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INTRODUCTION

Public enterprises in Sri Lanka are engaged in the provision of goods and services and operate in strategic sectors of the national economy. Therefore the performance of these enterprises will have a direct impact on the macro economic stability of the country.

The regulatory framework governing the management of public enterprises comprise statutory provisions, regulations, rules, circulars, directives and best practices.

The Statutory provisions include:

- Chapter XVII, Articles 148 to 154 of the Constitution of the Democratic Socialist Republic of Sri Lanka 1978 relating to public financial management.

- Part 11 of the Finance Act, No.38 of 1971 relating to financial control of public corporations. This Act is to be repealed by the proposed Public Finance Act, which would provide the regulatory framework for Public Sector financial management, including public enterprises.

- Enabling Acts of Parliament – Special or General Acts of Parliament under which public corporations are created.

- Conversion of Public Corporations or Government Owned Business Undertakings into Public Companies, Act No. 23 of 1987.

- Companies Act, No.17 of 1982 under which Government owned companies are incorporated.

- Public Enterprises Reform Commission of Sri Lanka, Act No. 1 of 1996.

Regulations, Rules, Circulars and Directives:

In addition the Minister of Finance and the General Treasury on his behalf, issue regulations, rules, circulars and directives from time to time, with a view to ensure that the institutions are operated in the best interests of the enterprises and its stakeholders.

Best Practices in Corporate Governance

Apart from the regulatory framework, Corporate Governance systems also ensure that corporations are controlled and managed for purposes of transparency and accountability with a view to be responsive to people's needs. It is of paramount importance especially in the Public Enterprises' Sector as its effects are not limited to the narrow interests of the Government as shareholder, but have its impacts on Society as a whole.

Best Practices in Corporate Governance lead to good performance, economic development and better standards and quality of life of the public. At the other end of the spectrum, poor performance and losses would result in heaping more burdens on the public, to keep such inefficient and loss making entities afloat.

Need for Guidelines

Although regulations, rules, circulars and directives issued from time to time are aimed at providing guidelines on financial discipline and controls, it has been the practice that many of these are observed in the breach by most enterprises. In many instances unawareness of the numerous regulations, rules and circulars has been the cause for non-compliance.

The financial statements and related reports have often been filed late, sometimes years behind schedule. As a result the enterprises have been unable to arrest shortcomings in a timely manner by remedial measures, thus leading to deficiencies being compounded over the years. Even public enterprises that are profitable and operate on commercial lines, have not achieved acceptable rates of return, considering the huge investments made in these entities.

Guidelines for good governance

With the intention of obviating recurrence of non-compliance with regulations, rules, circulars and directives in the future and to improve the performance of public enterprises through Best Practices in Corporate Governance, an attempt has been made to compile this Handbook titled " Public Enterprises Guidelines for Good Governance".

Objectives

The main objective of these guidelines is to make the regulatory framework a simplified working document, summarizing existing procedures and removing those that are obsolete and creating new or modified procedures, to meet the current developments and trends for an effective financial management system for good governance in the public enterprises. These guidelines will therefore enable the financial management controls in public enterprises to be carried out in an orderly and efficient manner.

Contents of the guidelines

The following Chapters provide in broad and general terms guidelines that should be followed in managing public enterprises: -

Chapter 1 Definition and Categories
Chapter 2 Accountability & Transparency

Chapter 3 Board of Directors
Chapter 4 Board Meetings
Chapter 5 Corporate Plan and Budgets
Chapter 6 Annual Reports and Accounts
Chapter 7 Systems Control and Committees
Chapter 8 Fund Management - Revenue and Expenditure Controls
Chapter 9 Human Resource Management
Chapter10 Dissolution of Public Enterprises

Applicability of Guidelines

The “Public Enterprises Guidelines for Good Governance” will be applicable to commercial corporations, Government owned companies, statutory boards and its subsidiaries.

Other financial management guidelines issued by other Ministries and Departments would be applicable only to the extent it is relevant and is not covered under these guidelines.

Exceptions

These guidelines will not apply to companies that will be owned and managed by the proposed State Holding Company including companies under management contracts and for those enterprises identified by the Government for implementation of the “ Code of Best Practice in Corporate Governance”.

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CHAPTER 1

DEFINITION AND CATEGORIES

1.1 Definition

“ Public Corporation means any Corporation, Board or any other body which was or is established by or under any written law other than the Companies Act, with capital wholly or partly provided by the Government by way of grant, loan or other form”.

“Public Enterprise” means any public Corporation, Board or other body, which was or is established under any written law, including Companies Act, where the Government has the controlling interest”.

Public enterprises comprise the following: -

1. Commercial corporations
2. Government owned companies

3. Statutory boards
4. Subsidiaries of 1, 2 and 3 above.

1.2 **Commercial corporations –** These are organizations established under Special or General Acts of Parliament, with capital wholly or partly provided by Government. These enterprises are expected to operate on commercial lines and be viable and self-financing.

1.3 **Government owned companies –** These include: -

a) Entities established and operated under the Companies Ordinance/Act in which Government has a direct controlling interest by virtue of its shareholding
b) Corporations and Government owned companies converted in terms of the "Conversion of Public Corporations or Government Owned Business Undertakings into Public Companies Act, No. 23 of 1987".

1.4 **Statutory boards -** Organizations established under Special or General Acts of Parliament with recurrent and capital expenditure fully or partly provided by way of annual Government grants to meet promotional, regulatory, educational, research and other services.

1.5 **Subsidiaries of commercial corporations, Government owned companies and Statutory boards –** These are companies where the Government has an indirect control through public enterprises.

1.6 Categorization and Grading:

1.6.1 Commercial corporations and Government owned companies

Public enterprises vary in size, depending on the size of the investment, scale of operations, numbers employed etc. Therefore to give due weightage to the above factors, Commercial corporations and Government owned companies are classified into 3 categories, namely A, B and C, based on the latest three years audited Accounts as follows:-

(a) ***Category A***

- total assets (net book values of non current assets and current assets) as at the end of each year, averaged for the three year period greater than Rs. 1000 million and
- total revenue averaged for the three years greater than Rs.1000 million and
- total number of employees as at the end of each year averaged for the three year period greater than 1000.

(b) ***Category C***

- total assets (net book values of non current assets and current assets) as at the end of each year averaged for the three year period less than Rs. 500 million and
- total revenue averaged for the three years less than Rs.500 million and
- total number of employees as at the end of each year averaged for the three-year period less than 500

(c) ***Category B***

All other enterprises, which do not fall under A and C, should be categorized as B.

1.6.2 **Statutory boards excluding Universities and Post Graduate Institutes** are also graded into three categories, based on the latest three years audited Accounts as follows: -

(a) ***Category A***

- total assets (net book values of non current assets and current assets) as at the end of each year averaged for the three year period greater than Rs. 500 million and
- total revenue (recurrent and capital grants including own generations) averaged for the three years greater than Rs, 500 million and
- total number of employees as at the end of each year averaged for the three year period greater than 500.

(b) ***Category C***

- total assets (net book values of non current assets and current assets) as at the end of each year averaged for the three year period less than Rs.250 million and
- total revenue (recurrent and capital grants including own generations) averaged for the three years less than Rs.250 million and
- total number of employees as at the end of each year averaged for the three-year period less than 250.

(c) ***Category B***

All other enterprises, which do not fall under A and C, should be graded as Category B.

The Boards of Management of public enterprises will therefore have to determine the category under which their entities fall, based on the above criteria. It will be the responsibility of the Chairman to apprise the Board and also intimate to the relevant line Ministry, Department of Public Enterprises, General Treasury and the Auditor General, the relevant category of the enterprise. If the category necessitates a revision due to changes in the criteria as reflected in the Annual Accounts, justification for such a change in the category should also be intimated to the above agencies. The Board should therefore determine the grading on an annual basis on receipt of the Audited Final Accounts

1.6.3 **Universities and Post Graduate Institutes** are not categorized and graded.

1.6.4 ***Deviations*** – Enterprises facing difficulties in fitting into any of the above categories are advised to seek clarification and obtain a ruling from the Secretary to the Treasury through the Department of Public Enterprises, General Treasury.

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CHAPTER 2

ACCOUNTABILITY AND TRANSPARENCY

2.1 Accountability and transparency

A Public Enterprise is established, owned and operated by the Government, on behalf of the public. The Board of Directors and the management are responsible for managing the enterprise and are finally accountable to the public of Sri Lanka as ultimate owners of public enterprises. However, as public ownership of these enterprises is vested in the Government, the Board is directly accountable to the Government. The Government, and its officials are therefore entrusted with the supervision, governance and management of public enterprises and have a duty to ensure that the enterprises are governed and operated in the best interest of the enterprises and its stakeholders, in full compliance within the regulatory framework.

2.2 Mechanisms by which accountability is exercised

2.2.1 Parliament

In terms of the Constitution, Parliament has full control of public finance and therefore public enterprises are subject to Parliamentary control. For this purpose: -:

a) Annual Reports of public enterprises should be tabled in Parliament within the stipulated time frame for review by Members of Parliament.

b) Members of Parliament have the right to raise queries in respect of the working of enterprises and it shall be the responsibility of the Minister in charge of the enterprise, to provide true and fair responses to any questions raised.

c) The Parliamentary Committee on Public Enterprises (COPE) is empowered to review the Annual Accounts and performance of public enterprises, to ascertain the extent to which enterprises achieve performance targets and fulfill social responsibilities. If a public enterprise is summoned by the COPE, the Chairman, Directors, CEO and senior managers with the Chief Accounting Officer, should be present at the reviews, to respond to any queries and matters of concern regarding the activities of the enterprise. Any member unable to attend due to unavoidable circumstances, should seek prior approval from the Committee Secretariat, giving reasons for his inability to attend

d) The Parliamentary Consultative Committee has the power to request the Chairmen, Boards of Directors and senior Managers of public enterprises to be present at meetings of the Committee, to clarify any queries raised on any matters of interest or concern regarding the operations of the enterprise.

2.2.2 Cabinet of Ministers

(a) The Cabinet of Ministers are responsible for major policy decisions relating to public enterprises.

(b) Cabinet approval is required before Annual Reports and Accounts of public enterprises are tabled by the appropriate Minister in Parliament.

(c) The Cabinet Sub Committee with the respective public enterprise officers will review the Annual Reports and Accounts.

(d) If losses are anticipated in a public enterprise due to changes in government policy or due to any other specific reasons, such matters should be brought to the notice of the Cabinet of Ministers through the appropriate Minister.

(e) In addition the Cabinet of Ministers may call for any reports from enterprises and it will be the responsibility of the Chairman of the enterprise to furnish the required information through the relevant Minister.

2.2.3 Minister of Finance/ General Treasury

a) The Minister of Finance or the General Treasury on his behalf, is responsible for financial discipline in the public sector, including public enterprises.

b) In pursuance of (a) above, regulations, rules, codes, guidelines and directives are issued, to ensure that Boards properly discharge their financial responsibilities with due regard to economy, efficiency and effectiveness.

c) The Secretary to the Treasury as a shareholder of Government owned companies, appoints Directors to the Boards of these companies in terms of the Articles of Association with the approval of the Cabinet Sub Committee on Appointments.

c) Treasury Representatives are appointed to Boards, to monitor performance and ensure compliance with statutes, regulations, rules etc. and to report on any matters of concern.

d) The Secretary to the Treasury or his proxy as shareholder has the power to seek clarification on any relevant issues at Annual General Meetings.

e) The Department of Public Enterprises, General Treasury is responsible for the financial management and control in public enterprises.

2.2.4 Relevant Minster / Ministry

Relevant Minster / Ministries in charge of public enterprises are responsible for the following: -

a) The Minister in charge of the subject appoints competent members as Directors to the Boards of commercial corporations and statutory boards, in terms of the respective Acts, with the approval of the Cabinet Sub Committee on Appointments, chaired by the Prime Minister, to ensure that entities fulfill the mandates for which they were set up.

b) To make major policy decisions for public enterprises, with the concurrence of the Minister of Finance.

c) Appointment to the Board of Directors is made by the Secretary to the Treasury as a shareholder of Government owned companies, based on the recommendation of the Minister in charge of the subject with the approval of the Cabinet Sub Committee on Appointments

d) Secretaries of Ministries as Chief Accounting Officers, should ensure that Annual Reports and Accounts are tabled in Parliament. They are also answerable for the financial administration and management of the institutions coming under their purview.

e) As Secretary to the line Ministry, the Chief Accounting Officer should regularly review the following matters with the Board of Management: -

    a) Corporate Plan/ Budgets

    b) Review of both physical and financial performance of the current year

    c) Auditor General's Report/ Management Letter

    d) Development activities undertaken during the year

    e) Petitions and any other matters raised in the media and remedial measures taken

    f) Matters arising from the previous meetings of the Committee on Public Enterprises (COPE)

2.2.5 Auditor General

The Auditor General is responsible to report on the Annual Report and Accounts to Parliament in respect of public corporations.

In regard to Government owned companies, the Secretary to the Treasury as a shareholder appoints private auditors in consultation with the Auditor General. Annual Report and Accounts together with the Auditors Reports should be tabled in Parliament in addition to filing with the Registrar of Companies, in terms of the Companies Act.

2.2.6 National Review Committees

Independent reviews will be carried out by National Review Committees comprising members from professional bodies, non Governmental organisations etc with a view to evaluate performance and to determine the extent to which public enterprises have fulfilled its social objectives.

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CHAPTER 3

BOARD OF DIRECTORS

3.1 Board of Directors

The Board of Directors have a statutory responsibility in the stewardship of the enterprise on behalf of the Government and its stakeholders. In its stewardship role the two principal functions are: -

1. **to lead the enterprise, and**
2. **to oversee the management and operations of the enterprise**

3.2 Composition of the Board

- The appointment of the Board of Directors will be in terms of the relevant Acts in respect of public corporations and Articles of Association in the case of companies registered under the Companies Act, with the approval of the Cabinet Sub Committee on Appointments.

- The Chairman of the Board is either appointed by the Minister or elected by the Board with the approval of the Cabinet Sub Committee on Appointments

- Unless otherwise specifically stated in the enabling Acts or Articles of Association as the case may be, the composition of the Board should include; -

    a) At least one specialist in the field of Finance and one in the subject area of the enterprise
    b) One member from the Ministry in charge of the subject of Finance/ Policy Planning or the General Treasury
    c) Executive Directors subject to a maximum of two (a full time Chairman is an Executive Director)

3.3 Responsibilities of the Board

The Board should exercise its mandated rights and responsibilities with integrity and in good faith as the custodian of public resources. The Board should at all times be conscious of its onerous responsibilities, as the outcome of any decisions and actions carried out without proper planning will ultimately be borne by the public at large.

3.4 Best Practices

Best Practices in Corporate Governance advocate vigilant and well functioning Boards that debate strategic decisions openly and constructively in the best interests of the enterprise. For this purpose dissenting views of members should also be heard. It is possible that a single dissenter could make a huge difference on a Board. " The highest performing companies have extremely contentious Boards that regard dissent as an obligation and treat no subject as undiscussable".[1]

3.5 Leadership role

In its leadership role, the duties of the Board should include the following: -

a) Determine the Mission of the enterprise and how best it could serve the interests of its shareholders and other stakeholders

b) Ensure that legal requirements are fulfilled and the enterprise operates in accordance with the provisions of the Incorporation Act/ Memorandum and Articles of Association

c) Frame policies for implementation by Management, so as to achieve optimum returns and benefits to its shareholders and other stakeholders.

d) Review public policy objectives periodically and provide strategic direction, to formulate long-term goals and objectives for future growth.

e) Ascertain that finances needed to meet goals and objectives are generated or obtained on a timely basis without interruptions, for the smooth functioning of the enterprise.

f) Ensure proper accountability by maintaining adequate records and books of Accounts

g) Ensure that an effective risk management system is in place, to insulate the enterprise against disruptions, setbacks etc.

3.6 Oversight role

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[1] Harvard Business Review –Sept 25th 2002

As regards its oversight role the Board is responsible for the overall management of the enterprise and to establish effective systems of control as checks and balances with responsibility shared widely amongst Senior Managers.

For this purpose the responsibility of the Board will include the following: -

a) Ensure that Board policies are executed in the same spirit as it was framed and in the best interest of the institution and the public at large.
b) Monitor the activities of Management by means of Management Information reports and evaluate performance, to ensure that the enterprise is on track in its operations.

c) If results do not match desired expectations, take remedial action without delay to ensure that goals are achieved.

d) Appoint competent personnel as Managers and ensure that there is proper delegation and team spirit amongst the Senior Management, by providing a conducive environment to carry out their respective functions independently and in a responsible manner.

e) Report to shareholders at Annual General Meetings/attend Committee on Public Enterprises (COPE) meetings.

3.7 The Board of Directors and the Senior Management team

3.7.1 The Chairman/Chief Executive Officer who will be the important link in the entire governance structure will lead the team and the enterprise in the right direction. Unless otherwise specified in the Incorporation Act or Articles of Association, it is the responsibility of the Board to decide the person to be designated as Chief Executive Officer and to inform the appropriate Ministry and the Department of Public Enterprises, General Treasury.

If not specified in the Act or Articles of Association, the CEO could be one of the following: -

- A full time Chairman – in this case designated as Chairman and Managing Director
- A full time director (Executive Director) – in this case designated as Managing Director

3.7.2 The Chief Operations Officer responsible for implementation of the policies of the enterprises relating to core activities and preparation of plans and programs, so as to achieve predetermined targets

3.7.3 The Chief Finance Officer, responsible for developing and implementing sound accounting and budgetary control systems and providing timely information and Accounts to the Board and to the stakeholders, in keeping with transparency and accountability.

3.7.4 The Human Resource Manager entrusted with the duty to ensure optimum productivity of the employees of the enterprise by means of recruitment of the right persons, improving skills by providing training and boosting morale for good performance.

3.7.5 The Internal Audit Manager responsible to review systems and procedures, to ensure that operations are carried out in a true and fair manner.

3.8 Role of the Board Secretary

The Board Secretary has to ensure that Board procedures are followed and should provide guidance on legal requirements regarding Board proceedings. In addition the Secretary's duties involve: -

- Circulating notice of Board meetings, Minutes of meetings, Board Papers together with other relevant documents.
- Follow up actions on Board decisions
- Assist Board members by providing both internal and external information

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CHAPTER 4

BOARD MEETINGS

4.1 Board meetings

Board Meetings constitute the highest decision-making mechanism in an enterprise. It is the most important forum for taking strategic decisions on capitalisation, corporate strategy objectives, etc. and to review, debate and formulate policies and strategies based on Management Information Reports. In addition, members at Board meetings should critically monitor operations, as the Board takes final responsibility for the affairs and performance of the enterprise. It is therefore imperative that good Boardroom practices should be followed, focussing on strategies and operational issues of major importance, rather than trivial administrative and routine matters.

Board meetings should not be events to merely endorse Reports on the public enterprise's financial and operational performance, but should be a forum for responsible and constructive evaluation of key issues and its implications. Such constructive activism is a powerful means of ensuring that Senior Management performs in the manner expected, on behalf of the stakeholders.

4.2 Matters and issues that should be addressed at Board Meetings: -

4.2.1 Policy Formulation

a) Identify strengths, weaknesses, opportunities and threats relating to its competitors, customers etc for the purpose of making strategic decisions on the future directions of the enterprise.

b) For balanced decision making, assess the interrelationship between the differing competitive pressures facing the organisation i.e. the balanced score card perspectives such as customer, internal, innovation/learning and financial orientation.

c) Evaluate Annual Plans and Budgets to ascertain the reliability of targets and goals and to ensure that optimum capacities are reached.

d) Identify trade-offs between competing public policy and commercial objectives and arrive at a compromise to be achieved.

e) Ensure that appropriate Reporting Systems are developed to provide the Board with regular, reliable and timely information, so as to achieve the highest standards of disclosure and transparency to the Government and the public

f) Revise policies and strategies based on periodic performance reviews.

g) If a reduction in cash flows or profits is anticipated in the long term based on changed conditions, develop new strategies to counter these unfavourable tendencies.

h) Ensure that the policies and strategies of the enterprise fall within the Government policy framework.

4.2.2 Monitoring and evaluation of performance of public enterprises

The Board should periodically review its Corporate Plan, Budgets and performance to ensure that actual performance is in line with the Plan and take timely remedial action, if wide discrepancies are observed and wherever necessary revise the Plans/ Budgets.

It is imperative that monitoring should be done at frequent intervals so as to hold senior managers responsible for their assigned functions and also ensure that transparency is achieved. For this purpose the following Statements should be tabled at every monthly Board meeting: -

a) Monthly Performance Statement in financial and physical terms
b) Operating Statement for the month
c) Cash Flow Statement for the month
d) Liquidity position and borrowings
e) Procurements of material value, especially non current assets purchased during the month
f) Statement on Human Resources including cadre positions, new recruitments etc.

For commercial corporations and government owned companies it is essential to review performance division wise. For each division the overall performance measure should be on the following basis:-

i) rate of return greater than the cost of capital (ROI approach)
ii) net income greater than its opportunity cost (EVA approach)

4.2.3 Monitoring and evaluation of performance of subsidiaries/associates and other investments

The Board of Directors of the parent body should take full responsibility for the affairs of its subsidiaries. It is therefore vital that the Board should periodically review the performance of its subsidiaries to ensure that targets are achieved. As such the Board has a fiduciary duty to: -

a) Meet at least once in six months to discuss the performance of its subsidiaries.
b) Forward at least half yearly performance reports to the Department of Public Enterprises, General Treasury.
c) Ensure that dividends are received on a regular basis where profits are made.
d) Make similar arrangements to monitor the associates and other investments.
e) Ensure that investments in subsidiaries, associates and other investments are accounted and reflected in the Annual Reports and Accounts in accordance with the Sri Lanka Accounting Standards on "Accounting for Subsidiaries, Associates and other Investments".

4.2.4 Annual Performance Review

Special Board meeting should be convened to review the contents and approve the Annual Reports and Accounts including Audit Reports.

4.2.5 Working Capital

Boards should also institute systems for effective management of its working capital and the following Statements should therefore be reviewed on a monthly basis at Board Meetings in addition to reports referred to in Clause 4.2.2: -

a) Age analysis of debtors and creditors
b) Age analysis of stocks
c) Statement identifying old, slow moving and obsolete stocks and other items

4.2.6 Quarterly, Half Yearly and Annual Performance Reports

Apart from the above monthly reviews, the Board should critically evaluate Quarterly, Half Yearly and Annual Performance Reports, including the Auditor General's Reports. Quarterly Performance Reports should be forwarded to the line Ministry and the Department of Public Enterprises, Treasury in the formats given in Appendix 1 on or before 30 days before the end of the quarter.

4.3 Board Papers

It is the responsibility of the Board Secretary to ensure that Board Papers are circulated well in advance and not less than three days before Board meetings. The Secretary is responsible to advise the Board on compliance with Board meeting procedures and should ensure that reliable and relevant information is provided to the Board in a timely manner, for effective decision-making. Minutes of the Board meetings should also be forwarded to the Secretary to the line Ministry within 10 days after confirmation of such meetings, for purposes of transparency and accountability.

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CHAPTER 5

CORPORATE PLAN AND BUDGETS

5.1 Corporate Plan

A Corporate Plan incorporates strategies regarding the future direction of the enterprise. For this reason, it is crucial that the Corporate Plan should be realistic and attainable, if actual performance is to be in line with fixed targets. It is also a reflection of the commitment by the Board of Directors and senior management in the future prospects of the organisation.

5.1.1 A Corporate Plan should be a rolling plan effective for a period of not less than three years. In the case of commercial enterprises, the entities should attain a rate of return greater than the cost of capital over any rolling period of 3 years and should take corrective measures where losses are anticipated to prevent such losses in the ensuing years. In years where losses are envisaged, prior approval of the Minister of Finance should be obtained with proper justification to incur such losses, financing of such losses and measures to be taken to prevent recurrences.

5.1.2 Salient features of a Corporate Plan: -

- The Vision, Mission Statement and objectives
- The current resources available to the enterprise i.e.
  - Land and buildings
  - Production and operating facilities
  - Human resources and management skills
  - Technical know-how
  - Markets and Suppliers
  - Finance etc.,
- The Organisation Structure
- Strengths and weaknesses in the organisation and the external threats and opportunities (SWOT)
- A review of the preceding three years operating results
- Strategic plans for the period under review
- Action Plan clearly identifying the responsibilities of Managers with goals and targets to be achieved during the Plan period
- Performance indicators

5.1.3 Updated copies of the Corporate Plan approved by the Board together with the updated Annual Budget should be forwarded to the line Ministry, Department of

Public Enterprises, General Treasury and the Auditor General at least 15 days before the commencement of each financial year.

5.2 Annual Budget

The Budget constitutes the working document of the enterprise to achieve the targets it has set for itself in the year ahead. It is an incremental step in achieving the long-term goals for the enterprise, as spelt out in the Corporate Plan.

5.2.1 The Budget should therefore include projections of realistic revenues and expenditure both recurrent and capital, having regard to the external and internal factors that have a bearing on its operations. The form and contents should synchronise with the format in which the Annual Accounts are presented.

The Budget should include amongst others the following: -

(1) Budgeted Income and Expenditure Statement for the year
(2) Budgeted Balance Sheet as at the end of the year
(3) Cash Flow Statement for the year
(4) Budgeted Capital Expenditure together with an Action Plan

5.2.2 Capital Budget

a) If the capital expenditure for an item/project exceeds the limits in Table A below, a proper feasibility study should be made before incorporation in the Capital Budget.

b) With regard to items in the Capital Budget, in addition to Board approval, approval of the appropriate Ministry and the concurrence of the Department of Public Enterprises, General Treasury should be obtained before incurring expenditure on the following: -

- All types of motor vehicles
- Any capital expenditure where the expenditure exceeds the limits specified in Table A.

Table A

Authority Limits for Capital Expenditure

Category	**Commercial Public Enterprises In Rs. million**	**Statutory Boards In Rs. million**
A	**10.0**	**5.0**
B	**5.0**	**2.5**
C	**2.0**	**1.0**

c) As the limits in Table A above is a deviation from the Finance Act, No. 38 of 1971, public corporations should obtain approval in terms of Sec. 8 (2) of the Finance Act at the beginning of the financial year for the total budgeted capital expenditure to be incurred during the year.

5.2.3 Budget - Time targets

As a guide, the formulation of the Budget should commence around 6 months before the commencement of the year to which the Budget relates and should ideally adopt a zero based approach. By these means an enterprise will critically evaluate each activity, to ascertain its need for continuity and fix limits and targets accordingly.

5.2.4 The draft Budget should be placed before the Board of Directors for approval, three months before the commencement of the financial year. Any material changes that may be required, based on Policy Statements and Budget proposals by the Government should be incorporated in the final Budget.

5.2.5 Copies of the final updated Budget approved by the Board should be forwarded to the line Ministry, the Department of Public Enterprises, General Treasury and Auditor General not later than 15 days before the commencement of the ensuing year.

5.2.6 As the target dates for submission of Budgets is a deviation from the Finance Act, No. 38 of 1971, public corporations should submit the draft budget approved by the Board three months before the commencement of the year in terms of Sec 8 (1) of the Finance Act, No. 38 of 1971.

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CHAPTER 6

ANNUAL REPORTS AND ACCOUNTS

6.1 Annual Reports and Accounts

Annual Reports and Accounts are means by which useful conclusions could be drawn about operations, prospects and the financial viability of the firm. The Annual Reports and Accounts provide a snap shot view of the performance of the enterprise in the past year. It also reflects both, the effectiveness of the stewardship role of the Board of Directors and the degree of efficiency by Management in the exercise of their assigned functions. For these documents therefore to be meaningful, it is absolutely essential that it should be prepared in a timely manner, with all relevant disclosures that would enable interested parties to form a judgement on performance and future prospects of the enterprise.

6.2 Transparency and disclosure

For purposes of transparency, enterprises should fully disclose all relevant information to reflect a true and fair view of the state of affairs of the enterprise.

6.3 Financial Statements

The preparation and presentation of financial statements of all commercial public enterprises should be in accordance with the Sri Lanka Accounting Standards Act, No.15 of 1995. The illustrative formats in terms of the Sri Lanka Accounting Standards No. 3 (SLAS 3) are in Appendix 2.

Statutory boards should modify the above formats in consultation with the Department of Public Enterprises, General Treasury.

6.3.1 Annual Report and Accounts should cover, inter alia the following: -

a) Mission Statement and Vision of the enterprise's future direction
b) Brief profile of the Directors and Senior Management
c) Review by the Chairman outlining the opportunities and constraints faced in the year under review
d) Directors Report
e) Audit Committee Report
f) Audited Financial Statements
g) Report of the Auditor General/ private auditors

h) Financial highlights in the preceding 5 years.

6.4 Audit of Financial Statements

6.4.1 In terms of the Constitution and the Sec. 13 (1) of the Finance Act, No. 38 of 1971, the Auditor General should be the auditor for every public corporation. The Auditor General may employ the services of any qualified auditor who shall act under his direction and control.

6.4.2 In terms of the Companies Act, No. 17 of 1982, the auditors of Government owned companies should be appointed by passing a Resolution at the Annual General Meeting. For this purpose the Secretary to the Treasury as the shareholder in consultation with the Auditor General appoints the auditors.

6.4.3 In respect of commercial corporations and statutory boards, the Auditor General shall be paid by the enterprise such remuneration as the appropriate Minister may with the concurrence of the Minister of Finance, determine.

6.4.4 In respect of Government owned companies the Secretary to the Treasury as shareholder will determine the remuneration of the auditors appointed by him in consultation with the Auditor General.

6.4.5 The Auditor General or any person authorised as private auditors appointed by shareholders shall have:

The right of access to any books, records etc.
The right to call for relevant information
The right to summon any person for examination
The right to require the enterprise to settle its minimum internal audit programme.

6.4.6 The enterprise and its management should extend their fullest cooperation when the auditor exercises the above rights so as to enable him/her to give a true and fair state of affairs of the enterprise.

6.5 Annual Report and Accounts – Time targets

6.5.1 The Draft Annual Report and Accounts should be rendered to the Auditor General within 60 days after the close of the financial year with copies to the line Ministry and the Department of Public Enterprises, General Treasury.

6.5.2 The report of the Auditor General on the Accounts will be made available to the Board of Directors within 30 days thereafter for consideration. It becomes the responsibility of the Board to inform the Auditor General of the steps that it proposes to take on any weaknesses observed and pointed out in the course of the audit within the time specified.

6.5.3 The final audited accounts together with the Auditors Report, in all three languages, should be tabled in Parliament within 150 days after the close of the financial year.

6.6 Printing and publication

It must be emphasised that an Annual Report is a public document and should be freely available for purchase by all interested parties. It should therefore be printed and published in an economical manner in all three languages i.e. Sinhala, Tamil and English. The number of copies to be printed in each language should be determined in consultation with the Secretary General of Parliament.

Larger commercial public enterprises, which are competing for the Best Corporate Report award or where the enterprises have to create an image locally and abroad through impressive reporting in view of their competitive environment may use better quality stationery to make it more attractive.

Public enterprises are expected and encouraged to develop and maintain their own websites with all relevant data and information including salient financial trends from Annual Reports, that would enable any interested party to gain an insight of the objectives of the enterprise, its current performance and any information which would be of material interest to form an opinion of its operations and future trends.

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CHAPTER 7

SYSTEMS CONTROL AND COMMITTEES

7.1 Control Mechanisms

To reap the desired effects of good governance, it is of paramount importance that a well-established system of checks and balances should be in place. This would enable Managements to devote their productive time for improved performance, whilst the control mechanisms would ensure the smooth functioning of the enterprise. Inter relationships and interactions would be the main features of these mechanisms with sensing facilities to bring into focus, issues that have a negative impact. Responsibility should be spread widely by delegation so that no single group could wield undue power or authority The success or failure of many enterprises is thus attributed to the degree of effectiveness of these control mechanisms.

7.2 Systems / Manuals

It is imperative that all public enterprises have their own Systems/Manuals covering all major operations, regularly revised and updated. The Board should have clearly defined delegation of authority and responsibility for carrying out these major operations, in line with the Organisation Chart.

To aid in the effectiveness of these control mechanisms, the current business climate depends to a large extent on computer based systems such as enterprise resource planning, electronic data interchange, electronic fund transfer etc. For dealings with external forces and with the prevalence of e commerce, e government etc, to transact business, it is essential that public enterprises too should be geared to fall in line with these trends and compete as equal partners in the global business environment.

7.3 Financial Management Guidelines

The General Treasury as custodian of public resources have been issuing from time to time guidelines to help Management strengthen the prevailing systems and controls, so as to conduct their operations in an orderly and efficient manner. The following existing guidelines are being reviewed for refinements and modifications and will be issued shortly. These include: -

a) Planning Guidelines
b) Budget Guidelines
c) Guidelines on Government Tender procedures
d) Assets Management Guidelines

e) Stores Management Guidelines
f) Foreign Aid Guidelines
g) Internal Audit Guidelines

1t should be noted that while the Guidelines on Tender Procedures are mandatory for all public enterprises, other guidelines referred to above are optional. The public enterprises have the option of either adopting these or may modify to suit their own needs. The approval of the line Ministry and the concurrence of the Department of Public Enterprises, General Treasury will however be required to adopt such revised guidelines specific to their needs.

7.4 Committees

To ensure that decisions for effective operations are taken after careful deliberations, it is the responsibility of the management to set up Committees, with a team of appropriate persons to deal with matters, which have a material impact on the enterprise. Some of the important Committees that any enterprise should therefore have are: -

7.4.1 Audit Committee

This Committee should comprise at least three non Executive Board members, chaired preferably by a Treasury Representative or person possessing financial management skills. This Committee should meet on a regular basis at least once in three months with the Chief Internal Auditor as Convenor and should submit its observations to the Board of Directors with recommendations for necessary action. The scope of this Committee would include, amongst others, the following: -

a) Determination of the responsibilities of the Internal Audit Unit and review of the annual audit plans
b) Review and evaluate internal control systems for all activities of the entity
c) Review performance at regular intervals for cost effectiveness and to eliminate wasteful expenditure etc.
d) Liase with external auditors and follow up on Auditor General's/ external auditors Management Letters.
e) Ascertain whether statutes, regulations, rules and circulars are complied with.
f) Review financial statements to ensure compliance with Accounting Standards
g) Review internal audit/external audit reports, Management Letters for remedial action
h) Review implementation of recommendations/directives of the Committee on Public Enterprises
i) Prepare report on the findings of the Committee for inclusion in the Annual Report

7.4.2 Senior Management Committee

It is imperative that all public enterprises have a Senior Management Committee, to discuss administration, establishment and operational matters to facilitate decision-making and follow up implementation. The Board of Directors should decide on the composition of this Committee. However in the case of Category A commercial public enterprises and Statutory Boards, the Senior Management Committee should comprise the Chief Executive Officer, Chief Operations Officer and Chief Finance Officer. This Committee should be headed by the Chairman/CEO and should meet five days prior to the Board Meeting. The Board should be apprised of the decisions taken at this meeting.

Progress Monitoring

The Senior Management Committee therefore is an important management tool in any enterprise for periodic progress monitoring. Salient matters this Committee should focus on will include: -

a) Board decisions at previous meetings that have still not been implemented.
b) Reviewing actual performance against targets and identifying reasons for deviations with remedial action that needs to be taken.
c) Critical evaluation of cash flows and projected requirements for the quarter ahead.
d) Debt/cash management and its effectiveness in the collection of long outstanding debts including cheques not presented, dishonoured/returned cheques and unrealised deposits etc.
e) Stock control and review of stock levels to identify slow moving, obsolete or redundant stocks including its disposal and storage.
f) Progress on any capital expenditure to ensure time schedules for completion.
g) Follow up on procurement delays (if any) to obviate emergency purchases.
h) Ensuring payment of statutory dues such as EPF, ETF and taxes.
i) Settlement of creditors and long term loans on due dates to avoid penalties.
j) Technology upgrading necessary, with justifications to facilitate decision-making by the Board.
k) Feed back on customer satisfaction/dissatisfaction including complaints in the media to recommend remedial measures for improvement /rectification.
l) Any new proposals to be incorporated in the revised Corporate Plan
m) All matters relating to administration and establishment
n) Any other day-to-day operational issues.

7.4.3 Tender Board

All enterprises should have Tender Boards to deal with all procurements of goods and services in terms of the Guidelines on Government Tender Procedures.

7.4.4 Training Committee

Human resource development should be an integral part of any enterprise with training being an important component of personnel development. For this purpose:

- it is essential that a Training Committee (a sub committee of the Senior Management Committee) should evaluate the training needs of the enterprise, to enable the human resources of the enterprise to keep abreast of changes, both locally and abroad to improve employee productivity.

- Training facilities offered by state institutions such as the Institute of Government Accounts and Finance, Sri Lanka Institute of Development Administration, National Institute of Business Management and the Institute of Chartered Accountants of Sri Lanka should be made available for upgrading skills and development of human resources.

- The Training Committee should formulate procedures relating to selection of individuals for local/ foreign training.

7.4.5 Board of Survey

Annual Boards of Survey and Special Boards of Survey should be appointed to carry out verification of fixed Assets and Stores. Regular surveys will help in improving the stores and asset management including working capital position by replacing /disposing items deemed to be redundant/obsolete, which would also provide additional storage space.

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CHAPTER 8

FUND MANAGEMENT
REVENUE AND EXPENDITURE CONTROLS

8.1 Fund Management

Funds of public enterprises, whether internally generated or received by way of Government grants, subsidies and loans allocated from the Consolidated Fund through the Government Budget to meet Recurrent and Capital expenditure are public funds and the management has a responsibility for the efficient utilisation of these monies in the best interests of the public. Fund Management is dependent on how effectively revenue is generated and expenditure is controlled.

8.1.1 Commercial corporations and Government owned companies

Generally commercial corporations and Government owned companies do not receive Capital or Recurrent grants as these entities have to generate their resources either from operations or/and by way of commercial loans from the banking sector and other lending agencies.

8.1.2 Statutory Boards

Statutory boards receive both Capital and Recurrent grants through the Annual Budget in addition to income (if any) generated by the Board.

8.1.3 Budgetary allocations to Statutory Boards

Statutory boards should prepare Budget estimates for recurrent and capital expenditure in line with the Corporate Plan. These Budget estimates should be submitted through the line Ministries in terms of the Budget guidelines (Budget Call) issued by the Department of National Budget on or before the stipulated date. In preparing the budget, all expenditure requirements together with the income generated internally should be included. The grant to be sought from the Treasury would be the difference between the total recurrent and capital expenditure after taking into consideration the estimated revenue earned by the institution.

A copy of the Budget estimates so prepared should be forwarded to the Department of Public Enterprises, General Treasury in order to evaluate and determine the allocation to be provided by the Department of National Budget.

Once the Budget is passed by Parliament, statutory boards should prepare the detailed Budget, prioritising the expenditure requirements within the budgetary allocation provided in the National Budget Estimates, including any estimated income that will be generated by the Board and should submit the revised Budget with Board approval, 15 days before the commencement of the year, to the Department of Public Enterprises, General Treasury, line Ministry and Auditor General.

Statutory Boards should ensure that the expenditure incurred is within the budgetary allocation exercising economy, efficiency and effectiveness. Under no circumstances, will additional allocations be made by the Treasury.

8.1.4 Subsidiaries of commercial corporations/ statutory boards

Subsidiaries of public enterprises are commercial entities and should be self-financing. It is the responsibility of the parent body to ensure its viability. Government will not provide any capital or recurrent grants or loans to such entities.

8.1.5 Loans

Commercial loans may be provided by the Government to a commercial public enterprise under very special circumstances, by way of on lending.

If the terms of repayment of the loan are not specified in the Cabinet decision, the interest rate payable on such loans should be equal to one-year average Treasury bill rate, at the time of granting the loan, plus two percentage points. The schedule of repayment will be decided by the Department of Public Enterprises, General Treasury.

8.1.6 Capital

The capital contributed to a public corporation by the Government by way of grants or contributions shall not be reduced except on the authority of a Resolution introduced in Parliament by the Minister of Finance and passed by Parliament.

The Board of Directors of a commercial corporation/statutory board, may with the concurrence of the Minister of Finance, divide the capital of the enterprise to such numbers of shares, as deemed necessary.

8.2 REVENUE

The revenue of a public enterprise shall consist of all monies received and accrued in the exercise, performance or discharge of its powers, duties, functions or activities. It may include grants as well, from any individual, local/foreign organisation or Government received through proper channels.

8.2.1 Net Surplus/Net Deficit

a) The net surplus/ net deficit (excess of revenue over expenditure or vice versa) of a public corporation should be determined in terms of Sec.9 (2) of the Finance Act, No. 38 of 1971.
b) Any appropriations from the net surplus of a year should be made with the concurrence of the Minister of Finance, in terms of the Sec. 10 of the Finance Act, No. 38 of 1971.

8.2.2 Investment of Funds

Any temporary surplus funds of a pubic corporation invested on call deposits, short-term deposits, Treasury Bills, fixed deposits or any other investments should have the concurrence of the Minister of Finance in terms of Sec. 11 of the Finance Act, No. 38 of 1971.

Approval for such anticipated investments should be obtained at the beginning of the financial year.

8.2.3 Investment in Subsidiaries/Associates or other entities

No investment shall be made by public enterprises in subsidiaries, associates or other entities, without the concurrence of the Minister of Finance.

8.3 EXPENDITURE CONTROLS

Expenditure to be incurred by a public enterprise should be legitimate costs relating to the activities of the enterprise.

8.3.1 Publicity Expenses

The amounts to be set-aside as publicity expenses for a year should be incorporated in the annual Budget and approved by the Board. Any expenses to be incurred for such publicity should have a valid justification and should not be spent merely due to the fact that it is budgeted.

If the services of publicity agencies are to be obtained, selection of the agency that will handle publicity for the enterprise for a period not exceeding 3 years, should be based on tender procedures.

8.3.2 Allowances/Fees payable to Board of Directors

(a) Monthly allowances/fees payable to **full time** Chairmen and Executive Directors of commercial corporations, statutory boards and Government owned companies are as follows: -

Public Enterprises Category	Chairman	Executive Director

A	Rs.40000/=	Rs. 30000/=
B	Rs. 35000/=	Rs. 25000/=
C	Rs. 30000/=	Rs. 20000/=

(b) Since Chairmen and Executive Directors of public enterprises are not salaried employees of the enterprises, but are paid only allowances, such receipts are not subject to EPF and ETF contributions. They are also not entitled to bonus or gratuity payments.

(c) Fees for attending Board meetings, Audit and Management Committee meetings for non Executive Directors are as follows: -

- Commercial corporations/Government owned companies - Rs.1500/=
- Statutory boards - Rs.1000/=

(d) A part time Chairman who attends Board meetings and any other special meetings cannot function as the CEO of the enterprise. A part time Chairman will be paid only 25% of the allowance of the Chairman of the relevant category.

(e) A chairman who is paid the full salary of the post in any other enterprise whether in public or private sector should be paid only 25% of the allowance.

8.3.3 Annual Bonus/ Incentives

Payment of bonus should be subject to the following: -

(a) Annual Accounts of the previous year should have been rendered to the Auditor General and tabled in Parliament, in terms of Clause 6.5 of these guidelines.

(b) The payment of bonus approved by the Board of Directors should be only from profits generated by a corporation/ fully owned Government company and should be based on the estimated Profit and Loss Account of the year in which the bonus payment is to be made.

(c) The payment of bonus should be based on one of the two following schemes: -

i) Employees of such corporations/fully owned government companies that have made profits may receive a bonus of Rs.10000/= or two (02) months gross salary **whichever is less**.

ii) Profit making organisations which continue to offer other incentive schemes such as incentives related to attendance, in addition to the annual bonus, if paid in the previous year will be allowed to do so, depending on the needs of individual organisations, subject to the provision that the annual bonus should be limited to Rs. 7500/= or two (02) months gross salary **whichever is less**.

The incentive schemes referred to above, include all incentive schemes linked directly to accepted norms in output, attendance and/or to increase in revenue generation, which have been approved by the Treasury.

(d) A loss making organisation which has paid a bonus in the previous year is permitted to pay a bonus of Rs.1000/= provided sufficient funds are available for this purpose in the year the payment of bonus is to be made.

(e) The payment of bonus is tied to attendance. No bonus should be paid to those who have taken more than ten (10) days of no pay leave during the year. Those who have taken less than ten (10) days of no pay leave should have proportionate deductions.

8.3.3.1 Eligibility for payment of Bonus

a) Institutions dependent on Treasury Grants for recurrent and/or capital expenditure are not entitled to any bonus. The approved cess funds are also Treasury funds and are therefore not reckoned for the payment of bonus.

b) Casual/contract employees filling permanent vacancies may also be considered for this bonus, subject to attendance requirements applicable to other employees of such corporations/fully owned government companies.

c) Organisations which have paid annual bonus deviating from the conditions stipulated from a) to e) in 8.3.3, with special Cabinet approval in previous years, could continue with the same practice, unless otherwise specified.

d) Any situation necessitating deviation from the above criteria should be referred to the Director General, Department of Public Enterprises, General Treasury, with the recommendation of the Secretary to the relevant line Ministry, for a decision by the Secretary to the Treasury.

The line Ministry in charge and Boards of Managements of the respective organisations should ensure that bonus payments are made in accordance with the above guidelines. In case of doubt, clarification should be sought from the Treasury through the line Ministry with its comments and recommendations.

8.3.4 Telephone Call Charges

(a) The limits prescribed for telephone call charges, excluding rental and taxes are as follows:

	Office Telephone	**Residential Telephone**	**Total**
Chairman	Rs. 5,000/-	Rs. 1,750/-	Rs.6, 750/-
Chief Executive Officer/Executive Director	Rs. 3,500/-	Rs. 1,500/-	Rs.5, 000/-
Chief Operation Officer/ Chief Finance Officer	Rs. 2,500/-	Rs. 1,200/-	Rs. 3,700/-
Other Staff Officers	Rs. 1,500/-	Rs. 1,000/-	Rs. 2,500/-

(b) ***Savings***

Any savings in a particular month could be carried forward and utilized up to the end of the year. Similarly any savings in the residential phone could be utilized to cover the excess in office phone call charges.

(c) ***Mobile Phones***

The Board may approve a mobile phone to an officer depending on the exigencies of the service, based on a specific Board Paper. Total telephone bill charges however to cover land and mobile phones should not exceed the total limits specified above.

8.3.5 Vehicles

(a) **Assigned** ***Vehicles***

An assigned vehicle means a vehicle exclusively allocated to a specified officer (with or without a driver) who is entitled to use a vehicle for official and private purposes.

The following officers of an enterprise are entitled to use an assigned vehicle. An officer who is provided with an assigned vehicle should use only that vehicle unless the assigned vehicle is under repairs.

- Chairman, Chief Executive Officers and Executive Directors of all enterprises
- Chief Operations Officer/Chief Finance Officer of an enterprise falling under Category 'A'

(b) **Fuel *consumption for assigned vehicles***

Monthly fuel allocation limits for assigned vehicles are as follows:

	Petrol Vehicles (Litres)	**Diesel Vehicles (Litres)**
Chairman	180	235
Chief Executive Officer/ Executive Director	150	190
Chief Operations Officer/ Chief Finance Officer	120	160

Payments for fuel allocation would be on the basis of reimbursement of fuel bills. Any savings in a particular month could be carried forward and utilized up to the end of the year.

(c) ***Pool Vehicles***

The current policy of the Government is to discourage the purchase of vehicles, except in exceptional circumstances and instead hire/loan vehicles from reputed private sector entities to avoid wasteful expenditure on repairs and maintenance.

With regard to hire/renting vehicles for official use of public enterprises attention is drawn to the Ministry of Policy Development and Implementation Circular No. No.MPDI /MPRD /Veh of 11th October 2002 on "**Hiring/rental of vehicles for the official use of Public Sector Institutions"**, a copy of which is in Appendix 3.

8.3.6 Other Expenditure

The Board should develop suitable control systems and fix responsibilities on Managers, to control and monitor following items of expenditure.

i. Maintenance of vehicles
ii. Fuel, Electricity and Water
iii. Stationery

8.3.7 Expenditure not included in the Budget

Expenditure not itemized and provided in the Annual Budget, could be incurred only with the prior approval of the Board.

8.3.8 Donations and/or Gifts

Donations and/or gifts should not be made without the prior approval of the Cabinet.

8.3.9 Utilisation of enterprise resources

Public Enterprises are not permitted to incur expenditure or deploy its resources (including human resources) under any circumstances, on behalf of the line Ministry or any other Government institutions.

8.4 Banking Facilities

Boards of public enterprises are permitted to select reputed Banks operating in the country for their banking facilities, based on evaluation of quotations, with a view to obtain reliable services on best possible terms.

The services rendered by such Banks to the enterprise, should be reviewed by the Board half yearly, to justify the need for continuity with the selected Banks.

8.5 Insurance Facilities

Boards of public enterprises should decide on the type of assets, (movable or immovable) to be covered by insurance and a reference made in the Assets Register. The Board should take full responsibility in selecting the insurance company. Selection criteria should be based on evaluation of quotations for best possible terms by following the guidelines on tender procedures.

Renewal of insurance facilities should be on a timely basis and could be continued with the same party, for a maximum of 3 years. Action should be taken thereafter, to call for fresh offers in terms of guidelines on Government Tender Procedures. It is the responsibility of the CEO to ensure uninterrupted insurance cover.

8.6 Income Tax and VAT

Commercial public enterprises are liable to pay income tax and VAT, unless otherwise specifically exempted. Statutory boards that receive grants from the Consolidated Fund are not liable for income tax and VAT.

8.7 PAYE

Emoluments to employees of statutory boards paid out of the Consolidated Fund are not liable for PAYE tax. Any other emoluments that they may receive by way of consultancy fees etc, which are not paid from Government grants and emoluments of employees of commercial public enterprises are subject to the payment of PAYE tax. PAYE tax of such employees should be borne by the respective employees and not by the enterprise.

8.8 Delegation of Authority

Approval of the Board should be obtained for the delegation of authority, indicating limits of expenditure. No expenditure should be authorised, incurred or paid outside the limits of such delegated authority. Such delegation of authority should be updated and approved by the Board at the beginning of each year.

8.9 Levies / Dividends

8.9.1 All public enterprises other than Statutory Boards should, in the middle of the 4^{th} quarter of the year, review the Accounts relating to the first three (3) quarters including the cash flow position, to consider the payment/declaration of an interim levy/dividend. The quantum that could be paid, based on this review should be intimated to the parent Ministry and Department of Public Enterprises, General Treasury, thirty (30) days before the end of 4^{th} quarter of the year.

8.9.2 Whilst the final levy of commercial corporations will be determined and imposed by the Treasury on behalf of the Minister of Finance in terms of Sec.9 (2) (f) of the Finance Act, No.38 of 1971, the final dividend of Government owned companies and subsidiary companies of public enterprises should be decided by the Board when finalising the Annual Report and Accounts and should be intimated to the line Ministry and the Department of the Public Enterprises, General Treasury.

8.9.3. Payment of interim and final levies/dividends should be made within fifteen (15) days after the declarations are made.

8.10 Borrowings

a) The Boards of Directors of a public corporation, other than statutory boards, may borrow from time to time, monies required to meet the obligations of the enterprise within the borrowing limits approved for the enterprise.

b) Every public corporation should review its borrowing limits at the time when the Budget is reviewed by the Board.

c) Borrowing limits approved for commercial corporations should have the approval of the appropriate Minister and the concurrence of the Minister of Finance in terms of Sec. 16 of the Finance Act, No.38 of 1971.

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CHAPTER 9

HUMAN RESOURCE MANAGEMENT

9.1 Human Resource Management

Human Resource is one of the core assets of any enterprise and the success of the organisation depends on the degree of efficiency in the management of its human resources. For this purpose, the enterprise should have a realistic cadre with appropriate skills to maximise productivity of its employees. To achieve effectiveness, it is imperative that the human resource potential is adequately tapped by motivation and proper delegation of authority and compensated with benefits and rewards for good performance.

While planning for human resources development it is imperative to consider the future trends in global employment patterns.

"Within 20 or 25 years however, perhaps as many as half the people who work for an organisation will not be employed by it, certainly not on a full time basis. This will be especially true for older people. New ways of working with people at arms' length will increasingly become the central managerial issue of employing organisations, and not just of businesses".

"The next Society will be a Knowledge Society. Knowledge will be its key resource and knowledge workers will be the dominant group in its work force".[2]

9.2 Human Resource Planning (Cadre)

a) The Corporate Plan should embody the cadre requirements of each of the Divisions of the enterprise, consolidated in the form of a Human Resource Budget.

b) Each enterprise should have an Organisation Chart with an approved cadre for the institution.

c) Any changes to the approved cadre could be effected at the time of reviewing the Corporate Plan.

d) The Organisation Chart and the approved cadre should be registered with the Department of Public Enterprises, General Treasury.

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2 Peter Drucker – "The Economist" Nov 3rd 2001

e) In the event of creation of a new cadre, the enterprise should forward the relevant application together with the Organisation Chart and seek approval from the Department of Public Enterprises, General Treasury, justifying its need.

f) In instances where there is excess cadre, after careful examination of the needs of the institution and having regard to the financial affordability, action should be taken to retrench/re deploy the excess staff, in consultation with the Department of Public Enterprises, General Treasury.

9.3 Recruitments and Promotions

9.3.1 Every public enterprise should have schemes of recruitment and promotion for each post. Schemes of recruitment should prescribe very clearly and distinctly, the minimum educational and other qualifications required for a particular post.

i. In formulating schemes for recruitments and promotions, the following aspects should be incorporated and the schemes should be approved by the Board and the appropriate Ministry, with the concurrence of the Department of Public Enterprises, General Treasury.

   a) Job description
   b) Requisite professional/ academic qualifications
   c) Experience required
   d) Age limit
   e) Mode of recruitment (external advertisement/internal notice and written assessment/ interview)
   f) Other conditions (i.e. efficiency bar, language proficiency etc.)

ii. Recruitments and promotions should be effected systematically in line with the realistic cadre position of the enterprise. For this purpose a cadre review in each public enterprise is of utmost importance, to ascertain realistic cadre levels, followed by reviews on a periodic basis thereafter.

iii. Effective control should be exercised over cadre management with systems and procedures geared to meet the changing needs. Numbers need to be right-sized and restructured.

iv. Proper job evaluations and cadre studies should be done prior to any increase in cadre or creation of new posts.

v. Promotions should be based on capability and seniority of the officer.

vi. Vacant posts should not be filled with acting posts for indefinite periods. As a rule an officer should hold only one permanent post.

vii. If an acting appointment is made under exceptional circumstances, it should be limited to a period not exceeding 3 months.

viii Every enterprise should have a succession plan, with an understudy designated to take over in the event of such post falling vacant, particularly at management levels.

9.4 Deployment to other institutions

An employee of an enterprise should not be released to a Ministry or any other institution, without the approval of the Cabinet.

- The enterprise should not pay any emoluments to the released employee during such period.

9.5 Training

9.5.1 Each enterprise should prepare a training budget and the amount allocated for this purpose should be determined in consultation with the Training Committee, referred to in Chapter 7 Clause 7.4.4.

9.5.2 As regards foreign training, the selection procedure for scholarships should be transparent so as to enable the selection of the right candidate for the appropriate course. The request for training should be made to the Department of External Resources and channelled through the appropriate Ministry and the Department of Public Enterprises, General Treasury.

9.5.3 As heavy expenditure is incurred on foreign training, it is essential that the enterprise should benefit by the new insights gained in the area in which the training was obtained, thereby enabling other members of staff also to gain exposure on the latest trends and developments. The trained officers should be encouraged to advise management on the latest technologies and developments learnt, in order to enable the enterprise to adopt modern trends and developments.

9.5.4 **Internally generated funds of a commercial corporation or Government grants should not be utilised for foreign training, unless specific approval is obtained from the Secretary to the Treasury.**

9.6 Performance Appraisal

- It is the responsibility of the Human Resource Manager, to formulate an effective performance appraisal system, in order to maximise productivity for efficient cadre management.

- Appraisal of performance should be by an independent Panel comprising members of the senior management, for purposes of promotion, payment of incentives and increments.

9.7 Salaries and Allowances

- Salaries and allowances should be based on approved schemes of recruitments and promotions.

- No revision would be permitted without the approval of the Secretary to the Treasury.

- Any request for revision should be made to the Department of Public Enterprises, General Treasury. The Department of Public Enterprises will revise individual enterprise requests, having regard to prevailing salary structures in similar public enterprises, to ensure uniformity and consistency and obtain necessary approvals from the Secretary to the Treasury.

- No ad hoc salary revisions by the Board or Management will be permitted consequent to a general revision**.**

- Any anomaly arising out of revision will be further examined by the Department of Public Enterprises, General Treasury before approval is granted.

9.8 Pay Structure –

The public enterprise pay structure should relate to performance. Accordingly the emoluments should be categorised under two components.

a) fixed component and
b) a variable component.

9.8.1 Fixed Component – This will be the basic salary appropriate to the respective class/ grade, which **will not be subject to change** until the next salary revision. This component is determined on the following criteria.

1) minimum and maximum wage
2) educational and other qualifications
3) equal pay for equal work
4) job evaluation
5) relativities
6) finance and affordability

9.8.2 Variable Component – This component will allow for a flexible wage system, where incentives and rewards could be provided to achievers with commitment. These variable components in the monthly and annual salaries, should be built from past salary adjustments. The ultimate objective of a variable component is to have a performance related salary structure.

- The variable component comprises the following: -

    1) Performance in relation to:
        a) Institution
        b) Individual
    2) Allowance to meet the cost of inflation
    3) Allowances specific to a profession or a post
    4) Special allowances to senior staff (rent, entertainment etc.)
    5) Allowance for performing duties outside normal hours
    6) Critical service allowance (where a shortage of skills is prevalent, this allowance should be paid till the shortage is remedied)
    7) Secondment and acting allowance
    8) Reimbursement expenses (car mileage, medical expenses etc)

All allowances paid at present should be regrouped to fall into any of the above.

- If any other allowance that is currently paid cannot fall under any of the above, clarification should be sought and approval obtained from the Department of Public Enterprises, General Treasury to qualify for future payments.

9.9 Overtime

- Overtime payments should be discouraged at any cost and should be allowed, only in instances where the nature of the duties and functions involve work outside normal hours.

- Such payments should be incurred with the prior approval of the relevant Senior Management officer.

- Total overtime payments for the month should be reported to the Board with a breakdown of all relevant details for covering sanction.

9.10 Restructuring and Review of vacant posts

- Any recruitment on contract, casual or otherwise should have the approval of the Secretary to the Treasury

- All posts which have remained vacant should be abolished, except for those vacant due to a shortage of the expertise required for that post. Such posts could be filled with the approval of the Secretary to the Treasury.
- No extension should be granted after the compulsory retirement age.

- In the event of an organisational restructuring, all redundant and non-functional Units/Divisions should be identified and closed down within 3 months of the decision being taken and its staff redeployed, retired on Voluntary Retirement Schemes or retrenched.

- Such restructuring may arise under the following circumstances:

  a) initiated by the Management of the enterprise.
  b) as a directive from the Secretary to the Treasury.

9.11 Compensation on Retrenchment

- Payment of compensation on retrenchment shall be made on the basis of the scheme approved by the Treasury, even if the enterprise meets the payment out of its own funds.

- Immediately after implementation of the retrenchment scheme, the enterprise should forward a statement of the revised cadre for registration with the Department of Public Enterprises, General Treasury along with an undertaking signed by all Directors, that no new recruitments for those positions that were suppressed would be made in the succeeding two years.

9.12 Welfare

Any welfare scheme adopted by an enterprise should have the approval of the Department of Public Enterprises, General Treasury and the sums to be allocated each year in the Budget should give details with a cost breakdown of the activities, such as providing products of the enterprise at discounted prices to the staff, sports and recreational activities etc.

9.13 Outsourcing

All activities that can be efficiently performed by the private sector should be identified and outsourced. Selection of the agencies for such outsourcing should be carried out in compliance with the guidelines on Tender Procedures.

Security services should be outsourced. However if an enterprise opts to have its own security personnel in the approved cadre for special reasons, approval of the Department of Public Enterprises, General Treasury should be obtained.

9.14 Manual of Procedures

9.14.1 The Manual of Procedures should have a chapter on Human Resource Management, providing rules and regulations on all matters relating to management of Human Resources.

9.14.2 This Manual should be approved by the Board and thereafter the concurrence of the Secretary to the Treasury should be obtained through the Department of Public Enterprises, General Treasury. If any matters are not covered under this Manual, the provisions in the Establishment Code will apply.

9.14.3 Provisions in these Guidelines supercede any relevant provisions in the Manual of Procedures of the enterprise and the Establishment Code.

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CHAPTER 10

DISSOLUTION OF PUBLIC ENTERPRISES

Dissolution (Winding up or Liquidation)

10.1 Dissolution

Dissolution of a public enterprise would arise under the following circumstances:

(a) when objectives for which the enterprise was created have been achieved and continuation is no longer required.
(b) On the basis of policy directions of the Treasury/Government
(c) When the enterprise is faced with losses and liquidity problems or not viable due to other reasons.
(d) Merger or amalgamation with other enterprises.

10.2 Liquidation process

10.2.1 Public Corporations incorporated either under Special or General Acts of Parliament, should be wound up by passing a Resolution in Parliament by the respective Minister and appointing a Liquidator in terms of Sec. 19 of the Finance Act, No. 38 of 1971.

10.2.2 Companies incorporated under the Companies Act should be wound up in terms of the Companies Act, No.17 of 1982.

10.2.3 Once the Liquidator is appointed, the Chairman and Board of Directors should submit their resignations and not continue thereafter.

10.2.4 ***Progress of Dissolution***

(a) Progress of the liquidation work should be supervised by the appropriate Ministry and progress should be reported quarterly to the Department of Public Enterprises, General Treasury.

(b) The duration to complete the liquidation should not exceed a maximum of six months and should be specified by the appropriate Liquidation Authority. If the liquidation process cannot be completed within the specified period, approval of the Cabinet should be obtained for any extension.

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