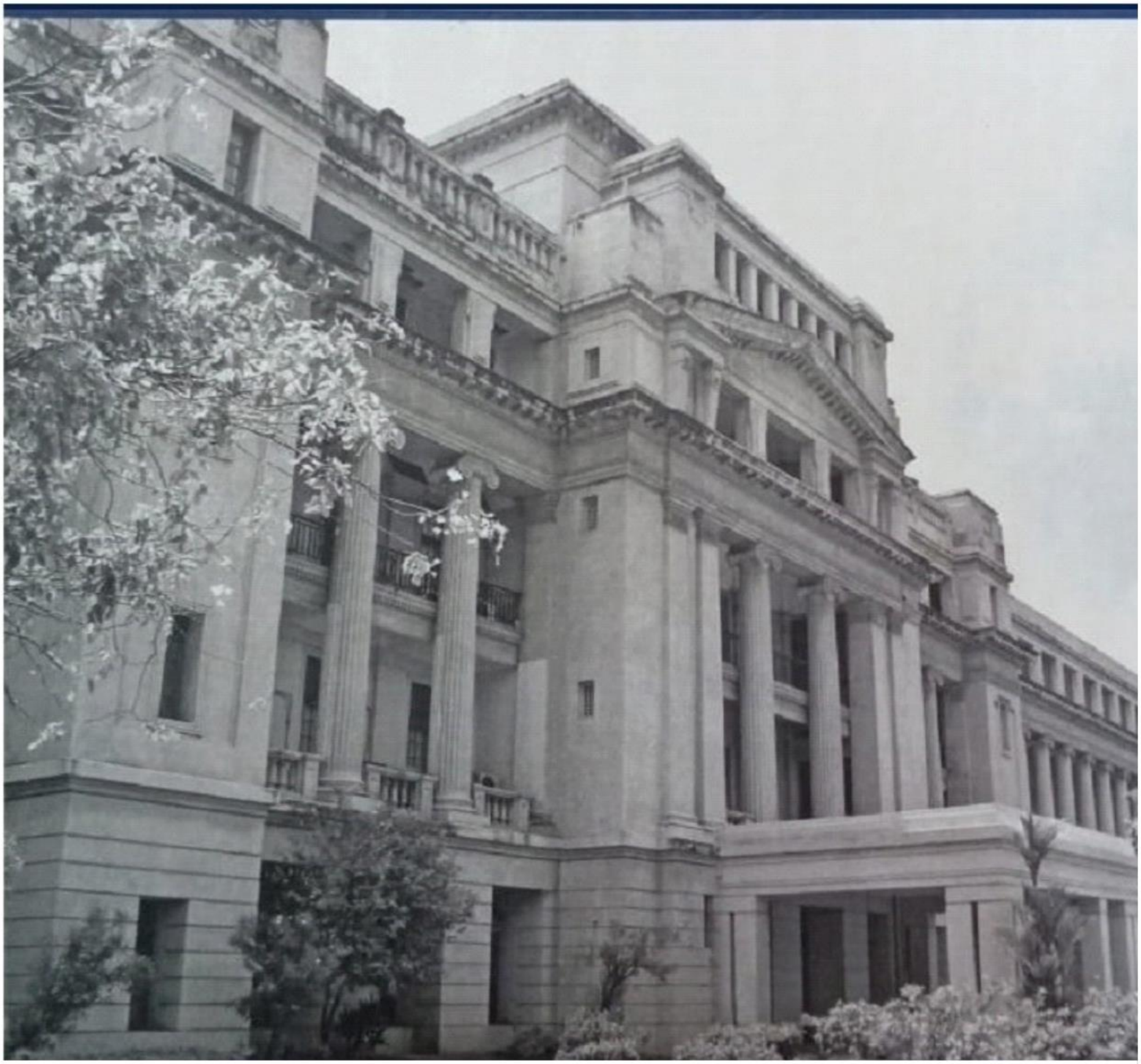
OPERATIONAL MANUAL

FOR STATE OWNED ENTERPRISES



DEPARTMENT OF PUBLIC ENTERPRISES

MINISTRY OF FINANCE

SRI LANKA

Message from the Secretary to the Treasury

SOEs demand urgent structural changes in their operations in line with the modern practices and market requirements. They necessitate serious commitment from the Boards and the Managements of SOEs, bearing in mind that the Board of Directors of SOEs discharge fundamentally a role of stewardship.

It is in this background that the Guidelines on Corporate Governance and Operational Manual for SOEs have been drafted to provide the required direction and framework to ensure that the operations of the SOEs are undertaken embodying the principles of good governance in a pragmatic way. This Operational Manual and Guideline provide the minimum standards of governance for the SOEs to undertake. However, SOEs have the discretion to engage in practices that are an improvement to those in the Guideline and the Operational Manual in consultation with the General Treasury. Boards are directed to continuously improve their governance structures, facilitate innovation and craft a culture of value creation.

It is my experience that nothing in these documents will be useful unless the Boards and the Managements understand the spirit in which these documents have been drafted. Therefore, the SOEs must adopt this framework at the earliest.

The Director General and the officials of the Department of Public Enterprises have led this effort diligently and meticulously together with the other Departments of the Treasury. I thank them for it.

S.R. Attygalle
Secretary to the Treasury
16.11.2021

Message from the Director General, Department of Public Enterprises

This Department has been monitoring the performance of SOEs and we have noted that over the years that the governance structure of almost all SOEs requires to be restructured, regardless of whether they are commercially orientated or not.

It is in this context, that the Guidelines on Corporate Governance and Operational Manual for SOEs have been drafted to provide SOEs with the necessary direction to organize its operations. This Operational Manual and Guideline will replace the "Public Enterprises Guidelines for Good Governance" issued in 2003 and a number of Circulars issued in this regard.

These documents should serve as the framework within which the SOE should reorganize its operations, making every effort to expand its scope and the effectiveness of its outcomes. These guidelines have been drafted to ensure transparency, accountability, innovation and value for money. Considerable effort was taken to ensure that the operational discretion of the SOEs is assured, so as to ensure that the SOEs are able to be proactive in their decision making. A performance based culture together with use of technology is envisaged in this Operational Manual and Guideline. New areas of concern have been looked at including risk management and performance evaluations.

The SOEs are urged to cooperate with the General Treasury in implementing this Operational Manual and Guideline and in this regard all stakeholders are requested to engage with the officials of this Department in clarifying matters so as to improve the operations of the SOEs.

I thank the Hon. Minister of Finance, the Secretary to the Treasury, Deputy Secretaries to the Treasury and my colleagues at the General Treasury specially my team at the Department for the unstinted support extended at all times.

P.A.S. Athula Kumara

Director General, Department of Public Enterprises

16.11.2021

Content

Abbreviations

AC	-	Audit Committee
AoA	-	Articles of Association
AR	-	Annual Report
BoD	-	Board of Directors
CEO	-	Chief Executive Officer
CFO	-	Chief Financial Officer
COSO	-	Committee of Sponsoring Organizations
CSE	-	Colombo Stock Exchange
COPE	-	Committee on Public Enterprises
DGMS	-	Director General, Department of Management Services
DGNB	-	Director General, Department of National Budget
DGPE	-	Director General, Department of Public Enterprises
ERP	-	Enterprise Resource Planning
IC	-	Investment Committee
JV	-	Joint Ventures
KPIs	-	Key Performance Indicators
NPG	-	National Procurement Guidelines
MSD	-	Department of Management Services
OM	-	Operational Manual
ROI	-	Return on Investment
SCM	-	Supply Chain Management
SOEs	-	State Owned Enterprises
SOR	-	Scheme of Recruitments
VRS	-	Voluntary Retirement Scheme

1. Introduction

This Operational Manual has been drafted within the broad framework as established by the "Guidelines on Corporate Governance for State Owned Enterprises".

This Manual provides operational directions on the conduct of business within the State Owned Enterprises (SOEs), with the aim of achieving the objectives as given in the relevant Act of Parliament or the Articles of Association (AoA). In doing so, this Manual places importance on inculcating a performance driven culture within the entity.

The Chief Executive Officer (CEO)[1] collaborating with other Heads of Operations should undertake a gap analysis between the existing structures and those recommended in this Manual and must take action in consultation with the Boards to enhance their existing operational structures as appropriate, to meet the requirements as noted in this Manual.

1.1. Applicability

This Manual is applicable to all SOEs established as Statutory Boards[2], Commercial Corporations[3], and State Owned Companies[4]. The companies listed in the Colombo Stock Exchange (CSE), Subsidiary Companies and State Banks are exempted from the applicability of this Manual. However, section 3.1(ii) and section 6.6 of this Manual are applicable to the State Banks.

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[1] In certain entities the position of CEO could be equivalent to the positions named Director General, General Manager, Executive Director, Managing Director etc. This will be decided by the law or the AoA as applicable.

[2] Entities established under Special or General Acts of Parliament and are not engaged in the provision of commercial goods or services.

3 Entities established under Special or General Acts of Parliament and undertake a commercialized operation and expected to operate in a commercially viable manner.

4 Entities established and operated under the Companies Act in which the state has direct controlling interest by virtue of its shareholding or otherwise or State Owned Corporations, converted in terms of the Conversion of Public Corporations or Government Owned Business Undertakings into Public Companies Act, No. 23 of 1987.

1.2. The Legal and Regulatory Governing Framework

The following key legislations and regulatory framework are primarily applicable to the SOEs.

i. Constitutional Provisions.
ii. Enabling Acts of Parliament including the Companies Act, No. 7 of 2007.
iii. Other relevant Statutes including the Part 2 of the Finance Act, No. 38 of 1971, Right to Information Act, No. 12 of 2016 and the Conversion of Public Corporation or Government Owned Business Undertakings into Public Companies Act, No. 23 of 1987.
iv. Government Circulars as applicable.
v. Directions of the Committee of the Public Enterprises (COPE).
vi. Sri Lanka Accounting and Auditing Standards Act, No.15 of 1995.
vii. National Audit Act, No. 19 of 2018.

1.3. Nexus between the State Institutions and SOEs

The Board of Directors (BoD) or Governing Council of SOEs are responsible in ensuring that the operations of the SOE are executed in line with the legal mandate provided in the enabling Act or the AoA. In doing so, the Boards must be satisfied that the resource allocations are done ensuring value for money. It is also required that SOEs align their operations within the Government's Policy Framework.

It further noted that all SOEs are accountable to the Parliament and as such their operations must reflect principles of best practices including accountability, transparency, and equity in their operations and the relationships that SOEs will have with other stakeholders including both private and public.

The Secretaries to the Line Ministries not only as the Chief Accounting Officers but also as key stakeholders have a responsibility to ensure that SOEs coming under their purview operate in adherence to the legal framework as applicable and within the Government policy framework. It is also required that oversight functions as discharged by the

Secretaries of Line Ministries and the General Treasury must be in line with the legal framework, especially the enabling Act of the SOE.

The General Treasury will discharge its oversight function of the SOEs and their affairs and make the required policy directions from time to time, so as to improve performance within a framework of good governance. The General Treasury has also a role as the shareholder of SOEs and has fiduciary duty to implement the provisions set out in the Finance Act, No. 38 of 1971.

1.4. Commercial Autonomy for SOEs

The BoD of SOEs is empowered to make business decisions in the competitive environment while ensuring and safeguarding the public interest. As such, considering the dynamic environment in which SOEs operate, the BoD, especially of commercial corporations and companies, is provided with the autonomy and the discretionary authority to make decisions on the strategic direction and the operations of the entity. It is in this backdrop, existing procedures including human resource management, reporting, and performance evaluations are rationalized and novel approaches have been introduced.

1.5. Effective Date

This Manual is effective from 17.11 2021.

2. Operational Systems and Controls

2.1. All SOEs must ensure that sound systems and processes are in place that facilitate the SOEs to operationalize their objectives. These systems and processes must be periodically reviewed to ensure that they are capable of facilitating the SOE to achieve its objectives. In that, SOEs are encouraged to invest in technologies that will improve productivity and effectiveness. Internal controls must be in place in balancing the operational autonomy that is required especially for commercial SOEs. The Board must ensure that each officer is aware of their duties and responsibilities within the larger legal and regulatory framework applicable to the SOE. Responsibilities must be clearly assigned with clear lines of authority and accountability. Resource allocation must be a direct function of the desired outcomes. An internal control system that does not hinder the operational autonomy but creates adequate accountability must be in place.

2.2. It is important that proper control systems are in place to ensure the smooth functioning of the SOEs. In doing so the SOEs are encouraged to adopt an appropriate framework such as the Committee of Sponsoring Organizations (COSO) Framework. Such control framework must include:

i. Control environment

ii. Control activities

iii. Risk management

iv. Information systems and communication

v. Progress monitoring

2.3. In this backdrop, it is imperative that all SOEs have their own systems, processes, and protocols clearly defined in Manuals covering all major operations, which are periodically[5] reviewed and updated. The Board should have clearly defined delegation of authority and responsibility for carrying out these major operations, in line with the

[5] At least every 5 years

Organization Chart. All SOEs are required to adopt their own Administrative and Financial Manuals in line with the relevant provisions of this Manual and should be approved by the BoD.

3. Human Resource Management

3.1. Cadre Management and Remuneration

i. All SOEs must seek the approval of the General Treasury for their cadres and remuneration except those SOEs listed in ***Annexure A.*** The Director General, Department of Public Enterprises (DGPE) will periodically update this list having undertaken a review of the SOEs, as approved by the Secretary to the Treasury.

ii. Unless otherwise provided for in the relevant Statute, SOEs which are under collective agreement for deciding remuneration including state owned banks shall seek concurrence of the General Treasury for their salary revision.

3.2. Approvals for Cadre, Scheme of Recruitments and Pay Structure

i. SOEs referred in 3.1 above, must submit their requests pertaining to cadres including the cadre positions, Scheme of Recruitments (SOR), pay structure and allowances with a Board approval and recommendations of the Line Ministry, for the approval of the Director General, Department of Management Services (DGMS) with a copy to DGPE or Director General Department of National Budget (DGNB) as applicable.

ii. Those SOEs exempted from the provisions of this Chapter as noted in ***Annexure A*** could decide as appropriate on all matters pertaining to Human Resource Management including the size of the cadre, the SOR, the salary structures as approved by the Board having followed a due process[6] considering the business sustainability and industry norms.

iii. It is also important that when a request for a revision of cadres or remuneration is made, that the SOE should undertake a thorough review of their operations, strategic plan, the action plan, and the human resource plan.

[6] This should include a thorough reasoning out on the decisions taken.

iv. The SOEs which have a need for specialized skilled employees with remunerations on par with market scales, should direct such requests to the committee chaired by the Secretary to the Treasury.[7]

v. SOEs must ensure that incentive schemes must always be performance linked as set out in the action plan derived from the strategic plan. Incentive schemes of SOEs except those entities listed in ***Annexure A***, should ensure that the incentive schemes are implemented with the approval of the DGPE.

vi. Bonus payments should be made in line with the circular directions issued by the General Treasury.

3.3. Human Resource Planning

i. The Strategic Plan should embody the cadre requirements of each of the divisions of the SOE, consolidated in the form of a Human Resource Plan.

ii. Each SOE should have an Organization Chart with an approved cadre for the institution.

iii. Any changes to the approved cadre could be identified at the time of reviewing the Strategic Plan.

3.4. Recruitments, Promotions and Succession Planning

Every SOE should ensure that its Human Resource requirements are properly identified and planned for. Such a plan must identify the vacancies, the new posts to be created and the skills required for the post. It is also required that each SOE has a succession plan.

i. In formulating schemes for recruitments and promotions, the following aspects should be incorporated.

a. Job description

b. Requisite professional/ academic qualifications

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[7] As established by the decision of the Cabinet of Ministers on 08-02-2021 on the Cabinet Memorandum No. MF/PE/02/CM/2021/019 dated 30-01-2021 on "Enhancing the Capacities of Key Regulators and State Enterprises".

c. Experience required

d. Age limit

e. Mode of recruitment (external advertisement/head hunting/internal notice and written assessment/structure of the interview and the marking scheme)

f. Other conditions (i.e. efficiency bar, language proficiency, computer literacy etc.)

g. Any other criteria stipulated in the Department of Management Services (MSD) circulars with respect to SOEs which requires the approval of the MSD.

ii. Ensure that the appointments of the CEO and the immediate next senior management level to the CEO, are done taking into account the requirement of the entity and in this regard, the Boards are authorized to select a candidate from either internally or externally on merit and performance basis. The appointment of CEO and the immediate next senior management level to the CEO should not be decided by the seniority alone.

In case of internal candidates, no person with less than 3 years[8] of future service capacity (3 years to retirement or end of service or the end of the contract, i.e. a candidate appointed as a CEO should have at least 3 years of service until retirement or end of service) should be given an appointment as the CEO.

iii. The Board must also enter into a performance contract with the CEO which is a reflection of the strategic plan, against which the CEO's performances must be evaluated annually and the incentives including bonuses must be decided.

iv. It is also noted that in certain exceptional instances the requirement for paper qualifications will have to be waived in favor of exceptional skills. Such exceptions must be justified by the Board and concurred by the General Treasury.

[8] While encouraging SOEs to adopt this policy immediately, considering the practical difficulties that may arise in implementing this policy immediately, the Boards should adopt a succession plan that will facilitate the adoption of this policy in full at least by 2025.

v. Recruitments and promotions should be effected systematically in line with the realistic cadre positions of the SOEs.

vi. Effective controls should be exercised over cadre management with systems and procedures geared to meet the changing needs.

vii. Promotions should be based mainly on capability and the performance in line with the succession plan.

viii. Boards must start the process to fill positions of those employees who have given notice of leave as soon as such notice has been provided and, in the case if retirement, at least 3 months before such position gets vacant. When a post becomes vacant, it must not be filled on acting basis for indefinite periods. It is also required that for positions of higher management, in the event of an officer giving notice of leave or retirement, it is important that the successor be recruited as an understudy to ensure that there is a seamless transfer of duties and responsibilities. As a rule, an officer should hold only one permanent post.

ix. If an acting appointment is made under exceptional circumstances, it should be limited to a period not exceeding one (1) year.

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

3.5. Deployment to Other Institutions

An employee of a SOE should not be released to a Ministry or any other institution, without the approval of the Cabinet of Ministers. The SOE should not pay any emoluments to the released employee during such period.

3.6. Performance Appraisal

The BoD must introduce an effective performance appraisal system that is based on the Strategic Plan, Business and Action Plans. As such, the Key Performance Indicators (KPIs) as agreed between the employee and the management should be in place. Accordingly, productivity of each employee needs to be assessed by the immediate supervisor and sectional head annually and recorded properly in the personal file and should be considered for promotions.

3.7. Allowances for Chairmen, Executive Directors, Non-executive Directors and the Observers

The payment of allowances of the BoD and observers shall be based on the government direction and circulars issued from time to time.

3.8. Provision of Communication Facilities and Transport Facilities

The provision of communication facilities and transport facilities to the employees of SOEs shall be based on the government circulars issued from time to time.

3.9. Voluntary Retirement Schemes (VRS)

The government circulars issued on VRS shall be applicable for SOEs.

3.10. Termination of Contract Employees

With regard to contract employees, once their contract period is completed, the CEO must ensure that such contracts are formally terminated unless the Board has decided otherwise, having followed due process.

3.11. Outsourcing

All the non-core activities that can be efficiently performed by an external party may be identified and outsourced by SOEs, provided that such activity is justified having undertaken a cost benefit analysis. Selection of outsourcing partners should be carried out in compliance with procurement procedures.

3.12. Expenses for Official Foreign Travel

Allowances and expenses for official foreign travel undertaken by SOEs shall be made as per the circulars issued by the Government.

4. Supply Chain Management

4.1. An efficient Supply Chain Management (SCM) is a key aspect in the operations of commercial SOEs in facilitating such SOEs to be able to compete in the market. While acknowledging that each SOE is engaged in a unique operation, there are nevertheless common aspects that requires to be addressed including market demand for the good or service, the sourcing of inputs, logistical management, and credit management to name a few.

4.2. This Chapter will provide guidance on the key factors for organizing the supply chains in facilitating the SOEs to achieve their commercial requirements efficaciously. In this, the fundamental requirement is that each officer identified to execute a certain task must not only be provided with a clear line of responsibility but also with sufficient authority and discretion to take the required decisions, with a strong performance evaluation being undertaken periodically.

4.3. Each SOE must identify the SCM process with its protocols, within the organization and incorporate the same in a SCM manual which has to be updated periodically. It is encouraged that SOEs undertake mechanization of the processes wherever possible with the infusion of technology including online systems, databases with the required linkages, to increase effectiveness and efficacy. In establishing a SCM it is required that the SCM shall be fair, equitable, transparent, competitive, and cost-effective. SOEs must pay attention to ensure that the SCM so designed has the following components:

i. **Need Assessment** - It is a requirement that the SOE undertakes a proper mechanism to determine the demand for its goods or services based on the real customer needs. For that purpose, the entity can conduct an industry and market analysis of goods or services to be obtained which includes the determination of a right quantity, quality, and time for the required goods or services. In this, SOEs are encouraged to also examine its past demand patterns.

ii. **Procurement Process**- The SOE must identify the procurement process to be used in procuring the required inputs for the SOE to provide the identified good or service.

iii. **Inventory Management -** Each SOE must ensure that a formal inventory management system is in place for the management of both the inputs and the outputs, and that such system is used without any other shadow systems being operational.

iv. **Sales, Marketing and After Sales Services** - Each SOE must have an effective marketing mechanism that uses the modern platforms including e-platforms, especially in facilitating payment. SOEs are encouraged to create linkages with other organizations in marketing its goods and services, whereby sharing resources.

5. Distribution Policy

5.1. Return on Investments

The SOEs are expected to generate a reasonable return on the investment, with part of the surpluses or profits being channeled to the consolidated fund/shareholders by way of levy or dividend.

Payment of interim and final levies/dividends should be made within fifteen (15) days after the declarations are made. The payment of bonus or profit based incentives should be made to employees of SOEs after the distribution of levies/dividends as applicable.

5.2. Levy from the Statutory Board and Commercial Corporations

Levies from statutory boards and commercial corporations will be from time to time determined and imposed by the General Treasury on behalf of the Minister of Finance in terms of Section 9 (2) (f) of the Finance Act, No.38 of 1971. As such, the BoD of such entities has fiduciary duty to remit the enforced levy to the consolidated fund before meeting any other expenses.

5.3. Dividend Policy

It is expected that at least thirty (30) percent of the profit after tax is distributed to the consolidated fund/shareholders, having satisfied the solvency test as stipulated in the Companies Act, No. 07 of 2007.

5.4. Resource Allocation for Promotional, Advertising, Sponsorship, Donation, and Corporate Social Responsibility Related Expenditures

All SOEs shall make the expenditures for promotional, advertising, sponsorship, donation, and sponsorship related expenditures within the stipulated limits and the guidelines issued by the government from time to time.

6. Financing, Investing and Other Matters

6.1. Financial Management

i. The BoD of the SOE is responsible in ensuring proper financial management systems are in place. It is required that the best practices in financial management be adopted not only in ensuring the proper reporting of transactions, but also in securing value for money in its resource management.

ii. The BoD must delegate financial authority to the management while ensuring that a strong internal control system is in place. A key factor in financial management is ensuring that qualified, knowledgeable, and experienced financial management specialists are employed by SOEs. Such finance departments/divisions must be adequately resourced and must report directly to the CEO.

6.2. Investment of Surplus Funds

i. Boards of SOEs with a consistent revenue of at least Rs. 30 billion per annum in the last two years must establish an Investment Committee (IC) in line with the investment policy established by the BoD, provided that they have not been provided any budgetary support to facilitate the recurrent expenditure including payments of personnel emoluments. Such SOEs may also recruit a fund manager/treasurer who is qualified, knowledgeable, and experienced. Such fund management/treasury departments/divisions must be adequately resourced and must report directly to the CEO.

ii. The IC should consist of a minimum of five (5) members. The IC must be chaired by the CEO with the fund manager/treasurer being a member and the secretary of the IC. It is mandatory that the CFO and the fund manager/Treasurer be members of the Committee. Of the balance two members, the Treasury should be requested to nominate a member while the Board may also appoint an industry expert as well.

iii. The BoD must establish annually their expectations with regard to the average Return on Investment (ROI) at the beginning of the financial year in discussion with the IC and the fund manager/treasurer. The BoD must decide on the levels of authority that can be delegated to the IC. The IC must report every month to the BoD, its decisions for concurrence, and will have to seek approval to proceed with investment recommendations beyond the limits as authorized by the BoD.

iv. Given the environment in which the investments are undertaken, the ROI must be viewed pragmatically. In this regard, it is noted that the BoD must be satisfied with the process that has been adopted to proceed with investments and that it is in line with the best practices, where the returns could be accepted. The BoD is however required to undertake a thorough review of the investment process at least every two years in ensuring that the investment process is effective, efficient and is reasonable. It is also required that strong internal control mechanisms are in place.

v. However, those SOEs with an average revenue of less than Rs. 30 billion in the last two years, unless such entity has not been supported in meeting its recurrent expenditures through budgetary allocations, then such SOE could invest its surplus funds only in Government Owned Banks and the Treasury Bills and Bonds.

vi. All SOEs must disclose the returns from its investments in their Annual Report (AR) with a report from the IC. Such report must include the investments made, the factors that has had an impact on the ROI of the investments, and the explanation for the deviations from the Boards’ expectations if any. SOEs must adopt Chinese walls whenever so required in facilitating investments.

6.3. Borrowings

Those SOEs incorporated under an Act of Parliament, in line with the provisions in the Finance Act, No. 38 of 1971, when establishing their borrowing limit should, with the recommendation of the BoD, seek the approval of the Line Minister and the concurrence of the Minister of Finance. Approvals must be sought annually and could be revised as required.

Other SOEs incorporated under the Companies Act may borrow with the approval of the BoD. All borrowings must be disclosed in the AR.

6.4. Foreign Loans/Grants

All foreign loans and grants to be obtained for the creation of capital assets shall require the concurrence of the Ministry of Finance unless such loan is to be raised to meet the working capital requirements.

6.5. Creation of Subsidiaries, Investments in Subsidiaries and Entering into Joint Ventures

SOEs are not allowed to incorporate or acquire subsidiaries without the approval of the General Treasury.

SOEs are encouraged to enter into Joint Ventures (JV) and strategic alliances, for commercial purposes with other SOEs or even with private entities. When the JV or the strategic alliance is between two SOEs, the BoD should take the final decision, with the agreement being cleared by the in-house legal team. The approval of the Attorney General's Department is not required.

However, when the JV or the strategic alliance is between a SOE and an entity in which there is no direct or indirect controlling interest to the government, such agreement could only be finalized with the concurrence of the General Treasury. Unless exemptions are provided, the ensuing agreements must be cleared by the Attorney General's Department before entering into the agreements.

6.6. Accounting and Reporting

All SOEs must have an accounting system which should facilitate the preparation and presentation of Financial Statements in compliance with Accounting Standards as applicable.

Draft AR and accounts should be handed over to the Auditor General within sixty (60) days after the close of the financial year.

Financial Statements together with the Audit Report should form part of the AR to be tabled in Parliament within five (5) months after the close of the financial year. Detailed guidance for preparation of AR is given in ***Annexure III*** of the *"Guidelines on Corporate Governance for State Owned Enterprises"*.

The AR should be user friendly and comprehensive. The AR should provide a snapshot view of the performance and position of the SOE, maintaining the highest levels of transparency, disclosing all relevant information to reflect a true and fair view of the state of affairs.

6.7. Annual Asset Verification

Annual asset verification must be carried out on the 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.

6.8. Use of SOE's Resources by Other Institutions

Ministries and other institutions should not use the resources of the SOEs to carry out their functions.

6.9. Write-offs

The BoD of SOEs may write off losses, having undertaken a due process. However, with regard to writing off of a loss incurred due to a theft or negligence that requires legal action, the write off should not stop any legal process that needs to be undertaken.

The BoD must ensure that there is a due process followed including recommendation from Audit Committee (AC) on write offs.

6.10. Dissolution/Liquidation

Any dissolution or liquidation processes of SOEs must be initiated only with the approval of the Cabinet of Ministers.

i. **Liquidation Process**

a. 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 Section. 19 of the Finance Act, No. 38 of 1971.

b. Companies incorporated under the Companies Act should be wound up in terms of the Companies Act, No. 7 of 2007.

c. Once the liquidator is appointed, the Chairman and BoD should submit their resignations and not continue thereafter.

d. Progress of dissolution.

- Progress of the liquidation work should be supervised by the Line Ministry and progress should be reported quarterly to the Department of Public Enterprises.

- The duration to complete the liquidation should not exceed a maximum of six (6) 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 of Ministers should be obtained for any extension.

6.11. Database and Websites

All SOEs should have a clear communication policy with its stakeholders, both internal and external, that facilitates the SOE to make informed decisions while ensuring transparency and accountability.

Use of technology is strongly encouraged and all SOEs must have its own website that provides a comprehensive view about the SOE. As such, the web sites must have information on operational and financial aspects provided in a user-friendly manner which is also periodically updated. It is also mandatory that the SOEs also upload the procurement plan, the project execution plan on to the website.

Further, the SOEs should move into the digitalized platforms and commercial SOEs are strongly encouraged to have Enterprise Resource Planning (ERP) solutions, to create a more streamlined and efficient operation, facilitating the compression of the overall operational costs. Maintenance of data bases are also required.

The BoD should identify a competent officer to ensure that its communications with its stakeholders, especially the content management of the websites and external parties are undertaken regularly in a professional manner.

7. Performance Evaluation

7.1. The performance evaluations are mandatory at all SOEs and is a primary responsibility of the BoD. The BoD should lead from the front and establish simple and clear mechanisms that facilitate the establishment of performance evaluations linked to the achievement of the expected objectives.

7.2. The performance evaluations must have identified KPIs that are recognized when the strategic plans are prepared. The KPIs must be established to reflect the macro level requirements as well as the operational requirements. When such strategic plans are submitted, the SOE and the General Treasury must agree upon the macro level KPIs. Once the macro level KPIs are agreed between the General Treasury and the SOE, the SOE must adjust the operational KPIs to be in line with the macro level KPIs.

7.3. The BoD should periodically review KPIs including against the action plan and the budget to ensure that actual performance is in line with the expected KPIs. Periodic performance reviews should result in the BoD taking remedial actions to ensure that the KPIs are achieved.

7.4. As such, to facilitate such discourse and decision making, the Board should at its monthly Board meetings examine the following reports:

i. Physical and financial progress

ii. Working capital, cash flow, liquidity position

iii. Debt position

Apart from the above monthly reports, the BoD should request the management to provide any other document as the BoD may feel is required to ensure an effective performance review.

7.5. SOEs should forward monthly, quarterly, and annual performance reports to the Line Ministry and General Treasury in such formats as required. The General Treasury will receive the performance data of SOEs through a web-based Information platform developed to ensure close oversight of the SOEs performance.

7.6. For this purpose, all SOEs should allocate a senior officer to be responsible for the submission of such data and information as required by the Line Ministry and the General Treasury.

7.7. Subsidiary Reviewing Policy

The BoD of the parent entity must establish a structure that facilitates oversight of the performance of the subsidiaries. It is advisable that a subsidiary policy be adopted by the BoD that is in line with the provisions of the Companies Act, No. 7 of 2007. As such, the BoD has a fiduciary duty to discuss the performance of the subsidiaries at least quarterly and should ensure that an adequate ROI could be obtained.

Annexure A

1. Center for Robotics (Pvt) Ltd.
2. Distance Learning Center Ltd.
3. Expressway Transport (Pvt) Ltd.
4. Gal-Oya Plantations (Pvt) Ltd.
5. Helitours (Pvt) Ltd.
6. Hotel Developers (Lanka) PLC
7. Information & Communication Technology Agency of Sri Lanka (Pvt) Ltd.
8. Rakna Arakshana Lanka Ltd.
9. Sahasya Investments Ltd.
10. Selendiva Investments Ltd.
11. Sri Lanka Institute of Biotechnology (Pvt) Ltd.
12. Sri Lanka Institute of Nano Technology (Pvt) Ltd.
13. Sri Lanka Insurance Corporation Ltd.
14. Sri Lankan Airlines Ltd.

Director General

Department of Public Enterprises

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