

# **Special Audit Report on the Evaluation of Performance of Strategic Enterprise Management Agency (SEMA)**

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## **1. Executive Summary**

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According to the Article 33 of Constitution of the Democratic Socialist Republic of Sri Lanka, Strategic Enterprise Management Agency had been established in year 2004 as per the powers of His Excellency the President. The main objective of establishing this agency was forming of not for profit state entities as autonomous commercially viable enterprises through strategic plans without privatization. However, it was observed at the audit that objective had not been achieved and accordingly this audit had been planned to examine the effectiveness of carrying out this entity further.

Although the power should be given through a warrant by His Excellency the President in order to make this entity effective, it was a specialty that the present President had not signed such warrant and this entity had been carried out without obtaining such power.

Further, a Board of Directors had not been appointed for the administrative matters in here and all the operational activities had been done based on the financial powers granted by the presidential Secretary to the Chairman of the entity. Also, a cadre had been recruited to the entity without proper Scheme of Recruitment and cadre that should be in the entity or even salaries and allowances that should be paid had not been approved properly even by the present. Further, although the allowances of about Rs. 19 million had been paid from January to September 2017 to the Advisory Board that recruited to the entity, it was observed that the necessity of those advisors had not been identified properly and the role performed by them had not been documented properly.

Although this entity had been assigned for the preparation and supervision of strategic plans of 12 state institutions at the initial, later 10 another state institutions other than

these institutions, the sufficient evidences that preparation and supervision of the strategic plans for those institutions was done as such had not been presented to the audit.

Accordingly, it is likely to show that the liquidation of the existence of this entity properly is suitable as it is not productive to operate such entities further by spending public money unnecessarily as such without sufficient benefit or to operate with the Board of Directors appointed properly by enforcing through a warrant by consolidating productively with other state institutions that engaged in parallel works.

## **2. Nature and Background of issuing the Report**

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Although it had been allocated provisions normally over Rs. 50 million annually for the continuation of Strategic Enterprises Management Agency (SEMA) that established before 14 years with the objective of establishment of not for profit public institutions as autonomous commercially viable enterprises by strategic plans without privatizing, it was observed that the expected objectives had not been accomplished from that. Therefore, this report was prepared and presented in order to examine the effect on the economy through the continuation of this entity that not received the expected benefits and continued with incurring unnecessary burden to Sri Lanka economy.

## **3. Audit Methodology**

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- 3.1 Examination of documents
  - 3.1.1 Constitution of Democratic Socialist Republic of Sri Lanka
  - 3.1.2 Financial Regulations
  - 3.1.3 Cabinet memorandum and papers related to SEMA
  - 3.1.4 Relevant warrants
  - 3.1.5 Reports of Board of Directors
  - 3.1.6 Financial reports and documents
  - 3.1.7 Progress reports

- 3.2 Other methodology
- 3.2.1 Discussions with authorities of the entity
- 3.2.2 Obtaining replies for issuing queries

#### **4. Audit Scope**

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The audit scope is the examination of formality of the actions taken to fulfill its objectives and continuing its financial and establishment controls when implementing this SEMA entity established in the year 2004 until present.

#### **5. Scope Limitation**

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My scope was subjected to the following limitations when preparing this report.

- 5.1 Inability to examine the reasons for not issuing warrant by His Excellency the current President.
- 5.2 Marked only the matters related to the period after the year 2014 due to unavailability of documents and reports properly.

#### **6. Process**

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- 6.1 Introduction of Strategic Enterprise Management Agency
- 6.1.1 Establishment of the entity

According to the Cabinet Memorandum No. 04/0460/001/006 dated 06 May 2004 (Setting up Strategic Enterprise Management Agency) (Annexure 01), SEMA was established by a warrant on the powers vested on His Excellency the President as per 33 constitution of the Constitution of Democratic Socialist Republic of Sri Lanka (Annexure 02). Accordingly, the first warrant had been signed by His Excellency the President where upon on 04 June 2004 in respect of SEMA.

#### 6.1.2 Objectives of Establishing the entity

The basic objective of this is the establishment of non-profit public institutions as autonomous commercially viable enterprises by strategic plans without privatizing. (Annexure 03)

#### 6.1.3 Powers Vested on the Entity by Warrant

The power had been delegated through warrant to accomplish the organization, administration and financial matters autonomously and the progress of the matter of the entity should be reported to His Excellency the President semi-annually.

#### 6.1.4 Administrative Matters of the Entity

The Board of Directors with 07 members including the chairman should be appointed by the President and the administrative and managerial decisions of the entity should be taken by this Board of Directors.

#### 6.1.5 Supervisory Matters assigned

SEMA had been assigned to prepare and supervise strategic plans of 12 public institutions as per initial warrant of the entity (Annexure 04) issued on 04 June 2004, 20 public institutions as per second warrant (Annexure 05) issued on 24 April 2006. Later, the number of public institutions supervised by SEMA was 22 due to the assignment of supervision even in Sri Lanka Handicrafts Board (Laksala) and Lanka Salusala Limited by the Gazette No. 160/34 dated on 15 May 2009 (Annexure 06).

## 6.1.6 Administrative and Financial management

6.1.6.1 It had been advised that the Presidential Secretary is the Chief Financial Officer of the institutions established under Constitution 33 of the Constitution and the financial and administrative matters of those institutions should be in compliance with Establishment Code, Financial Regulations and the circular guidelines and rules that issued time to time for the public institutions. Further, it had been mentioned that the functions of the entities should be limited to the functions mentioned in the warrant issued for those institutions, if any, functions are done beyond the prevailing rules, those proposals should be presented to the presidential Secretary and obtained approval. Further, it had been advised that all functions that done without such approval and the payments for that should be banned after issuing this circular.

6.1.6.2 The provisions had been allocated for the expenditure of SEMA under head of the Presidential Secretariat. Accordingly, Rs. 63 million in 2016 and Rs. 72 million in 2017 had been allocated. The expenditure incurred by the Government for SEMA from 2014 to 2017 is given below in brief.

Table No 1 – the Expenditure incurred by SEMA – 2014 – 2017

<b>Year</b>	<b>Recurrent Expenditure (Rs.)</b>	<b>Capital Expenditure (Rs.)</b>	<b>Total (Rs.)</b>
2014	49,807,856	1,320,650	51,128,506
2015	51,978,799	4,628,076	56,606,875
2016	59,971,612	2,991,212	62,962,824
2017	69,996,992	1,999,618	71,996,610
	231,755,259	10,939,556	242,694,815

### 6.1.7 Action Plan

Action Plans had not been prepared by the entity for year 2015 and 2016 and an Action Plan had been prepared for year 2017.

## 6.2 Cadre Management

6.2.1 There was no a cadre that approved by Department of Management Services in General Treasury so as to suit for the objectives of establishing SEMA and a cadre that sufficient for the carrying out daily activities of the entity had been recruited annually by the entity on the contract basis at the beginning.

6.2.2 The necessity of employing a permanent cadre had been arisen with the changing of basic objectives of the entity later and, the had been required to obtain approval of Department of Management Services for that cadre and approval of Salaries and Cadre Commission for placing in an appropriate salary scale to that approved cadre.

6.2.3 According to the organizational chart that presented by the entity (Annexure 08), the entity is controlled by a Board of Directors under a chairman and, a cadre had been appointed to implement the decisions of the Board of Directors and to assist for that.

6.2.4 The activities of the entity had been separated into 07 divisions for the convenience of the administrative activities of the entity and the details of the cadre employed in those divisions and advisors are in following table.

Table 02 Cadre employed in the entity

<b>Division</b>	<b>Executive Officers</b>	<b>Non-Executive Officers</b>	<b>Advisors</b>	<b>Total Number</b>
Administration	01	08	01	10
Accounts	02	03	01	06
Transport	03	00	03	06
Research/Facilities	02	01	11	14
Training and Network Promotion	01	00	14	15
Media/ External Relations matters	02	02	08	12
Supervisory and Coordination	01	02	00	03
	12	16	38	66

### 6.2.5 Recruitment of Advisors

6.2.5.1 Approximately 57 per cent of the entire cadre of the entity had been serving as advisors and they had been categorized as A, B and C and recruited full time and part time.

6.2.5.2 Minimum qualifications (Annexure 09) that considered when recruiting for appoint as advisor in the entity as such had been decided by the Board of Directors.

6.2.5.3 Monthly performance reports should be presented by these advisors for obtaining salaries and allowances according to the agreement of recruitment of advisors to the entity.

6.2.5.4 Allowances of Rs. 19,413,665 had been paid for 38 advisors from January 2017 to September.

### 6.3 Various Projects Implemented by SEMA

The following projects had been implemented by SEMA.

#### 6.3.1 “Sahasara Project”

46 bus routes had been covered by preparing the “Sahasara” concept as a solution for the national transport issue within the country and implementing the pilot project in two bus zones such as Digana and Kadugannawa in Central Province in collaboration with Central Province Road Passenger Authority. Further, the preparation of future development plan so as to protect the sustainability of Ceylon Transport Board had been assigned to SEMA and action had been done to connect the Ceylon Transport Board directly to the Sahasara Project in year 2017. Accordingly, there were giving special gifts weekly, giving incentives for bus owners and dealers of electronic cards for the payment of bus fare and promotion of electronic cards for the payment of bus fare within passengers by evaluating the service of bus conductors weekly as the main objectives of implementing this project. It had been expected to gain the economic profit of Rs. 60 billion annually to the national economy by implementing this project. Further, it had been estimated to incur Rs. 100 million by SEMA and Rs. 1,200 million by other institutions related to it for this project. (Annexure 10)

#### 6.3.2 “Wasawisa Nati Ratak” National Programme

Three years national Plan for a country free from poisonous food based on the government policy for the provision of food free from poison had been presented. The strategies required for the production of all major crops that grown in the island, free from poison had been presented from this. This plan had been presented as a

complementary to the National Food Production Programme (2016-2018) that created by Ministry of Agriculture. It had been estimated to incur Rs. 200 million by SEMA and Rs. 1,300 million by other institutions related to it for this project. (Annexure 10)

## **7. Observations**

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### **7.1 Continuation of the entity without authority**

Although the authority should be delegated for the continuation of the entity through a warrant after appointing a new President, the delegation of authority had not been done through a warrant by the present President as such for the continuation of the entity.

### **7.2 Implementation of Entity out of the Objectives of Establishing**

The observations had been given to the President for 382 cabinet memorandums of 24 ministries out of the main objective within the period of 2007 to June 2014. Further, the information about the works done by the entity in the period of June to December in the year 2014 had not been presented to the audit. Further, although SEMA had been assigned to prepare strategic plans and supervision works for 22 public institutions, the details had not been presented to the audit that the plans were prepared and supervised properly as such.

### **7.3 Action Plan**

As it had not been presented the Action Plan related to year 2015 and 2016, it could not be identified the expected tasks to be done by the entity in those years, financial cost to be planned to incur and the officers that borne the responsibility of each tasks. Further, although the performance reports were presented, the performance of the entity could not be evaluated as the unavailability of action plans.

#### 7.4 Administrative Matters in the Entity

Although a chairman had been appointed for SEMA after the current government came into force in 2015, the Board of Directors had not been appointed by the date of this report. Further, the powers of making all decisions relevant to the entity had been delegated to the chairman by the presidential secretariat. Therefore, it could not be satisfied about the impartiality and optimization of those decisions as the decision that should be made collectively by the Board of Directors had been made by a single person.

#### 7.5 Cadre Management

7.5.1 There was no an approved organizational structure that suitable for the fulfilling objectives of the entity and the required approval for the present cadre and their salaries and allowances had not been obtained by relevant officials up to now.

7.5.2 The recruitments had been done without identifying the requirements when recruiting for the new posts and action had not been take to prepare and approve the Schemes of Recruitment.

7.5.3 It could not be evaluated the works done by them as the job specifications and job descriptions had not been prepared and approved for the posts that employed.

7.5.4 The persons who were not completed the minimum qualifications of recruitment had been appointed for the posts of advisors and the specified works had not been prepared and approved for the advisors.

7.5.5 It had not been confirmed that the expected specialist service was received to the entity when examining the progress reports presented by the advisors that were employed by paying around Rs. 19 million from January to September 2017.

## 7.6 The projects commenced by the Entity

7.6.1 The entity had commenced various projects as mentioned in above 6.3 and it was observed that those projects had been commenced out of the main objective of the entity. Further, the details were presented to the audit that the special approval had been obtained for the implementation of such extraneous projects.

7.6.2 The report on Sahasara project had been handed over to the Minister of Transport on 15 August 2017 and, the actions had been commenced to assign the Wasawisa Nati Ratak Project to Ministry of Agriculture in the year 2018.

## 7.7 Controlling Financial Matters

7.7.1 Some officers who were recruited as advisors had engaged in general administration works in the entity and, two financial advisors had been appointed to control and supervise the total expenditure of Rs. 72 million in the year 2017.

7.7.2 It was observed that there were incidents of non-compliance with the Financial Regulations of Democratic Socialist Republic of Sri Lanka when giving advances by the entity.

## 8. Recommendations

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It was recommended that following measure should be taken immediately for the establishment of SEMA as statutory entity with proper legal framework to provide advices and facilities that required by identifying important fields strategically in Sri Lanka and ensure efficient and productive serve.

8.1 Enforce the SEMA through a warrant by His Excellency the President. (Reference - 7.1)

- 8.2 Finding the background of unrepresented it timely to the President by preparing a new warrant. (Reference – 7.2)
- 8.3 Appointment of appropriate Board of Directors in accordance with the good governance principles. (reference – 7.4)
- 8.4 Achievement of expected objectives by restructuring the SEMA in compliance with the good governance objectives. (Reference – 7.2)
- 8.5 Evaluation of their performance and action taken to approve specific role for the advisors who borne the posts. (Reference – 7.5.4)
- 8.6 Taking actions to get it approve the approved organizational structure as suit for the fulfillment of the objectives of establishing the entity and obtain the required approval for the prevailing cadre and their salaries and allowances. (Reference – 7.5.2)
- 8.7 Taking required actions to smooth the financial management and delegate the financial authority properly. (reference – 7.7)
- 8.8 Approving an appropriate Corporate Plan for the fulfillment of the objectives of the entity and the preparation of Action Plan that suited for it and Budget Estimate, accordingly monitoring actions and supervision properly. (Reference – 7.3)
- 8.9 Paying attention on the risk management.
- 8.10 Taking actions to maintain minimum cost as receiving maximum benefit to the economy under proper supervision by unionizing all other institutions having the objectives concurrence with the objectives of establishing the entity. (Reference – 7.1 -7.6)

## **9. Conclusion**

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- 9.1 It was concluded that the expected objectives had not been fulfilled by this entity that carrying out incurring huge government expenditure from the beginning upto now, the entity had not been operated in economically, efficiently and productively.
- 9.2 It was concluded that it is suitable that paying attention on continuation of the entity productively by consolidating with other institutions engaging in activities concurrence with the activities of this entity or unless it can be done, closure of this entity.

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