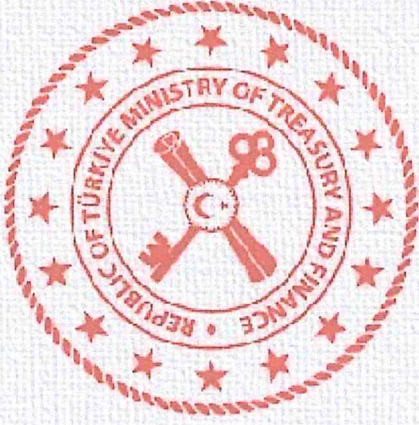




**MINISTRY OF TREASURY AND FINANCE  
BOARD OF TREASURY CONTROLLERS**

**SUSTAINABLE CITIES PROJECT - II**

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

**Financed Under International Bank for Reconstruction and Development  
(IBRD) Loan Agreement Numbered 8843-TR**

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

**Prepared by**

**Ezel Malik ZENGİN  
Treasury Controller**

**Servan KUTLUCAN  
Treasury Controller**

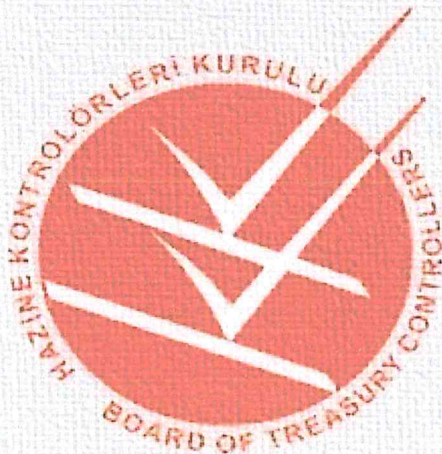
**Oğulcan ÇOLAK  
Treasury Controller**

**Ömer Faruk KOCAMIŞ  
Treasury Controller**

**Rumeysa İZGİ  
Treasury Controller**

**Report's Number**

**74/14 - 36/8 - 36/10 - 45/11 - 25/8**



**INDEPENDENT AUDITOR'S REPORT**

**June 18, 2025**

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## **EXECUTIVE SUMMARY**



## EXECUTIVE SUMMARY

### A. Project Summary

The Loan Agreement between the Iller Bankasi A.S. and International Bank for Reconstruction and Development (IBRD-World Bank) for Sustainable Cities Project – II, Loan Numbered 8843-TR was signed on 16.05.2018 and received a loan of 73.500.000,00 Euro.

Project is implemented by Project Management Unit (PMU) under Iller Bankasi 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 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 8843-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 the 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 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 8843-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 are included under the “Report on Other Legal and Regulatory Requirements” heading of the report.

### **F. Management Recommendation**

A management letter containing comments and recommendations related to internal control deficiencies and other matters dated 18.06.2025 has been prepared and shared with İller Bankası A.S. 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 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-8843.

The accompanying financial statements present fairly, in all material respects, the financial position and cash flows of the Sustainable Cities Project – II 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-8843.

#### 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 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-8843, 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 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.



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

- 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-8843.

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-8843.

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 - II  
LOAN NO: 8843-TR  
Withdrawal Application Summary  
For the Year Ended December 31, 2024

| Withdrawal Application Number                            | Date       | Category 1:<br>Goods, Works, Non-<br>Consulting Services, and<br>Consultants' Services | Category 2:<br>Front end Fee | Total         | Requested<br>Advance Amount | Value<br>Date | Rejected by<br>WB | Net Reimbursed |
|----------------------------------------------------------|------------|----------------------------------------------------------------------------------------|------------------------------|---------------|-----------------------------|---------------|-------------------|----------------|
| <b>In Designated Account Currency - Euro</b>             |            |                                                                                        |                              |               |                             |               |                   |                |
| <b>Section A: Payment method - Advance/Replenishment</b> |            |                                                                                        |                              |               |                             |               |                   |                |
| Approved Withdrawals                                     |            |                                                                                        |                              | 10.345.998,07 | 10.345.998,07               |               |                   | 10.345.998,07  |
| 8 (Documentation)                                        | 05.03.2024 | 4.461.730,81                                                                           | 0,00                         | 4.461.730,81  | 0,00                        | 02.04.2024    | 0,00              | 0,00           |
| 9 (Advance and Documentation)                            | 30.05.2024 | 5.884.267,26                                                                           | 0,00                         | 5.884.267,26  | 10.345.998,07               | 06.06.2024    | 0,00              | 10.345.998,07  |
| <b>Sub-Total (A)</b>                                     |            |                                                                                        |                              |               |                             |               |                   |                |
|                                                          |            | 10.345.998,07                                                                          | 0,00                         | 10.345.998,07 | 10.345.998,07               |               | 0,00              | 10.345.998,07  |
| <b>Section B: Payment method - Reimbursement</b>         |            |                                                                                        |                              |               |                             |               |                   |                |
| Approved Withdrawals                                     |            |                                                                                        |                              |               |                             |               |                   |                |
| Pending Submission                                       |            |                                                                                        |                              |               |                             |               |                   |                |
| <b>Sub-Total (B)</b>                                     |            |                                                                                        |                              |               |                             |               |                   |                |
|                                                          |            | 0,00                                                                                   | 0,00                         | 0,00          | 0,00                        |               | 0,00              | 0,00           |
| <b>Section C: Payment method - Direct Payment</b>        |            |                                                                                        |                              |               |                             |               |                   |                |
| Approved Withdrawals                                     |            |                                                                                        |                              |               |                             |               |                   |                |
| Pending Submission                                       |            |                                                                                        |                              |               |                             |               |                   |                |
| <b>Sub-Total (C)</b>                                     |            |                                                                                        |                              |               |                             |               |                   |                |
|                                                          |            | 0,00                                                                                   | 0,00                         | 0,00          | 0,00                        |               | 0,00              | 0,00           |
| <b>TOTAL (A+B+C)</b>                                     |            |                                                                                        |                              |               |                             |               |                   |                |
|                                                          |            | 10.345.998,07                                                                          | 0,00                         | 10.345.998,07 | 10.345.998,07               |               | 0,00              | 10.345.998,07  |

Prepared by  
Cenk USLUOĞLU  
Expert  
13.06.2025

Controlled by  
Turhan Atakan GÜLYURDU  
Acting Manager  
13.06.2025

Approved by  
Şevket Aliğ. TAŞDEMİR  
Head of Department  
13.06.2025



*Handwritten signature*

**ILLER BANKASI A.S.**  
**SUSTAINABLE CITIES PROJECT - II**  
**LOAN NO: 8843-TR**  
**STATEMENT OF SOURCES and USES of FUNDS**  
**For the Year Ended December 31, 2024**  
**(In EURO)**

|                                                                                     | Notes | Current Period<br>(2024) | Previous Period<br>(2023) | Cumulative           |
|-------------------------------------------------------------------------------------|-------|--------------------------|---------------------------|----------------------|
| <b>I-SOURCES OF FUNDS</b>                                                           |       |                          |                           |                      |
| A- IBRD Loan                                                                        |       | 10.345.998,07            | 12.147.471,89             | 60.965.455,60        |
| 1- Special Account                                                                  | 7     | 10.345.998,07            | 12.147.471,89             | 60.781.705,60        |
| 2- Front-end-Fee                                                                    | 2/f   | 0,00                     | 0,00                      | 183.750,00           |
| <b>TOTAL FUNDS RECIEVED</b>                                                         |       | <b>10.345.998,07</b>     | <b>12.147.471,89</b>      | <b>60.965.455,60</b> |
| <b>II-A USES OF FUNDS by COMPONENT</b>                                              |       |                          |                           |                      |
| <b>I-INVESTMENT COST</b>                                                            |       |                          |                           |                      |
| B- Municipal Investments                                                            |       | 14.653.466,35            | 10.392.732,92             | 51.150.690,83        |
| <b>Total Investment Costs</b>                                                       |       | <b>14.653.466,35</b>     | <b>10.392.732,92</b>      | <b>51.150.690,83</b> |
| <b>II-RECURRING COST</b>                                                            |       |                          |                           |                      |
| Front-end-Fee                                                                       | 2/f   | 0,00                     | 0,00                      | 183.750,00           |
| <b>Total Recurring Costs</b>                                                        |       | <b>0,00</b>              | <b>0,00</b>               | <b>183.750,00</b>    |
| <b>TOTAL USES OF FUNDS by COMPONENT</b>                                             | 7     | <b>14.653.466,35</b>     | <b>10.392.732,92</b>      | <b>51.334.440,83</b> |
| <b>II-B USES OF FUNDS by CATEGORY</b>                                               |       |                          |                           |                      |
| <b>Category 1-</b> Goods, Works, Non-Consulting Services, and Consultants' Services |       | 14.653.466,35            | 10.392.732,92             | 51.150.690,83        |
| <b>Category 2-</b> Front-end-Fee                                                    | 2/f   | 0,00                     | 0,00                      | 303.000,00           |
| <b>TOTAL USES OF FUNDS by CATEGORY</b>                                              | 7     | <b>14.653.466,35</b>     | <b>10.392.732,92</b>      | <b>51.453.690,83</b> |

|                                     |            |                      |
|-------------------------------------|------------|----------------------|
| Cash at the Beginning of the Period | 1.01.2024  | <b>13.938.483,05</b> |
| Cash at the End of the Period       | 31.12.2024 | <b>9.631.014,77</b>  |

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



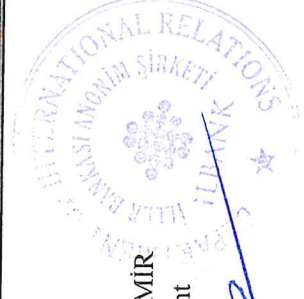
**İLLER BANKASI A.Ş.**  
**STATEMENT of COMPARISON BUDGET and ACTUAL AMOUNT**  
**SUSTAINABLE CITIES PROJECT - II**  
**LOAN NO: 8843-TR**  
**For the Year Ended December 31, 2024**  
**(In EURO)**

|                                                                               | NOTES | Current Period |               |                 |              | Cumulative    |               |              |
|-------------------------------------------------------------------------------|-------|----------------|---------------|-----------------|--------------|---------------|---------------|--------------|
|                                                                               |       | Actual         | Final Budget  | Original Budget | Progress (%) | Actual        | Planned       | Progress (%) |
|                                                                               |       | 1              | 2             |                 | 3=1/2        | 4             | 5             | 6=4/5        |
| Sources of Funds                                                              |       |                |               |                 |              |               |               |              |
| IBRD Loan                                                                     | 6/a   | 10.345.998,07  | 18.250.000,00 | 18.250.000,00   | 57%          | 60.965.455,60 | 53.245.000,00 | 114%         |
| Total Sources of Funds                                                        |       | 10.345.998,07  | 18.250.000,00 | 18.250.000,00   | 57%          | 60.965.455,60 | 53.245.000,00 | 114%         |
| Uses of Funds                                                                 |       |                |               |                 |              |               |               |              |
| 1 By Component                                                                |       |                |               |                 |              |               |               |              |
| B- Municipal Investments                                                      | 6/b   | 14.653.466,35  | 17.000.000,0  | 17.000.000,00   | 86%          | 51.150.690,8  | 73.500.000,00 | 70%          |
| Front-end-Fee                                                                 |       | 0,00           | 0,0           | 0,0             | 0%           | 183.750,0     | 183.750,00    | 100%         |
| Total Uses Of Funds By Component                                              |       | 14.653.466,35  | 17.000.000,00 | 17.000.000,00   | 86%          | 51.334.440,83 | 73.683.750,00 | 70%          |
| 2 By Expenditure Category                                                     |       |                |               |                 |              |               |               |              |
| Category 1 - Goods, Works, Non-Consulting Services, and Consultants' Services | 6/b   | 14.653.466,35  | 17.000.000,0  | 17.000.000,00   | 86%          | 51.150.690,8  | 73.500.000,00 | 70%          |
| Category 2 - Front end Fee                                                    |       | 0,00           | 0,00          | 0,00            | 0%           | 183.750,0     | 183.750,00    | 100%         |
| Total Uses Of Funds By Component                                              |       | 14.653.466,35  | 17.000.000,00 | 17.000.000,00   | 86%          | 51.334.440,83 | 73.683.750,00 | 70%          |

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]*

**ILLER BANKASI A.S.**  
**SUSTAINABLE CITIES PROJECT - II**  
**LOAN NO: 8843-TR**  
**SPECIAL ACCOUNT STATEMENT**  
**ACCOUNT NO: 00158048017595392**  
**For the Year Ended December 31, 2024**  
**(In EURO)**

|                                     |              |               |                      |
|-------------------------------------|--------------|---------------|----------------------|
| <b>Opening Balance (01.01.2024)</b> | <b>Notes</b> |               | <b>13.938.483,05</b> |
|                                     |              |               |                      |
| Reimbursements to SA                |              |               | 10.345.998,07        |
|                                     |              |               |                      |
| Refunds to SA                       | 7            |               | 583.617,08           |
|                                     |              |               |                      |
| <b>Available Funds</b>              |              |               | <b>24.868.098,20</b> |
|                                     |              |               |                      |
| Payments Made for Expenditures      | 7            | 15.237.083,43 |                      |
|                                     |              |               |                      |
| Service charges for the account     |              | 0,00          |                      |
|                                     |              |               |                      |
| Total Project Investments           |              | 15.237.083,43 |                      |
|                                     |              |               |                      |
| <b>Closing Balance (31.12.2024)</b> |              |               | <b>9.631.014,77</b>  |

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 No: TR-8843

## 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 July 2012 - June 2016, 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-8843) 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 May 2018. With the Sustainable Cities Project – II; 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.

The proposed loan amount is USD 300.000.00,00 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 will be in phases, in line with the sustainable cities approach. Municipalities will be eligible for the program and financing based on their readiness and meeting the selection criteria (as outlined under Component B).

Component A: Municipal Investments: This component, which will have a financing of approximately USD 300.000.000,00, will provide support to participating metropolitan municipalities for infrastructure service investments. The second Project Series was signed for EUR 73.500.000,00 (USD 91.540.000,00).

Component B: Project Management and Institutional Capacity Building: This component, which is a loan of approximately USD 1.000.000,00, will be used to finance consultancy services and trainings deemed necessary for ILBANK to carry out its project monitoring,

evaluation and supervision functions and safeguard responsibilities. However, this component will not be utilized in this Project Series.

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 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 - II'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)

1430012 – World Bank Sustainable Cities Project – II

The total amount of expenses for the Sustainable Cities Project – II including the front-end-fee is **EUR 51.334.440,83** at the end of the year of 2024. Front-end-fee (EUR 183.750,00) 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.
- 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 16 May 2018 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 9.631.014,77**. Project funds are held only in the Vakıflar Bank's Special Account, no other accounts or cash other than the Special Account is used.

Turhan Atakan GÜLYURDU  
Contract Management Manager

*TAG*

Sevket Altuğ TASDEMİR  
Head Of  
Department

| T.C. VAKIFLAR BANK T.A.O. SPECIAL ACCOUNT<br>(ACCOUNT NO: 00158048017595392) |                   |
|------------------------------------------------------------------------------|-------------------|
| 31.12.2024 Balance                                                           | 9.631.014,77 EURO |

## 6. EXPLANATION on BUDGET REALIZATION

- a) 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.
- b) 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 583.617,08 was refunded to the special account on January 25, 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

*[Signature]*

Şevket Altın TASDEMİR  
Head Of  
Department

*[Signature]*



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

**SUSTAINABLE CITIES PROJECT - II**

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

**Financed Under International Bank for Reconstruction and Development  
(IBRD) Loan Agreement Numbered 8843-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" (Loan Agreement Numbered 8843 – 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

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |                                                                  |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------|
| <b>FINDING NUMBER : 1</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | <b>Auditee (İLLER BANKASI AŞ)</b>                                |
| <b>FINDING</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | Risk of Meeting the Extended Contract Deadline by the Contractor |
| <b>CONDITION</b> <p>The original contract of the Works for Sewerage Network Line (ASAT3 – W10) was signed on 3 October 2023, with a duration of 18 months, setting the initial completion date as March 28, 2025. Due to delays in the delivery of certain pipe types and the inaccessibility of the canal route, the contractor requested an extension of 214 days. However, a 64-day extension was granted by the decision of the ASAT General Directorate Executive Board dated March 27, 2025.</p> <p>Following the approval of İller Bankası A.Ş. Contract Addendum No. 1 was issued, extending the contract duration until May 31, 2025.</p> <p>Based on our field inspections and the observation on the progress of the works, it is concluded that the works will not be completed by the revised end date.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |                                                                  |
| <b>CRITERIA – CAUSE – IMPACT</b> <p><b>Special Conditions of the Contract Article 1/1</b></p> <p>The total planned completion period for the works shall be 540 (five hundred and forty) calendar days, starting from the date of issuance of the commencement order by the Project Manager.</p> <p><b>Special Conditions of the Contract Article 47/1</b></p> <p>The daily delay penalty is one per mille (0.1%) of the contract price. The total amount of the delay penalty to be paid for the entire work shall not exceed 10% of the final contract price.</p> <p>When the total deductions reach this maximum amount, the Employer may unilaterally terminate the contract pursuant to Sub-Clause 57.2(g) of the General Conditions. Alternatively, upon the Contractor's request and the Employer's approval, the contract period may be extended for a duration mutually agreed upon by the parties, provided that delay penalties continue to be deducted from the Contractor's receivables at the rate specified above.</p> <p><b>Contract Amendment No: 1 Article 1.1</b></p> <p>An extension of 64 calendar days was granted by the ASAT Executive Board through Decision No. 2025/211 dated 27 March 2025.</p> <p>The likelihood of not completing the works by the revised contract end date (31 May 2025) raises concerns about potential contractual penalties, delayed commissioning of the infrastructure, and interruption in the planned service delivery to beneficiaries.</p> |                                                                  |



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MINISTRY OF TREASURY AND FINANCE  
The Board of Treasury Controllers

If the project is not completed by the contractual closing date, the Employer may evaluate the option of the contract termination in accordance with the applicable provisions. This could potentially require re-tendering for the remaining works, which may lead to delays and additional costs.

**RECOMMENDATION**

It is recommended that, if the Contractor fails to meet the deadline, the provisions of the Special Conditions of the Contract be enforced, including the application of penalties to the contractor.

**RESPONSE OF THE AUDITEE IN 2024**

During the implementation process of the Contract, it was observed by all parties that satisfactory physical progress in accordance with the work program could not be achieved by the Contractor.

ASAT (As the Employer) and ALDAŞ (As the Consultant) have repeatedly warned the Contractor in writing and verbally that the Works within the scope could not be completed within the Contract period and the Contractor has been requested to take necessary actions taking into account the deadline of the Contract period.

In the current situation, ASAT and ALDAŞ are considering the sanctions within the scope of the Contract Provisions, including delay penalty and if needed termination of the Contract.

However, the Contractor has requested an additional 341 days with its letter dated May 30, 2025. The arguments for the sub-items of the Contractor's request are being assessed by ALDAŞ and ASAT within the Provisions of the Contract.

**FINAL OPINION OF THE AUDITORS IN 2024**

**OPEN**

The root cause of the delay attributed to the Contractor needs to be thoroughly analyzed, and it must be comprehensively evaluated whether the application of contractual penalties or the granting of an extension of time would better contribute to the completion of the project.

The actions taken will be followed up in the next year.



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|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------|
| <b>FINDING NUMBER : 2</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | <b>Auditee (İLLER BANKASI AŞ)</b>    |
| <b>FINDING</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | Lack of Systematic Budget Projection |
| <b>CONDITION</b> <p>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.</p>                                                                                                                                                                                                                                                                                                                                                                                                     |                                      |
| <b>CRITERIA – CAUSE – IMPACT</b> <p>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.</p> <p><b>Cause and Impact:</b></p> <p>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.</p> <p>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.</p> |                                      |
| <b>RECOMMENDATION</b> <p>It is recommended that the İller 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.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |                                      |
| <b>RESPONSE OF THE AUDITEE IN 2024</b> <p>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.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |                                      |



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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.