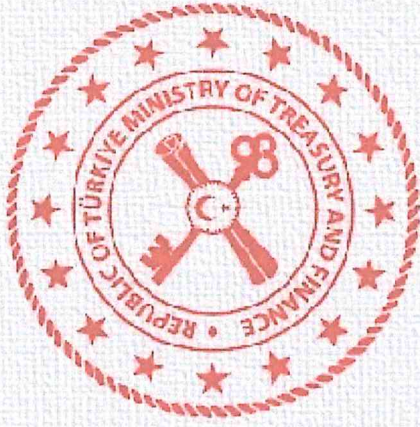




**MINISTRY OF TREASURY AND FINANCE
BOARD OF TREASURY CONTROLLERS**

SUSTAINABLE CITIES PROJECT – II ADDITIONAL FINANCE

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

**Financed Under International Bank for Reconstruction and Development
(IBRD) Loan Agreement Numbered 8974-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

75/15 – 37/9 – 37/11 – 46/12 – 26/9

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 the purpose of the providing Additional Financing for activities related to the Sustainable Cities Project – II (AF), Loan Numbered 8974-TR was signed on 10.07.2019 and received a loan of 500.000.000,00 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: Municipal Investments**

1. Financing of demand-driven municipal infrastructure investments, through the provision of Sub-loans to Sub-borrowers to finance the cost of goods, works, non-consulting and consulting services that are required for the carrying out of Sub-project investments in eligible sectors and services, including, inter alia: (a) water and wastewater services, (b) public transport, (c) solid waste management, (d) energy efficiency and renewable energy, (e) municipal social infrastructure and services, (f) municipal firefighting services, (g) municipal building reconstruction or retrofitting for resilience, and (h) pollution reduction, through marine litter management, plastic waste reduction and implementing clean air compliance plans.

2. Provision of technical consulting services for: (a) the Sub-borrowers' supervision of design and construction activities carried out under Sub-projects, including municipal studies and analysis to inform Project investment planning, assessment of disaster and climate risk and gender gaps for Sub-projects, feasibility studies, technical designs and construction supervision; and (b) the capacity development of Sub-borrowers in support of the functions set forth in (a) of this sub-Part, including preparation and implementation of environmental and social safeguard policies (including for occupational health and safety).



- **Part B: Project Management**

Provision of goods, non-consulting and consulting services in support of the Borrower in Project management, including, inter alia, monitoring and evaluation, reporting, public outreach, and communications.

B. Objectives of Audit

The objective of the audit is to express an opinion on the Financial Statements of the Sustainable City Project – II (AF) 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 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 8974-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 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 SOE 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 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 8974-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 – II (AF) 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 Iller Bankasi A.S. in accordance with cash basis International Public Sector Accounting Standards and financial reporting provisions outlined in Loan Agreement Numbered TR-8974.

In our opinion;

The accompanying financial statements present fairly, in all material respects, the financial position and cash flows of the Sustainable Cities Project – II (AF) 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 TR-8974.

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 – II (AF) 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 will end on May 29, 2026.

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-8974, 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 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



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

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., as of December 31, 2024 has complied with, in all material respects, the requirements of the Loan Agreement Numbered TR-8974.

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-8974.

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

Ogulcan 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

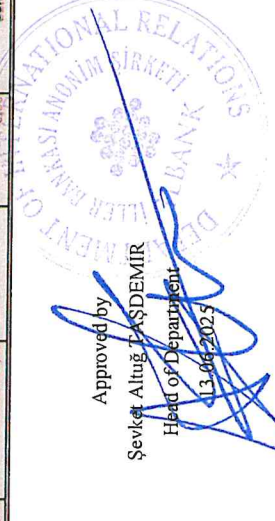
İLLER BANKASI A.Ş.
SUSTAINABLE CITIES PROJECT - II Additional Finance
LOAN NO: 874-TR
Withdrawal Application Summary
For the Year Ended December 31, 2024

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				32.038.717,31	32.038.717,31			32.038.717,31
7 (Advance and Documentation)	21.03.2024	7.048.389,11	0,00	7.048.389,11	7.048.389,11	04.04.2024	0,00	7.048.389,11
8 (Advance and Documentation)	30.05.2024	14.083.525,71	0,00	14.083.525,71	14.083.525,71	06.06.2024	0,00	14.083.525,71
9 (Advance and Documentation)	11.12.2024	10.906.802,49	0,00	10.906.802,49	10.906.802,49	17.12.2024	0,00	10.906.802,49
Pending Submission								
Sub-Total (A)		32.038.717,31	0,00	32.038.717,31	32.038.717,31		0,00	32.038.717,31
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)		32.038.717,31	0,00	32.038.717,31	32.038.717,31		0,00	32.038.717,31

Prepared by
Cenk USLUOĞLU
Expert
13.06.2025

Controlled by
Turhan Atakan GÜLYURDU
Acting Manager
13.06.2025

Approved by
Şevket Altuğ FAŞDEMİR
Head of Department
13.06.2025



Handwritten signature

ILLER BANKASI A.S.
SUSTAINABLE CITIES PROJECT - II Additional Finance
LOAN NO: 8974-TR
STATEMENT of SOURCES and USES of FUNDS
For the Year Ended December 31, 2024
(In EURO)

	Notes	Current Period (2024)	Previous Period (2023)	Cumulative
I-SOURCES OF FUNDS				
A- IBRD Loan		32.038.717,31	22.593.157,34	63.381.874,65
1- Special Account	7	32.038.717,31	22.593.157,34	62.131.874,65
2- Front-end-Fee	2/f	0,00	0,00	1.250.000,00
TOTAL FUNDS RECIEVED		32.038.717,31	22.593.157,34	63.381.874,65

II-A USES OF FUNDS by COMPONENT

I-INVESTMENT COST

A- Municipal Investments		32.254.495,66	15.888.977,28	52.921.499,23
Total Investment Costs		32.254.495,66	15.888.977,28	52.921.499,23

II-RECURRING COST

Front-end-Fee	2/f	0,00	0,00	1.250.000,00
Total Recurring Costs		0,00	0,00	1.250.000,00

TOTAL USES OF FUNDS by COMPONENT	7	32.254.495,66	15.888.977,28	54.171.499,23
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II-B USES OF FUNDS by CATEGORY

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

		32.254.495,66	15.888.977,28	52.921.499,23
Category 2- Front-end-Fee	2/f	0,00	0,00	1.250.000,00

TOTAL USES OF FUNDS by CATEGORY	7	32.254.495,66	15.888.977,28	54.171.499,23
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Cash at the Beginning of the Period	1.01.2024	9.426.153,77
Cash at the End of the Period	31.12.2024	9.210.375,42

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 - II Additional Finance
LOAN NO: 8974-TR
For the Year Ended December 31, 2024
(In EURO)

	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	32.038.717,31	47.500.000,00	47.500.000,00	67%	63.381.874,65	500.000.000,00	13%
Total Sources of Funds		32.038.717,31	47.500.000,00	47.500.000,00	67%	63.381.874,65	500.000.000,00	13%
Uses of Funds								
1 By Component								
A- Municipal Investments	6/b	32.254.495,66	143.000.000,0	143.000.000,00	23%	52.921.499,2	498.750.000,00	11%
Front-end-Fee		0,00	0,0	0,0	0%	1.250.000,0	1.250.000,00	100%
Total Uses Of Funds By Component		32.254.495,66	143.000.000,00	143.000.000,00	23%	54.171.499,23	500.000.000,00	11%
2 By Expenditure Category								
Category 1 - Goods, Works, Non-Consulting Services, and Consultants' Services	6/b	32.254.495,66	143.000.000,0	143.000.000,00	23%	52.921.499,2	498.750.000,00	11%
Category 2 - Front end Fee		0,00	0,00	0,00	0%	1.250.000,0	1.250.000,00	100%
Total Uses Of Funds By Component		32.254.495,66	143.000.000,00	143.000.000,00	23%	54.171.499,23	500.000.000,00	11%

Prepared by
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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 - II Additional Finance

LOAN NO: 8974-TR
SPECIAL ACCOUNT STATEMENT
ACCOUNT NO: 00158048018623188
For the Year Ended December 31, 2024
(In EURO)

Opening Balance (01.01.2024)	Notes	9.426.153,77
Reimbursements to SA		32.038.717,31
Refunds to SA	7	960,00
Available Funds		41.465.831,08
Payments Made for Expenditures	7	32.255.455,66
Service charges for the account		0,00
Total Project Investments		32.255.455,66
Closing Balance (31.12.2024)		9.210.375,42

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 – II (AF) No: TR-8974

NOTES TO THE PROJECT FINANCIAL TABLES

For the Year Ended December 31, 2024

1. THE OBJECTIVES and STRUCTURE of THE PROJECT

Within the scope of the Country Partnership Strategy (CPS), which sets the framework for the financial cooperation with World Bank between 2012 - 2016, and Country Partnership Framework (CPF) for the period 2018 – 2021, which sets the framework for financial partnership to be constructed between the Türkiye and the World Bank, loan for the Sustainable Cities Project (SCP) provided by ILBANK with World Bank financing is planned to be used for the need of the local governments.

Loan Agreement (TR-8974) 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 10 July 2019. With the Sustainable Cities Project – II (AF); 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 environmental infrastructure, urban mobility and public transport, energy efficiency and renewable energy, social infrastructure and disaster risk management sectors.

The proposed loan amount is EUR 500.000.000,00 and support for infrastructure service investments will be provided to participating metropolitan municipalities. The proposed program is designed as a Series of Project (SoP), whereby municipalities' inclusion in the program and access to investment financing on a phased basis and at a pace consistent with their readiness and ability to meet the eligibility requirements under the sustainable cities approach.

Component A: Municipal Investments: This component will include a loan of EUR 498.750.000,00 to finance demand-driven municipal infrastructure investments to improve access to quality, sustainable and resilient public transport, water supply and wastewater, solid waste management and alternative energy sources, disaster risk management and energy efficiency, as well as urban environment, municipal fire fighting

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Turan Atakan GÜLYURDU
Contract Management Manager

Şevket Altun ERSDEMİR
Head Of
Department

services and social infrastructure. Component A will finance procurement of goods, works, and consulting and non-consulting services, including the engagement of local technical consultants for engineering design and construction supervision. Consulting services under Component A may also finance sub-project design and supervision activities of the Sub-Borrowers, including capacity building of administrations; planning, feasibility and technical designs, and environmental and social assessments; IT and data management systems, including urban data, geospatial information systems (GIS), municipal surveys and analyses to inform investment planning, assessment of disaster and climate risks and gender gaps, feasibility studies, technical designs and construction supervision. This component could support capacity building of municipalities for the above functions and assist in the preparation and implementation of protection policies, including on occupational health and safety.

Component B: Project Management: This component consists of approximately EUR 1.000.000,00 counterpart financing to finance procurement of goods, consultancy services related to day-to-day project management, monitoring and evaluation, reporting and project communications.

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 December 20, 2018 and 31/851 numbered.

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 – II (AF) 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.

Turhan Atakan GÜLYURDU
Contract Management Manager

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Şevket Akın TASDEMİR
Head of Department

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 – II (AF)’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”.

Turhan Atakan GÜLYURDU
Contract Management Manager

Şevket Arıtuğ TAŞDEMİR
Head Of
Department

- 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)

1430014 – World Bank Sustainable Cities Project – II AF

The total amount of expenses for the Sustainable Cities Project – II (AF) including the front-end-fee is **EUR 54.171.499,23** at the end of the year of 2024. Front-end-fee (**EUR 1.250.000,00**) 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 Vakıflar Bank is in Euro. The prevailing selling exchange rate for Euro/TL of Vakıflar Bank will applied for the above mentioned payments from the Special Account.

Turhan Atakan GÜLYURDU
Contract Management Manager

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Sevket ALI TASDEMİR
Head Of
Department

- 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 Vakıflar 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 10 July 2019 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 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 can not 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 DECEMBER 2024

The cash position at 31 December 2024 means the balance between the withdrawals from the loan to the Special Account and the amount of disbursement from Special Account and it is **EUR 9.210.375,42**. Project funds are held only in the Vakıflar Bank's Special Account, no other accounts or cash other than the Special Account is used.

T.C. VAKIFLAR BANK T.A.O. SPECIAL ACCOUNT (ACCOUNT NO: 00158048018623188)	
31.12.2024 Balance	9.210.375,42 EURO

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" are the estimated expenditure amounts for the year 2024 disbursement projection included in the annex of the Aide-Mémoire document dated February, 2024. 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 960,00 was refunded to the special account on January 26, 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

Sevil Altun TASDEMİR
Head of
Department



MINISTRY OF TREASURY AND FINANCE
BOARD OF TREASURY CONTROLLERS

SUSTAINABLE CITIES PROJECT – II ADDITIONAL FINANCE

Implemented by
ILLER BANKASI A.S.

**Financed Under International Bank for Reconstruction and Development
(IBRD) Loan Agreement Numbered 8974-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 ILLER BANKASI A.S.

We have audited the financial statements of the "Sustainable Cities Project – II Additional Finance" (Loan Agreement Numbered 8974 – 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 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
(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: 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	Inadequate Planning and Installation of Lighting Poles and Fixtures
CONDITION During the on-site audit of the ALACA G1 – Procurement of Special Design Lighting Poles and Fixtures conducted on 14.05.2025, it was detected that some of the lighting poles located on “Çorum Street” were damaged or incomplete. Specifically, some of the double-sided lighting poles had one side cut off, and in other cases, although the poles remained intact, the LED armatures could not be installed. Upon inquiry, municipal officials stated that the poles were initially delivered by the contractor in compliance with the technical specifications. However, during installation, it was discovered that the poles could not fit within the narrow street width, which led to physical modifications on-site. If adequate research and due diligence had been conducted prior to the procurement, the beneficiary could have foreseen that the lighting poles in question would not fit within Çorum Street. In this context, it is concluded that the allocated funds for the related street—particularly for the damaged or incomplete poles—were used carelessly, resulting in unnecessary expenditures.	
CRITERIA – CAUSE – IMPACT Criteria: Contract; “ ... <i>The Purchaser issued an invitation to tender for the procurement of certain Goods and related services, namely Special Design Lighting Poles and Fixtures (165 custom-designed aluminum lighting poles of 6+8 meters in length with non-LED main bodies and LED decorative iron motifs; 165 units of 60 Watt fixtures; and 165 units of 80 Watt fixtures). The Supplier’s offer in the amount of EUR 333,300 (three hundred thirty-three thousand three hundred Euros) (hereinafter referred to as the “Contract Price”) was accepted for the supply of these Goods and Services.</i> ...” Technical Specifications; “ ... <i>15. LED armatures shall be mounted parallel to the road... and must be fixed to the pole or arm at least two points.</i> ..”	



Sub-Loan Agreement

2.15. Undertakings and Representations of the Sub-Borrower

"...

b. The Sub-Borrower guarantees and undertakes to carry out the sub-project investments diligently and efficiently, in accordance with technical, economic, financial, managerial, environmental and social standards and practices acceptable to Ilbank and the World Bank.

...

2.16. In case of non-compliance with these undertakings, Ilbank shall have the right to recall the disbursed portion of the subsidiary loan.

..."

The lack of adequate site reconnaissance and technical evaluation prior to installation has resulted in a discrepancy between project expenditures and contractual obligations.

RECOMMENDATION

It is recommended that ILBANK carry out a site-based damage assessment. Based on the outcome of this assessment, necessary corrective actions should be taken.

RESPONSE OF THE AUDITEE IN 2024

1. Within the scope of the Sustainable Cities II Project, a site visit was conducted on 04.06.2025 for the procurement of Custom-Designed Lighting Poles and Fixtures for the Municipality of Alaca (Çorum), financed under the project (165 units of specially designed aluminum lighting poles, 6+8 meters in height, with non-LED body and LED sheet-metal motif; 165 units of 60-Watt luminaires; 165 units of 80-Watt luminaires), project code ALACA-G1. The site visit was carried out in cooperation with İller Bankası and the Municipality, and the prepared site visit record is attached.
2. A total of 170 lighting poles were identified on-site, including 167 that have been installed, are active, and in working condition, and 3 that are being kept as spare poles.
3. Since the lighting poles in question were to be installed at the same locations using the existing anchorages of the old poles, and as the scope of the work was limited to the procurement of materials, no additional design work was carried out.
4. According to the report issued by TEDAŞ 21st Regional Directorate on 27.05.2024, it was determined that the 21 decorative lighting poles mentioned in the report did not comply with the required safety distances in the direction of pedestrian sidewalks, as stipulated by the "Electric Power Current Facilities Regulation," thus posing risks to life and property. Following this, the Municipality cut the brackets on the pedestrian sidewalk side of 6 lighting poles and removed the fixtures on the pedestrian sidewalk side of 15 lighting poles, thereby ensuring compliance with the clearance distances stated in the relevant regulation. Based on the follow-up inspection and report issued by TEDAŞ 21st Regional Directorate on 06.06.2024, it was determined through testing and examination that the facility was in compliance and its acceptance could be approved. The relevant TEDAŞ records are attached.



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

5. Based on the examination conducted by our institution, in order to prevent similar issues from occurring in the future, the dimensions of the poles will be taken into consideration when selecting new lighting poles, and projects will be financed in accordance with the clearance distances specified in the relevant regulation.

FINAL OPINION OF THE AUDITORS IN 2024

OPEN

It was observed that, in line with the audit recommendation, ILBANK conducted an on-site assessment regarding the issues identified. However, no corrective measures have been taken to address the situation.

The physical modifications already carried out—such as cutting the brackets of 6 lighting poles and removing the fixtures of 15 poles—demonstrate that project funds were not used efficiently. These issues could likely have been avoided if poles more suitable to the physical constraints of the area—such as smaller or single-sided models—had been selected during the procurement process. The use of oversized and ultimately incompatible poles resulted in both uneconomic and inefficient utilization of project resources.

Accordingly, it is expected that ILBANK take appropriate actions in line with the relevant provisions of the Sub-Loan Agreement and the Loan Agreement.



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FINDING NUMBER : 2	Auditee (ILLER BANKASI AŞ)
FINDING	Lack of Systematic Budget Projection
CONDITION Financial statement audit indicates that the reported disbursements and related expenditures are not based on realistic or systematically prepared projections. Although some projections related to disbursements are included in the "Aide Mémoire" documents prepared during the mission visits conducted by the World Bank, there is no accompanying systematic projection regarding expenditures. Furthermore, within the fiscal year, while certain planning efforts were undertaken, they lacked consistency, structure, and integration into a comprehensive budget forecasting system.	
CRITERIA – CAUSE – IMPACT According to sound financial management and reporting principles, budget execution should be based on realistic, timely, and comprehensive projections of both disbursements and related expenditures to ensure transparency, accountability, and efficient resource utilization. Cause and Impact: There appears to be a lack of established procedures or tools to systematically project and monitor both disbursements and expenditures throughout the fiscal year. The absence of such mechanisms may reflect deficiencies in budgeting practices and internal financial planning. The absence of reliable and systematic budget projections may lead to misinformed decision-making, inefficient allocation of resources, and reduced financial transparency. It also increases the risk of variances between planned and actual budget execution, which could negatively impact program performance and compliance with World Bank expectations.	
RECOMMENDATION It is recommended that the Iller Bank develops and institutionalizes a formal and systematic budget projection framework that covers both disbursements and expected expenditures. This framework should be aligned with World Bank reporting requirements and should be regularly updated and monitored to ensure realistic financial planning and execution.	
RESPONSE OF THE AUDITEE IN 2024 In the following periods, a budget section will be added to the periodically prepared project progress reports and will be continuously updated. Budget forecast data will thus yield more reliable results based on these reports. The reports will include not only the amounts of disbursements but also the contract-based progress that forms the basis for such disbursements. Accordingly, projections will be developed in line with this progress.	



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FINAL OPINION OF THE AUDITORS IN 2024

OPEN

The auditee's initiatives are noted. This finding will be subject to follow-up in the next audit period to verify whether the planned improvements concerning the budget projection framework are implemented or not.



AUDIT FINDINGS OF THE PREVIOUS YEAR

FINDING NUMBER: 1	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

OPEN

Given that the expenditures exceeded the allocated monthly budgets, it is concluded that the amounts exceeding the allocated budget are ineligible. Therefore, recovery procedures should be initiated by İLBANK for the ineligible expenditures identified.

This finding will be followed up in the next audit period to check whether the ineligible amount of EUR 2,418.74 EUR is recovered by the İLBANK and audit concerns regarding the tracking method of unit quantities are adequately addressed or not.

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.