

Public Financial Management Strengthening Project (e – GP Secretariat) - 2025

The audit of the financial statements of the Public Financial Management Strengthening Project (e-GP Secretariat) (“Project”) for the year ended 31 December 2025 was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the LK PFM Grant Agreement Number TF0C1642 dated 30 June 2023 entered into between the Democratic Socialist Republic of Sri Lanka and the International Development Association. My comments and observations which I consider should be reported to Parliament appear in this report.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Grant Agreement of the Project, the Ministry of Finance, Planning and Economic Development is the Executing Agency and the Department of Public Finance is the Implementing Agency of the Project. The objective of the Project is to enhance the institutional capacity and transparency in procurement. As per the Grant Agreement, the estimated total cost of the Project was US\$ 4 million equivalent to Rs.1,200 million which was agreed to be financed by International Development Association. The Project had commenced its activities on 07 June 2023 and scheduled to be completed by 30 November 2026.

1.3 Opinion

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2025, financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.4 Basis for Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

1.5 Responsibility of the management and those charged with governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as management determine 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 Project’s financial reporting process.

1.6 Auditor's Responsibilities for the audit of the Financial Statements

My objective is 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 my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards 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 Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I 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 my 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 internal control of the Project.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the 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.

I communicate with those charged with governance regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

2. Financial Performance

2.1 Non-Compliance with Laws, Rules and Regulations

Audit Issue	Response of the Management	Auditor's Recommendation
(a) The balance of Rs.58,250 as at 31 December 2025 in the prepaid card account maintained by the project in a State Bank, which should have been transferred to the institution's official bank account in accordance with Guideline No. 09 under Sections 1.4 and 1.5 of Part II of Public Finance Circular No. 01/2020, had not been transferred accordingly.	Agreed with the observations stated therein.	Action should be taken to comply with the requirements of Public Finance Circular No. 01/2020.
(b) In terms of Financial Regulation 257, all vouchers should be duly certified before being submitted to the paying officer for payment. However, it was observed that the certifying officer's signature had not been affixed on 6 vouchers with an aggregate value of Rs.567,749.	Agreed with the observations stated therein.	Necessary action should be taken to ensure that all payment vouchers are duly certified in accordance with Financial Regulation 257.
(c) In terms of Financial Regulation 262(2), all paid vouchers and their supporting documents should be stamped as "Paid", and the date of payment recorded in the cash book should also be indicated on the stamp. However, at an examination of the voucher file for the month of January 2025 it was revealed that, except for Voucher Nos. 250116 and 250103, the supporting documents attached to the other 18 vouchers with an aggregate value of Rs.1,839,316 had not been stamped as "Paid".	Agreed with the observations stated therein.	Necessary action should be taken to ensure that all paid vouchers and their supporting documents stamped as "Paid" in accordance with Financial Regulation 262(2).

2.2 Utilization of Funds of the Project

Audit Issue	Response of the Management	Auditor's Recommendations
Provisions amounting to Rs.10 million under local funds and Rs.400 million under foreign funds had been allocated for the Project for the year under review. However, only Rs.162,000 and Rs.103,144,498 were utilized from the local and foreign fund allocations respectively, during the year under review. Consequently, unutilized balances of Rs.9,838,000 (98 per cent) under local funds and Rs.296,855,502 (74 per cent) under foreign funds remained at the end of the year, indicating a significant underutilization of the allocated provisions.	The Project's main milestone was to develop and implement the enhanced electronic Government Procurement (e-GP) system. However, delays by the former System Implementation Partner (SIP) prevented the planned outcomes from being achieved, leading to termination of the SIP's contract and delays in completing the Project within the original implementation period. To complete the remaining activities and achieve the intended outcomes, a two-year extension of the Project implementation period has been proposed. Discussions on the extension are ongoing with the European Union, World Bank, External Resources Department, and other relevant stakeholders. Subject to approval, Department of Public Finance (PFD)/ e-GP will continue to ensure the efficient use of allocated funds and timely completion of the remaining activities during the extended period.	Action should be taken to ensure the allocated budget is effectively utilized for the timely completion of the Project.

3. Physical Progress of the Activities of the Project

Audit Issue	Response of the Management	Auditor's Recommendations
(a) Although a primary agreement was signed on 25 November 2019, with a guaranteed company (SIP) for the development of the e-GP system at a cost of Rs.71,500,000, the contractor had not demonstrated satisfactory performance. Despite this, an addendum to the original contract was signed on 22 March 2023, with the same company to develop the system within a period of 20 months, bringing the total contract value to Rs.152,870,000 for the development of new versions of the system. Furthermore, due to several instances of non-compliance by the system developer with contractual obligations, persistent delays in delivering e-GP modules, failure to respond to correspondence, and failure to provide requested deliverables, the Department of Public Finance had terminated the contract with the system developer on 29 August 2025. Thereafter, bids had been invited in 2026 to engage a new system development company. Audit observed that no action had been taken to initiate the selection of a new contractor prior to signing the addendum with the original contractor, despite the contractor's unsatisfactory performance.	Agreed with the observations stated therein. PFD/ e-GP will ensure that all necessary measures are taken to implement the planned activities in a timely manner to achieve the Project Development Objectives (PDOs). In this regard, the PFD/ e-GP is undertaking a comprehensive assessment, in consultation with the World Bank, to develop a strategic plan aimed at achieving the desired project outcomes and ensuring the successful implementation of the remaining activities.	Necessary action should be taken to achieve of its intended objectives.

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| <p>(b) The procurement process for the recruitment of a new system developer for the development of the e-GP system was initiated on 25 November 2025, with the recruitment scheduled to be completed by 08 July 2026. As at 20 August 2026, the procurement process was in progress with a delay of 1 month and 12 days.</p> | <p>As of now, the request for proposals has been completed, and the procurement is currently at the proposal evaluation stage. It is planned to complete the procurement process and sign the contract by the end of August 2026.</p> | <p>Necessary action should be taken to achieve its objectives at earliest possible.</p> |
| <p>(c) The Version 3 of the e-GP system had been submitted to a private entity engaged as an independent third-party verifier for validation. However, it was observed that the independent verifier had confirmed that Version 3 of the system had not been developed to an operational stage. The total payment of Rs.4,398,538 had been made to the said entity during the year under review.</p> | <p>PFD/ e-GP, in consultation with the World Bank, is conducting a comprehensive assessment to develop a strategic plan for achieving the Project's intended outcomes and completing the remaining activities successfully. The assessment will identify outstanding tasks and determine the most suitable implementation method for each task, whether they should be carried out by internal staff or outsourced.</p> | <p>The Project monitoring and contract management should be strengthened to ensure that system development milestones are achieved as agreed.</p> |
| <p>(d) As at 31 July 2026, SLT Rainbow Pages had provided the e-GP Secretariat with information relating to 1,350 suppliers. Although all of these suppliers had been made aware of the e-GP system by PFD, only 53 suppliers had registered in the e-GP system. Further, due to issues such as non-responsiveness of registered suppliers and related operational constraints, only 324 out of 942 registered government institutions had carried out their procurement activities through the e-GP system.</p> | <p>Most suppliers identified by SLT Rainbow Pages were service providers rather than goods suppliers. Although SLT Rainbow Pages had agreed to provide information on 250 suppliers per week, fewer than 100 suppliers were provided, and some of the suppliers identified had already been registered in the e-GP system. Although 942 government institutions are registered in the promise.lk system, only 324 are actively conducting e-procurement activities through the e-GP system.</p> | <p>Necessary action should be taken to achieve intended objectives of the Project.</p> |

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| <p>(e) According to the report on Consultant Feedback & Request for Strategical Guidance on e-GP System, and the specific matters discussed in the World Bank Mission Report at the Steering Committee Meeting VI held on 16 July 2025, it was observed that the system developer had not deployed a sufficient number of system development personnel for the development of the e-GP system. Although the Department of Public Finance had taken steps to address this issue and to deploy officers for system development in accordance with the approved human resource plan, the situation had not been rectified satisfactorily.</p> | <p>The PFD/ e-GP will closely monitor the performance of the new SIP and take the necessary measures to ensure that resources are deployed in accordance with the contractual requirements throughout the implementation period.</p> | <p>It should be ensured that the system developer deploys the required number of qualified personnel in accordance with the approved human resource plan and should enforce contractual provisions to address any non-compliance.</p> |
| <p>(f) In terms of Clause 3.8.1 of the General Conditions of Contract relating to “Payments of Liquidated Damages”, it is stipulated that liquidated damages should be recovered from the system developer for delays at a rate of 0.07142 per cent per day of the payment applicable to the relevant sprint. Although Sprint 01 and Sprint 02 of the e-GP system development plan were scheduled to be completed by 30 September 2023, they were completed only during 2024. However, as at 31 December 2025, action had not been taken to recover liquidated damages from the system developer in respect of these delays.</p> | <p>Agreed with the observations stated therein.</p> | <p>Action should be taken to recover the applicable liquidated damages in accordance with the contract provisions if applicable.</p> |

- (g) The e-GP system had been developed to facilitate electronic procurement activities only under the shopping procurement method, incurring a total expenditure of Rs.204,808,125 from both local and foreign funding sources since the commencement of the Project in 2023. However, the Project had failed to achieve its intended objective of enhancing institutional capacity and transparency in public procurement processes by extending it to other procurement methods.
- The planned outcomes could not be achieved due to the continuous delays encountered by the former SIP. Consequently, the contract with the former SIP was terminated. Subsequently, PFD/ e-GP Project has initiated the procurement process and has taken the necessary measures to onboard a new SIP to undertake the development of the remaining e-GP modules. PFD/e-GP will closely monitor the implementation of the new contract and ensure the timely development and deployment of the e-GP system.
- Necessary steps should be taken to ensure the benefits of the electronic procurement process in other procurement methods as well.
- (h) In accordance with Clause 3.6 of the General Provisions under the General Conditions of Contract, the system developer was required to submit Software Requirements Specification (SRS) documents, Application Programming Interfacing (API) documentation, manuals, test cases, and other related documentation pertaining to the e-GP system to the Department of Public Finance. However, delays in submission and non-submission of these documents had been observed. Furthermore, in accordance with Appendix A.1, SRS documents corresponding to each sprint were required to be submitted. However, these documents had not been provided to the Department of Public Finance, thereby hindering testing activities to be carried out by third parties.
- This matter relates to the former SIP. Despite numerous requests and discussions held at various forums, the former SIP was repeatedly requested to submit an updated version of the SRS incorporating all subsequent amendments made to the original SRS. However, the former SIP failed to provide the updated SRS despite these repeated requests. This failure was considered a significant contractual non-compliance and was one of the factors that led to the termination of the contract.
- Action should be taken to enforce contractual provisions requiring timely submission of all system documentation.

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| (i) Version 2.1 of the system had been operated on the server facilities of Sri Lanka Telecom. However, the migration of the system to the new cloud infrastructure had not been carried out even by 31 December 2025. | Agreed with the observations stated therein. | Action should be taken to expedite a structured migration plan with proper monitoring to ensure system stability, security, and efficiency. |
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