



The Government of the Republic of Trinidad and Tobago
MINISTRY OF FINANCE

INVESTMENTS DIVISION

STATE BOARDS CORPORATE GOVERNANCE SEMINAR 2017

"Achieving Effective Corporate Governance in the State Sector"

WEDNESDAY JANUARY 18th 2017

Hyatt Regency Hotel

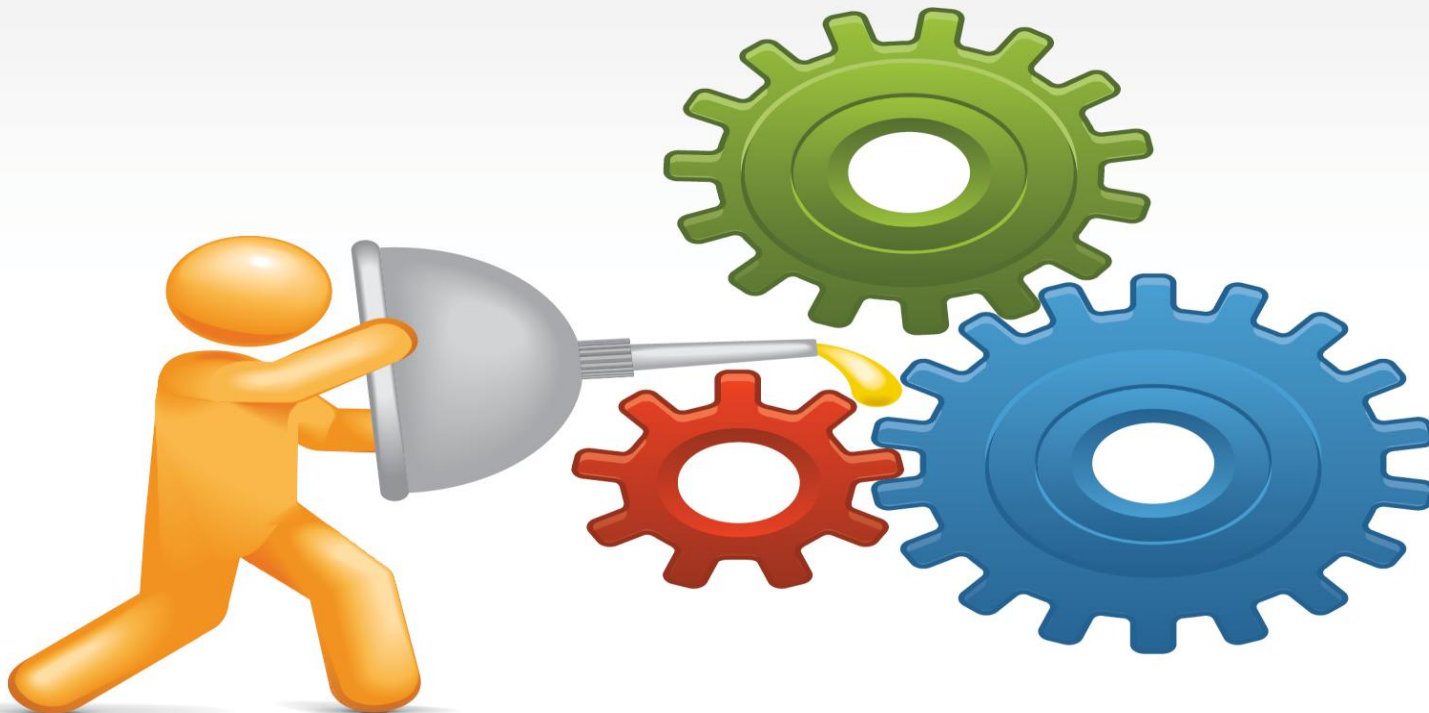


The Government of the Republic of Trinidad and Tobago

Ministry of Finance

STATE ENTERPRISES PERFORMANCE MONITORING MANUAL

*'Improving the Corporate Governance
Framework for State Enterprises'*



Presented by

Mr. Hayden Monzano,
Director, Economic Research
& Policy Coordination (AG.),
Ministry of Finance
and

Mr. Ryan Maharaj,
Senior Business Analyst (AG.),
Ministry of Finance

State Enterprise Sector

The State Enterprise Sector:

- executes Government's policies;
- 48 wholly owned and 7 majority owned companies;
- assets totaling approximately \$61.5Bn;
- employs approximately 17,000 persons; and
- represents State's Equity totaling \$7.5Bn.

State Enterprise Performance Monitoring Manual (SEPMM)

The rationale for SEPMM is to facilitate the Government of the Republic Of Trinidad and Tobago (GORTT) thrust to enhance efficiency and effectiveness in the State Enterprise Sector”.

GORTT anticipates that adherence to the guidelines defined within SEPMM would allow for the efficient and effective allocation and use of the resources of the sector and thereby the maximization of returns whether financial, economic or social.

The Performance Management System

- The Performance Monitoring System collects, collates and analyses performance indicators from the information submitted by the Enterprises.
- Investments Division staff review the Strategic Plans, Annual Budgets, Financial Statements, Monthly Cash Statements of Operations, Monthly Returns of Award of Contracts; Monthly Loan/Overdraft portfolio; Quarterly Returns Reports, Quarterly Internal Auditors Reports; and Investments in Securities Portfolios and Litigation Proceedings Statements.
- Officers examine such issues as practicality, feasibility, adherence to policy guidelines and objectives, plans for maximising efficiencies and returns, revenue and expenditure, methods of financing, nature of loans, debt servicing requirements and risk management issues.

State Enterprise Performance Monitoring Manual (SEPMM)

The Monitoring Process

The Monitoring Process Flow

The Monitoring Process involves the use of the following documents:

- ▶ Strategic Plan
- ▶ Annual Budget
- ▶ Board Minutes
- ▶ Return of the Award of Contracts
- ▶ Monthly Cash Flow
- ▶ Quarterly Reports
- ▶ Loan/Overdraft Portfolio
- ▶ Submission of Annual Financial Statements to Ministry of Finance
- ▶ Publication of Annual Financial Statements
- ▶ Internal Audit Reports

Strategic Plan

Companies are required to submit their Strategic Plans to both the Investments Division and the respective Line Ministry at least six (6) months prior to the start of the implementation period of the plan and one (1) month for others. The following should be included as sub-categories:

Macro Policy

Objectives

Activities

Aims and Nature of Enterprise

Situational Analysis

Manpower Resources

Projected Financial Position

Annual Budget

Companies that require subventions from GORTT are required to submit their annual Budgets to the Investments Division and respective Line Ministry for assessment at least six (6) months prior to commencement of the Fiscal year. The Investments Division and Line Ministry will review the Budget submission of each Company.

Annual Budget

Annual Budgets should include such details as:

- **Operating Budget** - items of revenue and expenditure
- **Capital Budget** - identification of capital projects
- **Financing Arrangements** - sources/methods of finance
- **Cash flows** - timing of receipts and payments
- **Liability obligations** - capital and interest payments
- **Returns to the shareholder** (depending on your mandate)

Board Minutes

Board Minutes should be made available to the Investments Division and respective Line Ministries to ensure that the Board is proceeding within the framework of the Strategic Plan and GORTT policy decisions.

Board Minutes

Board Minutes should include:

- i. Business decisions to further achievement of strategic objectives;
- ii. Financial Performance - actual versus planned performance and reason(s) for variances;
- iii. Human Resource Management Issues;
- iv. Capital Expenditure - planned versus actual and reason(s) for variances;
- v. Litigation Issues;
- vi. Statutory Matters; and
- vii. Any other performance matters.

Board Minutes are to be submitted within one (1) week of confirmation.

Return on Award of Contracts

State Enterprises are required to submit to the Minister of Finance within fourteen (14) days following the end of each month:-

- i. Lists of all contracts which were awarded during the month, together with the value of each contract.
- ii. Tender rules and any amendments must also be submitted to the Minister of Finance for approval.
- iii. Companies can adopt the Standard Procurement Procedures for the Acquisition of Goods and the Provision of Services

Return on Award of Contracts

The Minister of Finance will review and audit contracts awarded by State Enterprises as considered necessary and appropriate.

Additional Monitoring Indicators

Monthly

- Cash Statement of Operations
- Reports on SEIP
- Status of Loan/Overdraft

Quarterly

- Quarterly Returns Reports
- Investments in Securities Portfolios
- Litigation Proceedings
- Internal Audit Reports

Annually

- Financial Statements
- Investment Policy document (as amended)

Additional Monitoring Indicators

Formats of the Monthly Cash Statement of Operations, Quarterly Returns and Monthly Status of Loan/Overdraft, Investments in Securities Portfolio and Litigation Proceedings Reports are presented at **Appendices H, I and J of SEPMM.**

Section IV provides details on the use of the information in these reports.

** An updated template for Monthly Status of Loan/Overdraft is available from the Investment Division*

Reporting

The Investments Division produces several reports to inform decision-making both internally and externally.

➤ **CASH STATEMENTS OF OPERATIONS**

Prepared quarterly and annually and based on the Monthly Cash Statements of Operations of wholly and majority owned State Enterprises.

Indicators examined include Operating Surplus/Deficit, Current Transfers, Capital Expenditure and Capital Transfers.

These Reports help to to ensure that Companies are meeting their targets and following GORTT policies.

Reporting

➤ QUARTERLY RETURNS

Produced from the Companies' Balance Sheets and Income Statements.

Information used to calculate or estimate a number of key Performance Monitoring Indicators (PMIs).

PMIs reviewed by the Investments Division and the Line Ministries to ensure that the targets of the Annual Budgets and the Company's Strategic Plan are being met.

Indicators categorised under the sub headings:

- Balance Sheet items
- Revenue and Expenditure items

Loan/ Overdraft Portfolio Report

Submitted monthly and are based on the status of loan/overdraft of State Enterprises. Record Guaranteed and Non-Guaranteed Debt (Appendix J).

Monitor the level of indebtedness of the Sector.

Some loans are guaranteed by the GORTT of which there is a Statutory Limit under the Guarantee for Loans (Companies) Act, Chap. 71:82.

An effective mechanism to ensure sustainability of the sector's Public Debt.

Loan/ Overdraft Portfolio Report

Annual Status Report on State Enterprises Debt (Government Guaranteed and Letters of Comfort) is submitted to the Comptroller of Accounts after reconciliation with the Debt Management Unit of the Ministry.

Information is inputted into the Annual Public Debt Statement Reports.

Investments in Securities Portfolios

Quarterly reports on State Enterprises Investments in Securities are used to monitor the Companies' investments in securities portfolios, improve the overall investment strategies of the Sector and enhance risk management practices associated with these investments.

Litigation Proceedings

Quarterly reports on Litigation Proceedings are used to monitor Litigation proceedings made both by or against the Company.

State Enterprises are to utilise avenues other than the courts for resolution of disputes. Under no circumstances should legal action be initiated by one State Enterprise against another without prior approval of the Minister of Finance.

Performance Financial Indicators

Reports produced annually and based on State Enterprises Annual Financial Statements.

Key indicators are extracted from these statements and used to maintain a database to facilitate up-to-date information with respect to the State Sector.

Database also facilitate the flow of information to external stakeholders e.g. IMF; World Bank the Rating Agencies.

Revenue

Reports are produced quarterly and annually and based on GORTT Revenues and Expenditures in State Enterprises.

The Investments, Budget and Treasury Divisions and Auditor General Department review these reports for Revenues received through Dividends and Taxes from State Enterprises, paid to the Treasury.

Expenditure

Monitor and review Capital and Current Transfers and Subsidies paid to State Enterprises to fund :-

- Capital Expenditure programmes
- Equity injections,
- Recurrent expenditures
- Deficit financing.
- Loan Payments

The Budget Division uses this information in preparing the Annual Estimates of Expenditure for the National Budget.

State Enterprises Investment Programme (SEIP)

The SEIP Reports are produced annually and outline the capital programmes of State Agencies that are financed by the agencies either through retained earnings or loan financing.

Reports are included among the annual National Budget documents that are produced for use by all stakeholders including the public.

State Enterprises Investment Programme (SEIP)

The Reports are also used in the Consultation with International Financial Institutions i.e. IMF; World Bank and IADB.

Rating Agencies (S+P, Moody's, CARICris) also use these reports to grade the country and individual State Agencies for investment purposes.

Publishing of Financial Statements

State Enterprises are required to submit its audited financial statements within four (4) months following the completion of the financial year to the Minister of Finance

Also required to publish its Annual Audited Financial Statements in at least one (1) major daily newspaper; subsequent to its Annual General Meeting.

A Summary of the unaudited half-yearly statements within two (2) months of the mid-year date subject to the approval of the Minister of Finance.

These summary statements should contain the disclosures required by the Securities Industry Act, 1995.

The Monitoring Process Flow

Document	Submission Date	Receiving Agency
Strategic Plan*	Six (6) months Prior to start of Financial Year for companies receiving subventions and one (1) month for others	Investments Division and Line Ministry
Annual Budget	Six (6) months prior to start of Financial Year	Investments Division and Line Ministry
Board Minutes	One (1) week after confirmation	Investments Division and Line Ministry
Cash Statements of Operations	Within three (3) weeks after month's end	Investments Division
Quarterly Reports	End of First Month after Quarter	Investments Division
Status of Loan and Overdraft Portfolio	One (1) week after the end of the reporting Month	Investments Division
Annual Financial Statements	Four (4) months after end of Financial Year	Investments Division and Line Ministry

State Enterprise Performance Monitoring Manual (SEPMM)

PART II

Appointment, Removal and Resignation of Board Directors Policy

Strong Boards are vital for the effective governance of State Enterprises. GORTT appoints and removes Directors of Boards of State Agencies, which must be done in accordance with the Companies Act, Chap 81:01 and by statute.

The statutes specify the composition and required skills/experience of Directors.

Letters of resignation of Directors of State Enterprises incorporated under the Companies Act, Chap. 81:01 must be forwarded to the Minister of Finance (Corporation Sole) under whose responsibility this lies.

Annual Meetings

The Agenda of Annual Meetings (AM) should include the following:

- ▶ Confirmation of minutes of the previous AM
- ▶ The consideration of the financial statements
- ▶ The directors' report
- ▶ The auditors' report, if any
- ▶ The sanction of dividends
- ▶ The election of directors
- ▶ The election of auditors

Dividend Policy

- ▶ All profitable State enterprises are required to pay dividends up to 100% of distributable profits;
- ▶ The profitability of the Enterprise, its liquidity, legal restrictions/loan covenants and the replacement cost of essential capital goods are to be considered in determining the quantum of dividends that a Company would be required to pay;
- ▶ State Enterprises are also required to pay interim dividends based on semi-annual financial results;
- ▶ Actual distributions of profits are to be agreed with the Minister of Finance and appropriately disclosed in the financial statements;
- ▶ State Enterprises with Retained Earnings in excess of Working Capital requirements may be required to pay a Special Dividend;

Classification of Boards

GORTT delegated responsibility for the Classification of Boards to the Minister of Finance. The specific criteria are as follows:

- Complexity of organisation
- Level of responsibility and accountability
- Scope of operations
- Size of organisation
- Importance to the national development thrust
- Special qualification required

Board Fees and Allowances Policy

Board Fees and Allowances for State Enterprises are determined by GORTT. The monthly rates are as follows:

	Chairman	Deputy Chairman	Director
Group A	\$10,000.00	\$7,500.00	\$5,000.00
Group B	\$8,000.00	\$6,000.00	\$4,000.00
Group C	\$6,500.00	\$4,800.00	\$3,200.00

Board Fees and Allowances Policy

Travelling Allowances

Chairman	\$1,000.00
Deputy Chairman	\$750.00
Other Directors	\$500.00

All fees and allowances are subject to the applicable income tax rate

Appointment of Executive Directors and Consultancy Contracts Policy

- ▶ Boards of Directors are required to obtain the written non-objection of the Minister of Finance (Corporation Sole) to authorise the following:
- ▶ Appointment of Directors to be the holder of any executive position;
- ▶ Entry of Directors into consultancy contracts with their companies. In each case, the detailed rationale for the proposal must be provided

Official Overseas Travel

Managers (include Managing Directors and Executive Directors) and other senior personnel of State Enterprises who are required to travel obtain the approval of the Board of Directors of their Companies, who may delegate this authority.

Chairmen and Non-Executive Directors who are required to travel obtain the approval of the Line Ministers responsible for their respective Companies.

Payment of Bonuses

Bonuses are payable on the attainment of a minimum of eighty percent (80%) of the approved performance targets, after approval by the Line Minister. The bonus to be paid to each employee is limited to one (1) month's salary annually. Payments which do not conform to the policy require specific approval of the Ministerial Committee for monitoring remuneration arrangements.

Approval of New Assets/ Investments, Debt and Contracts Policy

State Enterprises or their subsidiaries are required to obtain prior approval of the Minister of Finance for the acquisition of:-

- ▶ significant assets,
- ▶ new investments in non-government securities,
- ▶ the incurrence of new/additional long- term debt and entering into significant contracts (relative to the Company).

Management's Role in SEPMM Compliance and Governance

Management is charged with the responsibility for establishing a network of processes with the objective of controlling the operations of the organization in a manner which provides REASONABLE ASSURANCE that:

- 1) The Organization's plans, programs, goals, and objectives are achieved.
- 2) The actions of everyone are in compliance with the organization's policies, standards, plans and procedures, and all relevant laws and regulations.
- 3) DATA AND INFORMATION (for publication/usage either internally or externally) are accurate, reliable, and timely.

Management's Role in SEPMM Compliance and Governance

- 4) The organization's resources (including its people, infrastructure, systems, data/ information bases, and customer goodwill) are adequately protected.
- 5) RESOURCES ARE ACQUIRED ECONOMICALLY AND EMPLOYED PROFITABLY;
- 6) QUALITY BUSINESS PROCESSES (including Customer Service) and Continuous Improvement are emphasized.

The Way Forward

The Investments Division approach to monitoring the State Enterprise Sector in 2017 will be more focused.

Areas of focus include:

- Performance Management and Reporting;
- Procurement;
- Internal Audit;
- Economic Evaluation of State Entities; and
- Update of SEPMM

**All companies are required to
submit all outstanding Financial
Statements (Audited or Unaudited)
by March 31, 2017**

Thank You!