# OFFICE OF THE PRESIDENT

**PERMANENT SECRETARY, SECRETARY TO THE CABINET**
**AND HEAD OF THE PUBLIC SERVICE**

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When replying please quote

Ref. No. OP.CAB.9/1A
and date

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27 July 2011

**All Permanent Secretaries** - *with sufficient copies for:-*

**Chairmen and Chief Executives of State Corporations.**

**RE: STATE CORPORATION BOARD MANAGEMENT ISSUES**

Arising from various Public Investment Committee reports and recommendations, it has been noted that some State Corporations do not adhere to the rules, regulations and guidelines as stated in the various Acts and Circulars issued from time to time. Your attention is drawn to the following Board Management issues that have been of concern:

**1. Size of Boards**

It has come to my attention that the membership of the Boards of some State Corporations ranges between 11 and 30 members. The ideal size of the Board should be between 7 and 11 as per good corporate governance principles and State Corporations Act (Cap 446) section 6. In this regard, Ministries with State Corporations that are not in compliance with the best practice will need to review their establishing legislation on matters of Board composition with a view of reducing the size of the Board.

## 2. Attendance of Board Committees by Chairman

It has also been noted that in some State Corporations, the Chairman of the Board attends Board Committee meetings contrary to guidelines issued by this office on 6th November 2006 (***Ref. OP.CAB.9.1A***). This practice should cease forthwith.

## 3. Irregular Payment of Allowances

In accordance with the Circular No. OP.CAB.A/34A from this office and the State Corporation Act Article 10(1), payment of sitting allowances to Chief Executives/Vice Chancellors and Management is not allowed. However some Corporations/Universities have not adhered to these regulations to-date. Similarly, Chairpersons of Boards should not continue to draw honorarium after expiry of the term of office. This should cease forthwith.

## 4. Advances and Loan Schemes to Board Members or Staff

It has been noted that some State Corporations have advanced long term loans and/or development advances to Board members from institutional funds contrary to the provisions of Section 17 of the State Corporations Act. This should stop forthwith.

In addition, some State Corporations have set aside institutional funds for staff mortgage schemes. While in principal it improves staff motivation and retention, there is need to harmonize such schemes to forestall possible abuse and ensure they are sustainable. To ensure that there is equitable administration of such schemes in the public service, all staff mortgage schemes must be approved by the Treasury in accordance with provisions of Section 17 of the State Corporation Act. Chief Executives of State Corporations are directed to ensure compliance.

## 5. Management of Fixed Assets and Liabilities

### a) Land acquisition

The Government has previously directed that all State Corporations should ensure that they get all their land surveyed and acquire title deeds for the same. However, some State Corporations have not complied with this directive. The failure to comply has resulted in the understatement of the value of their assets, as such land is not reflected in their asset register. In addition, there is the risk of the State Corporations losing their land.

All State Corporations are required to immediately initiate the process of acquiring title deeds for all parcels of land in their possession. This process should be concluded within one year from the date of this circular.

**b) Procurement of Obsolete Equipment**

The PIC noted that some organizations have acquired obsolete and out-dated Machinery/Equipment, leading to loss of public funds. It is reiterated that, all Public Sector entities should not only procure goods and services in a transparent manner and in accordance with the procurement and disposal Act, but should also ensure that they obtain value for money while procuring capital assets.

In the future, procurement of obsolete capital goods will be considered a misprocurement and the officers involved held personally liable for the losses.

**c) Government Loan Obligations**

In accordance with the Annual Treasury Circular on budgets, all State Corporations are required to take debt service and statutory obligations as a first charge on their revenue and other income. Despite this requirement and the contractual undertaking through the Loan Agreements, it has been noted that some organizations have defaulted on their obligations in respect of Government loan repayment.

All affected State Corporations are therefore reminded to honour their loan obligations by clearing the loan arrears and making subsequent payments on the due date.

AMB. FRANCIS K. MUTHAURA, EGH
**PERMANENT SECRETARY, SECRETARY TO THE**
**CABINET AND HEAD OF THE PUBLIC SERVICE**

c.c.
State Corporations Advisory Committee

Attorney General

Permanent Secretary/Treasury

Clerk of the National Assembly.