euro.

Project is implemented by Project Management Unit (PMU) under İller Bankası A.S, International Relations Department.

The objective of the Project is to improve the planning capacity of, and access to targeted municipal services in, participating municipalities and utilities.

The Project consists of the following parts:

- **Part A: Sustainable City Planning and Management System**

1. Provision of technical assistance and goods to selected municipalities and their affiliated utilities to ensure comprehensive and integrated planning and management.

2. Provision of support to selected municipalities and their affiliated utilities in their preparation of feasibility studies, social and/or environmental impact assessments and engineering designs for Sub-projects.

3. Strengthening the capacity of the Borrower to implement the above described activities and to manage sustainable city systems, including in the areas of contract management, management and implementation of sustainable city investments through:

- a) Provision of support for embedding city-level actions for climate change, energy efficiency, water, urban transport, solid waste management, and urban planning, and in building awareness on international practices to promote and implement sustainable cities actions;
- b) Provision of training and capacity building to municipalities;
- c) Preparation of reports and studies that examine required reforms and propose changes with an aim to improving planning practices for integrated and comprehensive planning.



- **Part B: Municipal Investments**

Establish and operate a municipality credit facility targeted to infrastructure investments, through the provision of Sub-loans to Sub-borrowers (including municipalities and their affiliated utilities) to finance the cost of goods, works, non-consultant services and consultant services required to carry out investments in Sub-projects, including in the public transport, water and sanitation, solid waste management, and energy sectors.

- **Part C: Project Management**

Provision of support to the Borrower for implementation of Part B of the Project including provision of goods and consultant services for supervision and monitoring and evaluation, as well as for public outreach and communication.

B. Objectives of Audit

The objective of the audit is to express an opinion on the Financial Statements of the Sustainable City Project – I for the period between 01.01.2024-31.07.2024. 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 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 the Loan Agreement numbered 8677-TR.
- (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) method 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.

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 SOEs submitted to the World Bank in support of requests for periodic replenishment of the project-designated account.

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 Designated Accounts

During the audit of the project financial statements, we reviewed the activities of the project's designated account(s) such as 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 numbered 8677-TR.

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 is 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 İller Bankası A.Ş. 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 Designated Account of the Sustainable Cities Project – I) between 01.01.2024-31.07.2024, and notes to the financial statements including a summary of significant accounting policies. The financial statements have been prepared by Iller Bankasi A.S. in accordance with cash basis International Public Sector Accounting Standards and financial reporting provisions outlined in Loan Agreement Numbered TR-8677.

In our opinion;

The accompanying financial statements present fairly, in all material respects, the financial position and cash flows of the Sustainable Cities Project between 01.01.2024-31.07.2024, in accordance with cash basis International Public Sector Accounting Standards and financial reporting provisions outlined in Loan Agreement Numbered TR-8677.

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 Iller Bankasi A.S., the Project Management Unit, 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 Sustainable Cities Project – I 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 Projects financial statements have not been prepared using the going concern basis of accounting. The project has ended as of July 31, 2024.

Responsibilities of Management and Those Charged with Governance or Other Appropriate Terms for the Financial Statements

İller Bankası A.Ş., the Project Management Unit is responsible for the preparation and fair presentation of these financial statements in accordance with Loan Agreement Numbered TR-8677, 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 İller Bankası A.Ş., the Project Management Unit’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 scepticism 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) İller Bankası A.S., between 01.01.2024-31.07.2024 has complied with, in all material respects, the requirements of the Loan Agreement Numbered TR-8677.

b) With respect to SOEs, adequate supporting documentation has been maintained to support claims to the IBRD for reimbursement of expenditures incurred, and these expenditures are eligible for financing under the Loan Agreement Numbered TR-8677.

Okan SÜLER
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.
SUSTAINABLE CITIES PROJECT - I
LOAN NO: 8677-TR
Withdrawal Application Summary
For the Period: 01.01.2024-31.07.2024

Withdrawal Application Number	Date	Category 1: Goods, Works, Non-Consulting Services, and Consultants' Services	Category 2: Front end Fee	Total	Requested Advance Amount	Value Date	Rejected by WB	Net Reimbursed
In Designated Account Currency - Euro								
Section A: Payment method - Advance/Replenishment								
Approved Withdrawals	06.06.2024	6.644.175,55	0,00	6.644.175,55	0,00			0,00
16 (Documentation)				6.644.175,55	0,00	09.07.2024	0,00	0,00
Pending Submission								
Sub-Total (A)		6.644.175,55	0,00	6.644.175,55	0,00		0,00	0,00
Section B: Payment method - Reimbursement								
Approved Withdrawals								
Pending Submission								
Sub-Total (B)		0,00	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		0,00	0,00
TOTAL (A+B+C)		6.644.175,55	0,00	6.644.175,55	0,00		0,00	0,00

Prepared by
Cenk USLUOĞLU
Expert
13.06.2025

Controlled by
Turhan Atakan GÜLYURDU
Acting Manager
13.06.2025

Approved by
Şevket Altuğ TAŞDEMİR
Head of Department
13.06.2025



Cenk USLUOĞLU

Turhan Atakan GÜLYURDU

Şevket Altuğ TAŞDEMİR

ILLER BANKASI A.S.
SUSTAINABLE CITIES PROJECT - I
LOAN NO: 8677-TR
STATEMENT of SOURCES and USES of FUNDS
For the Period: 01.01.2024-31.07.2024
(In EURO)

	Notes	Current Period (2024)	Previous Period (2023)	Cumulative
I-SOURCES OF FUNDS				
A- IBRD Loan		0,00	13.453.015,09	121.200.000,00
1- Special Account	7	0,00	13.453.015,09	120.897.000,00
2- Front-end-Fee	2/f	0,00	0,00	303.000,00
TOTAL FUNDS RECIEVED		0,00	13.453.015,09	121.200.000,00

II-A USES OF FUNDS by COMPONENT

I-INVESTMENT COST

B- Municipal Investments		1.592.894,32	18.036.347,56	120.897.000,00
Total Investment Costs		1.592.894,32	18.036.347,56	120.897.000,00

II-RECURRING COST

Front-end-Fee	2/f	0,00	0,00	303.000,00
Total Recurring Costs		0,00	0,00	303.000,00

TOTAL USES OF FUNDS by COMPONENT

7	1.592.894,32	18.036.347,56	121.200.000,00
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II-B USES OF FUNDS by CATEGORY

Category 1- Goods, Works, Non-Consulting Services, and Consultants' Services

1.592.894,32	18.036.347,56	120.897.000,00
--------------	---------------	----------------

Category 2- Front-end-Fee

2/f	0,00	0,00	303.000,00
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TOTAL USES OF FUNDS by CATEGORY

7	1.592.894,32	18.036.347,56	121.200.000,00
---	---------------------	----------------------	-----------------------

Cash at the Beginning of the Period	1.01.2024	1.592.894,32
Cash at the End of the Period	31.07.2024	0,00

Prepared by
Cenk USLUOĞLU
Expert
13.06.2025



Controlled by
Turhan Atakan GÜLYURDU
Acting Manager
13.06.2025



Approved by
Şevket Altuğ TAŞDEMİR
Head of Department
13.06.2025



İLLER BANKASI A.Ş.
STATEMENT of COMPARISON BUDGET and ACTUAL AMOUNT
SUSTAINABLE CITIES PROJECT - I
LOAN NO: 8677-TR
For the Period: 01.01.2024-31.07.2024

	NOTES	Current Period				Cumulative		
		Actual	Final Budget	Original Budget	Progress (%)	Actual	Planned	Progress (%)
Sources of Funds		1	2		3=1/2	4	5	6=4/5
IBRD Loan	6/a	0,00	2.006.000,00	2.006.000,00	0%	121.200.000,00	121.200.000,00	100%
Total Sources of Funds		0,00	2.006.000,00	2.006.000,00	0%	121.200.000,00	121.200.000,00	100%
Uses of Funds								
1 By Component								
B- Municipal Investments	6/b	1.592.894,32	1.592.894,3	2.006.000,00	100%	120.897.000,0	120.897.000,00	100%
Front-end-Fee		0,00	0,00	0,00	0%	303.000,0	303.000,00	100%
Total Uses Of Funds By Component		1.592.894,32	1.592.894,32	2.006.000,00	100%	121.200.000,00	121.200.000,00	100%
2 By Expenditure Category								
Category 1 - Goods, Works, Non-Consulting Services, and Consultants' Services	6/b	1.592.894,32	1.592.894,3	2.006.000,00	100%	120.897.000,0	120.897.000,00	100%
Category 2 - Front end Fee		0,00	0,00	0,00	0%	303.000,0	303.000,00	100%
Total Uses Of Funds By Component		1.592.894,32	1.592.894,32	2.006.000,00	100%	121.200.000,00	121.200.000,00	100%

Prepared by
Cenk USLUOĞLU
Expert
13.06.2025

Controlled by
Turhan Atakan GÜLYURDU
Acting Manager
13.06.2025

Approved by
Şevket Altuğ TAŞDEMİR
Head of Department
13.06.2025



[Signature]

[Signature]

[Signature]

İLLER BANKASI A.Ş.
SUSTAINABLE CITIES PROJECT - 1
LOAN NO: 8677-TR
SPECIAL ACCOUNT STATEMENT
ACCOUNT NO: 99900248-5139
For the Period: 01.01.2024-31.07.2024
(In EURO)

Opening Balance (01.01.2024)	Notes		1.592.894,32
Reimbursements to SA			0,00
Refunds to SA	7		884,91
Available Funds			1.593.779,23
Payments Made for Expenditures	7	1.593.779,23	
Service Charges for the Account		0,00	
Total Project Investments		1.593.779,23	
Closing Balance (31.07.2024)			0,00

Prepared by
Cenk USLUOĞLU
Expert
13.06.2025



Controlled by
Turhan Atakan GÜLYURDU
Acting Manager
13.06.2025



Approved by
Şevket Altuğ TAŞDEMİR
Head of Department
13.06.2025



ILLER BANKASI A.S.

Sustainable Cities Project - I No: TR-8677

NOTES TO THE PROJECT FINANCIAL TABLES

For the Period: 01.01.2024-31.07.2024

1. THE OBJECTIVES and STRUCTURE of THE PROJECT

Loan Agreement (TR-8677) is signed between the International Bank for Reconstruction and Development (the World Bank) and Iller Bankasi A.S. (ILBANK) under the guarantorship of the Ministry of Treasury and Finance of Türkiye (Formerly Undersecretariat of Treasury) on 26 December 2016. With the Sustainable Cities Project – I; it is aimed to apply international experiences in Türkiye in the fields of environmental, financial and social sustainability, which are the three basic elements of sustainability.

The project includes financing projects in the water, wastewater, solid waste, urban transportation, energy efficiency and renewable energy sectors.

Bank extended sub-loans to the Municipalities and/or Administrations for their infrastructure investments through Sub-Loan Agreements on the basis of an appraisal, carried out in accordance with the eligibility criteria and procedures set forth in the Operational Manual, the EF and the LARPF, and including the terms and conditions set forth in the Schedule 2 Item B of Loan Agreement (TR-8677).

Bank is responsible for preparing the “Environmental Assessment” documents of the sub-projects in accordance with the Word Bank Environmental Policies and the “Environmental Framework” prepared together with the Word Bank.

Bank is also responsible for the preparation and dissemination of the data on the utilization of the loan at regular intervals in a format to be agreed with the World Bank.

The project is managed under the coordination of Project Management Unit (PMU) established under International Relations Department of ILBANK. The Operational Manual which is prepared for the purpose of carrying out the work and operations of the PMU in a healthy manner, entered into force with the decision of the Board of Directors of ILBANK dated March 16, 2017 and 12/257 numbered.

Turhan Atakan GÜLYURDU
Contract Management Manager

1 / 6

Sevket Aliğ TASDEMİR
Head Of
Department

PMU consists of a project manager and Directorates of Technical Management, Contract Management, Financial Management, Business Development and Disaster Management:

PMU ensures the coordination between the team responsible for Sustainable Cities Project – I in World Bank and ILBANK; and carries out the selection of the Municipalities and/or Administrations, relations with the Ministry of Treasury and Finance and the Presidency of Strategy and Budget, and the selection of individual consultant and consulting firms, during the preparation and execution phases of the project; together with the Word Bank and ILBANK units assigned within the scope of the project. Coordination of procurements within the scope of the sub-projects, coordination of technical and environmental affairs of the sub-projects, and disbursement of loan proceeds and also debt service are also carried out by the PMU.

2. ACCOUNTING POLICIES

The PMU, currently organized under the Department of International Relations of ILBANK in accordance with the provisions of the Loan Agreement, ensures that the sub-loans drawn from the Loan and disbursed to the Municipalities/Administrations are recorded on a “cash basis” within the ILBANK accounting system. On the other hand, PMU ensures that the records regarding:

- 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.

are kept within the accounting software of Department of Accounting and Financial Affairs of ILBANK, in order to monitor in terms of credit categories and expenditure items in euro and contract currency.

The Sustainable Cities Project - I's bookkeeping is kept within the accounting system of Department of Accounting and Financial Affairs of ILBANK. With the current software, progress payment data is entered into to the software by the staff of Department of International Relations and the system automatically controls the accuracy of the calculations. The progress payments with correct calculations are sent to the Accounting

and Financial Affairs Department for accounting by adding the value date and expenditure data after the payment is made.

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 form 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 request 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 prevailing at the date of the balance sheet will be recorded as foreign exchange gain or loss.
- f) The amount of 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)

1430011 – World Bank Sustainable Cities Project

The total amount of expenses for the Sustainable Cities Project – I including the front-end-fee is **EUR 121.200.000,00** as of the **July, 31 2024**. Front-end-fee **(EUR**

303.000,00) was charged by the World Bank from the financing account by deduction at source; this amount was not transferred to the Project's Special Account.

- 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.C. Ziraat Bank is in Euro. The prevailing selling exchange rate for Euro/TL of T.C. Ziraat Bank will 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.C. Ziraat Bank prevailing at the date of collection for preparation of the Statement of Source and Use of the Funds. 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 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, concluded on 26 December 2016 between World Bank and İller Bank.

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

Turhan Atakan GÜLYURDU
4 / 6 Contract Management Manager

Şevket Akg. TAŞDEMİR
Head Of
Department

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

5. CASH POSITION AT JULY 2024

The entire amount of EUR 121.200.000,00 has been disbursed as of March 22, 2024. As of 31 July 2024, there is no balance in the special account.

T.C. ZİRAAT BANK SPECIAL ACCOUNT (ACCOUNT NO: 99900248-5139)	
31.07.2024 Balance	-

6. EXPLANATION on BUDGET REALIZATION

- The original budget, final budget, and planned budget sections under the title "Sources of Funds" in "Statement of Comparison Budget and Actual Amount" are generated using the amounts projected in the Project Appraisal Document (PAD) and calculated in EUR based on the percentage of USD amounts projected over the years in the PAD.
- The original budget and final budget sections under the title "Uses of Funds" in "Statement of Comparison Budget and Actual Amount" were determined by taking into account the closing date of the project and the remaining project amount. Planned budget section is calculated by adding the expenditure amount realized until the year 2023 to the estimated expenditure amount for the year 2024.

7. EXPLANATION on REFUNDS to SA

The amount of EUR 884,91 was refunded to the special account on January 30, 2024. This refund relates to the reimbursement of an overpayment made during the current period and does not constitute an additional source for the special account. The difference between the expenditure amount in the Statement of Sources and Uses of Funds Table and the amount shown in the Special Account Table is due to this refund amount.

Turhan Atakan GÜLYURDU
Contract Management Manager



Şevket Altın TAŞDEMİR
Head Of
Department





MINISTRY OF TREASURY AND FINANCE
BOARD OF TREASURY CONTROLLERS

SUSTAINABLE CITIES PROJECT - I

Implemented by
ILLER BANKASI A.S.

**Financed Under International Bank for Reconstruction and Development
(IBRD) Loan Agreement Numbered 8677-TR**

For the Period between 01.01.2024-31.07.2024

Prepared by

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Treasury Controller



MANAGEMENT LETTER

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



MANAGEMENT LETTER

TO ILLER BANKASI A.S.

We have audited the financial statements of the "Sustainable Cities Project - I" (Loan Agreement Numbered 8677 - TR) for the period between 01.01.2024-31.07.2024.

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 IBRD, and should not be distributed or used by other parties.

Okan SÜLER
Chairman
The Board of Treasury Controllers

Akif Bülent BOYACIOĞLU
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Vice Chairman

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Treasury Controller

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Treasury Controller

Date: June 18, 2025

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

FINDING NUMBER: 1	AUDITEE: İller Bankası AŞ.
FINDING:	Inadequate Security Measures.
CONDITION During the on-site controls carried for the contract (MUS-W2) financed under SCP-I in Bodrum/MUĞLA, it has been observed that the security measures are not sufficient at the some pumping stations (ATM7, GMTM1A2 and TRTM6A) and these pumping stations are open to any external intervention.	
CRITERIA - CAUSE - IMPACT 1) General Conditions Article 12.1 <i>"From the commencement date until the issue of the Defects Liability Certificate, the risk of personal injury, death and loss of and property damage (including, without limitation, the Work, Plant, Materials and Equipment in question) which are not the risk of the Employer are the risks of the Contractor."</i> Article 18.1 <i>"The contractor will be responsible for the safety of all activities carried out on site."</i> Failure to take adequate safety precautions at pumping stations may pose a danger in terms of both the protection of assets and occupational health and safety.	
RECOMMENDATION It is recommended MUSKİ (via Contractor) to take necessary security measures and closely monitor safeguards across all sub-projects sites in order to avoid any negative impacts on project implementation.	
RESPONSE OF THE AUDITEE IN 2023 MUSKİ will be informed to take action to take the pump stations under control in a way that will not allow external access. The Administration will be warned to notify the date of taking measures.	
FINAL OPINION OF THE AUDITORS IN 2023 OPEN The finding will be followed up in the next audit period to verify whether remedial actions are taken regarding audit concerns.	
RESPONSE OF THE AUDITEE IN 2024 As of 2025, the identified pumping stations (ATM7, GMTM1A2, and TRTM6A) have been secured and	



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are now closed to any external intervention. Necessary measures have been implemented by MUSKİ to ensure the sites are no longer accessible to unauthorized individuals. In addition, a high-level meeting is planned to be held on site to assess the current conditions and verify the adequacy of the security measures taken.

FINAL OPINION OF THE AUDITORS IN 2024

CLOSED

It has been stated by the auditee that appropriate measures have been taken; however, no supporting documentation has been provided. Therefore, while it cannot be confirmed with certainty that the relevant actions have been fully implemented, considering the project has been closed this finding will not be followed up further.



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FINDING NUMBER: 2	AUDITEE: İller Bankası AŞ.
FINDING:	Discrepancy between Progress Payments and Contract Terms.
CONDITION It has been determined a discrepancy between the expenses made in the progress payments of the contracts numbered and MUS-W2 and MUSC1/B financed under SCP-I/SCP-II AF respectively and the contracts' conditions. The detected discrepancies are as follows: 1) MUSC1/B For the expenses made for the budget items regarding the "Local Flights" and "Short Term Accommodation (Hotel)" under the "Reimbursable Expenses" in the progress payments numbered 36, 37 and 43; - Although the budget item for "Local Flights" is determined on a quantity bases in the contract, the progress payments are calculated on a lump sum basis (For instance; in progress payment number 43, it is seen that 10 flight tickets were purchased with a total cost of 618.51 EUR. However, the flight tickets in question were shown as 6.1851 (as quantity) instead of 10 (as quantity) in the relevant progress payment). - For the budget item regarding the "Short Term Accommodations", expenditures exceeds the current contract value (For instance; while the current contract price is 12,450 EUR, the cumulative expenditure amount is 14,868.74 EUR, including the expenditure made in progress payment no. 43. In other words, the current contract price has been exceeded by 2,418.74 EUR). 2) MUS-W2 For the expenses made for the budget item regarding the "Supply of Vehicle to the Project Manager" in the progress payments numbered 13 and 38; Although the budget item is determined on a quantity bases in the contract, the progress payments are calculated on a lump sum basis and expenditures exceeds the current contract value (Please take into consideration the previous examples).	
CRITERIA - CAUSE - IMPACT Appendix D – 2 Reimbursable Expenses Cost Estimates <i>"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."</i> Failure to comply with the contract terms during the implementation process may result in exceeding the budget determined for the relevant items on both a quantity and amount basis.	
RECOMMENDATION It is recommended to make necessary amendments without disrupting the effectiveness of the	



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contract in order to eliminate the risk of exceeding the budget determined for the relevant items on both a quantity and amount basis.

RESPONSE OF THE AUDITEE IN 2023

For both contracts, amendments will be made to the additional financing while keeping the contract ceiling amounts. Progress payments will be adjusted accordingly.

FINAL OPINION OF THE AUDITORS IN 2023

OPEN

The finding will be followed up in the next audit period to verify whether remedial actions are taken regarding audit concerns.

RESPONSE OF THE AUDITEE IN 2024

Regarding the MUSC1/B contract, based on the findings, Amendment No. 5 — which revises the payment table while maintaining the ceiling amount for reimbursable expenses — was approved by İLBANK on 29 May 2025. However, although it was stated that the signed version of Amendment No. 5 would be submitted to İLBANK, it has not yet been received.

For the MUS-W2 contract, MUSKI stated that the identified issue resulted from previously granted time extensions, and the associated increases in time-based general items were formally incorporated into the contract under Amendment No. 12 dated 17 November 2023.

A high-level meeting between İLBANK and MUSKI is planned for the week of 16 June 2025, which will include discussions on the identified issues, the delayed submission of amendment documents, and the actions taken or planned in response.

FINAL OPINION OF THE AUDITORS IN 2024

CLOSED

Since the project has been closed, audit concerns regarding the tracking method of unit quantities will be checked through contracts financed under SCP AF. *(Please refer to the Final Opinion issued in 2024 for Finding No. 1 under the previous year's audit findings concerning the tracking method in the management letter for SCP AF).*



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FINDING NUMBER: 3	AUDITEE: İller Bankası AŞ.
FINDING:	Potential Financial Burden on Principal Payments due to Incomplete Project.
CONDITION Principal payments to be made by MUSKİ to İLBANK for the SCP-I have started. On the other hand, since the project (MUS-W2) financed under SCP-I by MUSKİ is at the final acceptance stage, sewerage lines constructed within the scope of this contract have not been put into operation; therefore, no project income can be obtained by receiving a wastewater fee. For these reasons, MUSKİ meets the principal payments from its own budget.	
CRITERIA - CAUSE - IMPACT 1) Project Appraisal Document, Appraisal Summary, Economic and Financial Analysis: <i>"59) An aggregate ERR has not been calculated for the project as a whole. However, as part of preparation, draft Feasibility Studies have been prepared for several anticipated investments and include detailed financial and economic analyses for these investments. These studies indicate positive economic net present value (E-NPV) and economic rate of return (ERR) exceeding 6 percent:</i> <i>(a) In Mugla, for the proposed investments, financial F-NPV is positive with a discount rate of 10%. IRR is 24.4 %.</i> <i>(b) In Denizli, for the proposed investments, the net present value is positive with a discount rate of 10% and the internal rate of return is estimated at 22%.</i> <i>61) Since the investments will be implemented under municipalities or affiliated utilities, both of which are revenue-generating entities, a baseline financial assessment of the municipalities'/utilities' financial position has been carried out as part of the preparation of the feasibility study to ensure financial sustainability based on 2015 data. Results indicate that the financial positions of the implementing and affiliated public water utility (MUSKİ and DESKİ) are projected to achieve financial sustainability over the life of the proposed projects. This means that those entities are (a) projected to report positive operating balances (recurring operating revenues - recurring operating expenditures > 0); (b) able to fund at least part of their capital expenditure from their own funds (positive operating balance as explained above); and (c) able to close the financial year with break-even or positive overall budget results after capital expenditure and net borrowing."</i> Making principal payments with its own budget without generating any income from the project may cause a financial burden in the future principal payments and thus may cause the financial ratios specified in the project appraisal document to be less than the target.	
RECOMMENDATION It is recommended that the final acceptance process of the MUS-W2, in which provisional acceptance has already been made, should be carried out effectively, enabling the construction work to be put into operation and the wastewater fees to be collected in the shortest time possible to achieve the	



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targeted financial ratios.

RESPONSE OF THE AUDITEE IN 2023

The MUS-W2 and DES-W4 contracts are in provisional acceptance stage. The final acceptance phase will be completed 1 year after provisional acceptance. After the provisional acceptance of the contracts, the operation period will start and the completed contracts will start to generate income for the administrations.

FINAL OPINION OF THE AUDITORS IN 2023

OPEN

The finding will be followed up in the next audit period to verify whether remedial actions are taken regarding audit concerns.

RESPONSE OF THE AUDITEE IN 2024

As of 2025, the contracts are operational and currently generating income for the administrations.

FINAL OPINION OF THE AUDITORS IN 2024

CLOSED

Although it has been stated that the contracts are operational and generating income for the administration, no supporting documentation has been provided. Therefore, while it cannot be confirmed with certainty that the relevant actions have been implemented, considering the project has been closed this finding will not be followed up further.