

AUDITED PROJECT FINANCIAL STATEMENTS

Loan no. G-I-C-1418-, L-I--889-, 200000264000

Period covered: 1 January 2017 to 31 December 2017

Murat River Watershed Rehabilitation Project
(MRWRP)

Prepared by the Senior Treasury Controller

Received on 27 June 2018

The Audited project financial statements are documents owned by the borrower. The views expressed herein do not necessarily represent those IFAD's Board of Directors, Management or Staff. These documents are made publicly available in accordance with the "IFAD Handbook for Financial Reporting and Auditing of IFAD-Financed Projects (2018)"

**REPUBLIC OF TURKEY
PRIME MINISTRY
Undersecretariat of Treasury**

INDEPENDENT AUDITOR'S REPORT

On

MURAT RIVER WATERSHED REHABILITATION PROJECT

Implemented by

**REPUBLIC OF TURKEY
MINISTRY OF FORESTRY AND WATER WORKS
GENERAL DIRECTORATE OF FORESTRY**

And

Partially Financed Under
International Fund for Agricultural Development (IFAD)
Financing Agreement No. I-C-1418-TR Grant

As of December 31, 2017 and for the year then ended

Report Number: 142/5- 50/11

Prepared by:

H. Hamdi GÜLKAYA
Senior Treasury Controller

Semih ŞAHİN
Treasury Controller

June 19, 2018

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EXECUTIVE SUMMARY

REPUBLIC OF TURKEY
PRIME MINISTRY
Undersecretariat of Treasury
EXECUTIVE SUMMARY

A. Project Summary

Financing Agreement No. I-889-TR Loan and No. I-C-1418-TR Grant was signed between the Turkish Republic and the International Fund for Agricultural Development (IFAD) of the United Nations on February 15, 2013 within the scope of Murat River Watershed Rehabilitation Project.

The Murat River Watershed Rehabilitation Project aims at preventing the degradation of natural resources in 25 micro-catchments to be selected in Murat River basin of Elazığ, Muş and Bingöl through Murat River which is one of the two main tributaries of Fırat River, and reducing the poverty of people living in the upper elevations of the basin.

This Report is prepared for the all sections of Project.

The following activities will be implemented in the Project.

- **Conservation, Rehabilitation and Development of Natural Resources:** Forestry activities such as afforestation, erosion control, rehabilitation and pasture improvement for the improvement of degraded forests,
- **Investments in Livelihood Improvement:** Development of small-scale irrigation, development of animal husbandry and greenhouse cultivation, orchard establishment, beekeeping, dissemination of energy-efficient technologies, insulation for village houses, and energy-saving stoves,
- **Training and Awareness Raising Activities:** Training and awareness raising activities will be performed in natural resource conservation, use, development, enhancing productivity in agriculture,
- **Strengthening of Institutional Capacity:** The capacity of institutions will be increased and the cooperation between institutions will be developed with the experience gained in areas such as project construction techniques, project approach, logical framework, monitoring and evaluation.

The Project will be implemented between 2013 - 2019. The amount of the Financing Agreement is **USD 38.642.855** including IFAD Loan Contribution of **17.955.162 SDR** (USD 27.791.100), IFAD Grant Contribution of **280.000 SDR** (USD 430.000), the Government Contribution of **USD 7.453.051** and beneficiary contribution of **USD 2.968.704** for the Project. The expenditures started in 2013 within the scope of the Project. In 2017, **USD 19.854,96** was spent for the Project within the scope of the grant financing of the Project including internal contribution (tax) of **USD 3.028,72** and external contribution (grant) **USD 16.826,24**. As of December 31, 2017, the cumulative expenditure amount was **USD 93.084,71** within the scope of the grant financing.

B. Objectives of Audit

The objectives of our audit are;

a) To give an opinion on whether the financial statements, prepared as of December 31, 2017, present fairly, in all material respects, the financial position of the Project in accordance with the cash receipts and disbursements basis of accounting,

b) To determine, as of December 31, 2017, whether the General Directorate of Forestry has complied, in all material respects, with the rules and procedures of the Financing Agreement No. No. I-C-1418-TR Grant.

c) To examine whether adequate supporting documentation has been maintained to support claims to the IFAD for reimbursements of expenditures incurred with respect to Statement of Expenditures (SOEs) and evaluate eligibility of these expenditures for financing under the IFAD Financing Agreement numbered No. I-C-1418-TR Grant.

C. Scope of Audit

We have performed an audit of financial statements of the Murat River Watershed Rehabilitation Project as of December 31, 2017 in accordance with the cash receipts and disbursements basis of accounting. We have also performed a compliance audit on whether Project activities are in line with Financing Agreement.

Our audit was conducted in accordance with the International Standards on Auditing published by International Federation of Accountants.

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

D. Audit Results

For the financial statements of project; our audit resulted with an unqualified opinion.

In addition, as of December 31, 2017, General Directorate of Forestry has complied, in all material respects, with the rules and procedures of the Financing Agreement No. No. I-C-1418-TR Grant.

In our audit period, there was not any disbursement under the Statement of Expenditures (SOE).

E. Management Recommendations

A management letter, dated June 19, 2018, to the attention of the General Directorate of Forestry was issued separately from this report. The objective of this Management Letter is to enable the auditors to communicate appropriately to those charged with governance and management deficiencies in internal control that the auditors have identified during the audit and that, in the auditors' professional judgment, are of sufficient importance to merit their respective attentions. For this purpose, our recommendations are attached to the Letter.

**INDEPENDENT AUDITOR'S REPORT &
FINANCIAL STATEMENTS OF THE PROJECT**

REPUBLIC OF TURKEY
PRIME MINISTRY
Undersecretariat of Treasury

INDEPENDENT AUDITOR'S REPORT

TO MINISTRY OF FORESTRY AND WATER WORKS
GENERAL DIRECTORATE OF FORESTRY
ANKARA

Opinion

We have audited the accompanying Statement of Sources and Uses of Funds, Statement of Cumulative Investments and Statement of Special Account of the Murat River Watershed Rehabilitation Project as of December 31, 2017 and a summary of significant accounting policies and other explanatory information. The financial statements have been prepared by the General Directorate of Forestry based on relevant provisions of the IFAD Financing Agreement No. I-C-1418-TR Grant.

In our opinion;

a) The accompanying Statement of Sources and Uses of Funds, Statement of Cumulative Investments and Statement of Special Account present fairly, in all material respects, the financial position of the Murat River Watershed Rehabilitation Project accounting policies and as of December 31, 2017 in accordance with the provisions of the IFAD Financing Agreement No. I-C-1418-TR Grant.

b) The General Directorate of Forestry, as of December 31, 2017 has complied with, in all material respects, the requirements of the IFAD Financing Agreement No. I-C-1418-TR Grant.

c) In our audit period, there was not any disbursement under the Statement of Expenditures (SOE).

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 General Directorate of Forestry within the meaning of ethical requirements 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.

Basis of Accounting and Restriction on Distribution and Use

We draw attention to Note "2" to the financial statements, which describe the basis of accounting.

The financial statements are prepared to assist the General Directorate of Forestry to comply with the financial reporting provisions of the IFAD Financing Agreement No. I-C-1418-TR Grant. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for the General Directorate of Forestry, Undersecretariat of Treasury, and IFAD, and should not be distributed or used by other parties.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

The General Directorate of Forestry is responsible for the preparation and fair presentation of these financial statements in accordance with Grant Agreement Numbered I-C-1418-TR, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Those charged with governance are responsible for overseeing the General Directorate of Forestry's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

The objectives of our audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

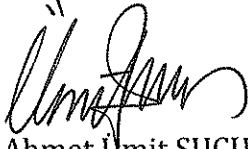
As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the planning and performance of the audit.

We also:


- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We are also required to provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



Ahmet Ümit SUCU
Acting Chairman of
Board of Treasury Controllers



A. Bülent BOYACIOĞLU
(Audit Partner)
Vice-Chairman



H. Hamdi GÜLKAYA
Senior Treasury Controller



Semih ŞAHİN
Treasury Controller

Date : June 19 , 2018

Address : T.C. Başbakanlık Hazine Müsteşarlığı,
Hazine Kontrolörleri Kurulu Başkanlığı,
06510 Ankara/TURKEY

1/01/2017 - 31/12/2017
(Currency Type USD)

Yusuf SAFIN
Deputy General Director
Project Coordinator

REPUBLIC OF TURKEY - MINISTRY OF FORESTRY AND WATER AFFAIRS
GENERAL DIRECTORATE OF FORESTRY/GENERAL DIRECTORATE OF COMBATING DESERTIFICATION AND EROSION
MURAT RIVER WATERSHED REHABILITATION PROJECT (I-C-1418-TR)
CUMULATIVE STATEMENT OF INVESTMENTS (GRANT)
01/01/2017 - 31/12/2017
(Currency Type USD)

CONSOLIDATED

| Component 1. Management of Natural Resources and Environment | | | | | | | | | Financing Rule | Gross Tax |
|--|--|--|--|--|--|--|--|--|----------------|-----------|
| ACTIVITIES TO BE PERFORMED WITHIN THE SCOPE OF THE PROJECT | | | | | | | | | | |
| | | | | | | | | | | |
| I. Investment Costs | | | | | | | | | | |
| C. Technical Assistance (Category 3) | | | | | | | | | | |
| C.1- Subject Specialists | | | | | | | | | | |
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| COMPONENT 4 Operations Units (COU + FOU) | | | | | | | | Financing Rule | Gross Tax |
|--|---|-----------|-----------|------------|------------|------------|------------|---------------------|-----------|
| ACTIVITIES TO BE PERFORMED WITHIN THE SCOPE OF THE PROJECT | | | | | | | | | |
| | | | | | | | | | |
| I. Investment Costs | | | | | | | | | |
| B. Studies (Category 3) | | | | | | | | | |
| | B.6- Training Needs Assessment of FOU + COU | - | 0.00 | 0.00 | 10.000.00 | - | 10.000.00 | GRANT - IFAD (100%) | |
| | B.7- Various Studies (CEM) | 3,041,060 | 12,335.25 | 30,000.00 | 105,000.00 | 26,958.94 | 92,664.75 | GRANT - IFAD (100%) | |
| | B.8- Baseline Survey (Basic Research) - (CEM) | - | 50,536.19 | 70,800.00 | 70,800.00 | 70,800.00 | 20,263.81 | GRANT - IFAD (100%) | |
| SUB TOTAL TECHNICAL ASSISTANCE, TRAINING, WORKSHOPS, STUDIES, SEMINARS, (Category 3) | | | | | | | | | |
| | | 3,041.06 | 62,871.44 | 100,800.00 | 185,800.00 | 97,758.94 | 122,928.56 | | |
| COMPONENT 4 TOTAL | | | | | | | | | |
| | | 3,041.06 | 62,871.44 | 100,800.00 | 185,800.00 | 97,758.94 | 122,928.56 | | |
| COMPONENTS TOTAL | | | | | | | | | |
| | | 19,854.96 | 93,084.71 | 135,800.00 | 500,800.00 | 134,572.84 | 407,715.30 | | |

| CATEGORIES | | ACTUALIZATION | | PLANNED | | DEVIATION | | Financing Rule | Gross Tax |
|---|--|---------------|------------|------------|------------|------------|------------|---------------------|-----------|
| | | ANNUAL | CUMULATIVE | ANNUAL | CUMULATIVE | ANNUAL | CUMULATIVE | | |
| 3- Technical Assistance, Training and Workshops | | 19,854.96 | 93,084.71 | 135,800.00 | 500,800.00 | 115,945.04 | 407,715.29 | GRANT - IFAD (100%) | |
| | | 19,854.96 | 93,084.71 | 135,800.00 | 500,800.00 | 115,945.04 | 407,715.29 | | |
| CATEGORIES TOTAL | | 19,854.96 | 93,084.71 | 135,800.00 | 500,800.00 | 115,945.04 | 407,715.29 | | |

Yusuf SAHIN
Genel Müdür Yardimcisi

Tuncel YILMAZ
Daire Başkanı

REPUBLIC OF TURKEY - MINISTRY OF FORESTRY AND WATER AFFAIRS
GENERAL DIRECTORATE OF FORESTRY
MURAT RIVER WATERSHED REHABILITATION PROJECT
WITHDRAWAL STATEMENTS IN THE FORM OF STATEMENT OF EXPENDITURE (SOE)
For the Period Ended on 31/12/2017
(Currency Type USD)

External Financing Code
 IFAD Loan Number
 Designated Account Number

I - TRANSFERRED APPLICATIONS

| Application Date | Application No | Expenditure (LOAN) | TOTAL | Amount Paid | Payment Date |
|------------------|----------------|--------------------|-------|-------------|--------------|
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| | | | | | |
| SUB-TOTAL | | 0,00 | 0,00 | 0,00 | |

II - PENDING APPLICATIONS

| Application Date | Application No | Expenditure (LOAN) | TOTAL | Amount Paid | Payment Date |
|---|----------------|--------------------|-------|-------------|--------------|
| | | | | | |
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| | | | | | |
| SUB-TOTAL | | 0,00 | 0,00 | 0,00 | |
| TOTAL APPLICATIONS REQUESTED DURING THE YEAR | | | | 0,00 | |

13.06/2018

Ibrahim YUZER
 Head of the Department
 Central Focal Point

Yusuf SAHIN
 Deputy General Director
 Project Coordinator

REPUBLIC OF TURKEY - MINISTRY OF FORESTRY AND WATER AFFAIRS
GENERAL DIRECTORATE OF FORESTRY
MURAT RIVER WATERSHED REHABILITATION PROJECT
DESIGNATED ACCOUNT STATEMENT (GRANT)

****CONSOLIDATED****

| | | |
|--|---|-------------|
| External Financing Code | : | 39428 |
| Related Central Accountancy Code | : | 33930 |
| IFAD Grant Number | : | I-C-1418-TR |
| Designated Account Number + Sub-Grant Accounts | : | |

01/01/2017 - 31/12/2017
(Currency Type USD)

| | | |
|---------------------------------------|---|-----------|
| OPENING BALANCE | : | 37.940,88 |
| TRANSFERS TO THE DESIGNATED ACCOUNT | : | 0,00 |
| Designated Account Advance | : | 0,00 |
| Statement of Expenditure (SOE) | : | 0,00 |
| TOTAL ASSETS | : | 37.940,88 |
| NET WITHDRAWALS MADE FOR EXPENDITURES | : | 16.826,24 |
| Total Disbursements | : | 16.826,24 |
| Refunds to the Designated Account (-) | : | 0,00 |
| Net Disbursements | : | 16.826,24 |
| CLOSING BALANCE | : | 21.114,64 |


Ibrahim YUZER
Head of the Department
Central Focal Point


Yusuf SAHIN
Deputy General Director
Project Coordinator

13.10.2018



MINISTRY OF FORESTRY AND WATER AFFAIRS
General Directorate of Forestry
Murat River Watershed Rehabilitation Project



MRWRP Financed Partly with the Grant No. I-C-1418-TR
As of the Year Ended on 31/12/2017
NOTES ON FINANCIAL STATEMENTS OF THE PROJECT

1- PROJECT OBJECTIVES AND STRUCTURE

The Financing Agreement with IFAD Loan No. I-889-TR and Grant No. I-C-1418-TR was signed between the Republic of Turkey and the International Fund for Agricultural Development (IFAD) of the United Nations on **February 15, 2013** within the scope of Murat River Watershed Rehabilitation Project.

Murat River Watershed Rehabilitation Project aims at preventing the degradation of natural resources in the micro-catchments to be selected in Murat River basin of **Bingöl, Elazığ** and **Muş** provinces through Murat River which is one of the two main tributaries of Firat River, and reducing the poverty of people living in the upper elevations of the basin.

The Project is a participatory project ensuring the participation of all relevant departments of the state together with the local people for a sustainable natural resource management.

Within the scope of the Project, the budget will be used as follows;

- 1) investments in Natural Resources and Environmental Management (USD **3,176,200**)
- 2) Investments in Natural Resources and Environmental Values (USD **15,636,075**)
- 3) Investments in Improving Livelihoods (USD **18,288,460**)
- 4) Investments in Strengthening the Institutional Capacity (USD **1,542,100**)

The project will be implemented between 2013-2019. The amount of Financing Agreement signed for the Project is **USD 38,642,855** including IFAD Loan Contribution of **17,955,162 SDR** (USD 27,791,100), IFAD Grant Contribution of **280,000 SDR** (USD 430,000), and Government Contribution of USD 7,453,051 for the Project. The expenditures started in 2013 within the scope of the Project.

The expenditures made in 2017;

USD 3,028.72 was spent from the **Internal Budget** in total.

- USD 3,028.72 was spent from the budget of the General Directorate of Combating Desertification and Erosion (ÇEM) as tax,

USD 16,826.24 was spent from the **External Budget** in total.

- USD 16,826.24 was spent from the Grant Account of the General Directorate of Combating Desertification and Erosion (ÇEM).

Total amount of expenditure in 2017 = External Budget + Internal Budget is
= 16,826.24 + 3,028.72 = **19,854.96 USD**

From the beginning of the project to the date of 31.12.2017;

USD 14,199.35 was spent from the **Internal Budget** in total;

- USD 14,199.35 tax from the budget of the General Directorate of Combating Desertification and Erosion (ÇEM) as tax,



MINISTRY OF FORESTRY AND WATER AFFAIRS
General Directorate of Forestry
Murat River Watershed Rehabilitation Project



USD 78,885.36 was spent from the **External Budget** in total;

- USD 78,885.36 was spent from the Grant Account of the General Directorate of Combating Desertification and Erosion (ÇEM) .

Total amount of expenditure = External Budget + Internal Budget is
= 78,885.36 + 14,199.35 = **93,084.71 USD**

2- MAIN ACCOUNTING POLICIES

Overall responsibility for financial management of the project belongs to the Financial Management Unit within the body of the Ministry of Forestry and Water Affairs - General Directorate of Forestry.

Transactions related to the project have been prepared on the basis of cash collection and payment. On this basis, the income is recorded at the date of obtainment, not at the date of acquisition; and the expenditures are recorded at the date of payment, not at the date of occurrence.

Accounting Transactions are recorded in USD and TRY in order to confirm the accuracy of the accounts, although the currency provided through the financing agreement signed between the International Fund for Agricultural Development (IFAD) and the Republic of Turkey is SDR.

3- FINANCIAL STATEMENTS

The use of funds deposited in the Designated Account in accordance with the Financing Agreement signed between the Government and the International Fund for Agricultural Development (IFAD) is limited only with the Project. At the end of the Project, the remaining amount of project funds shall be returned to the Undersecretariat of Treasury to be distributed to the financiers in accordance with the provisions of the relevant financing agreement.

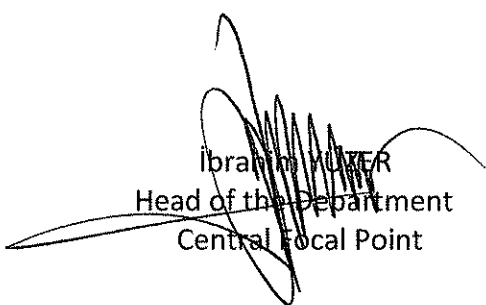
4- INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT (IFAD) LOAN

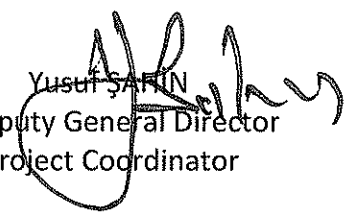
Principal repayments of the Financing Agreement with the Loan No. of I-889-TR and Grant No. of I-C-1418-TR signed on February 15, 2013 between International Fund for Agricultural Development (IFAD) and the Republic of Turkey will start on June 01, 2018, and will be completed on June 01, 2031.

5- CASH BALANCE AS OF DECEMBER 31, 2017

Cash balance on the date of December 31, 2017 in dollar includes the following;

| | |
|---|------------------|
| Designated Account Total (Grant) | 21,114.64 |
| OGM Grant (010) Account | 0.00 |
| ÇEM Grant (007) Account | 21,114.64 |


Ibrahim YÜTER
Head of the Department
Central Focal Point


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