

CMU OPERATIONAL MANUAL
Monitoring and Reporting Manual of CMU
as per SOE Act 2023

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1. INTRODUCTION

The purpose of this manual is to comprehensively document the Central Monitoring Unit's (CMU) responsibilities in **monitoring and reporting on the performance, governance**, and fiscal health of State-Owned Enterprises (SOEs) as mandated by the SOE Act. The manual provides a detailed breakdown of how the CMU carries out its core functions. It explains the processes and methodologies the CMU employs in its operations, such as maintaining and utilizing an electronic database for real-time performance tracking, reviewing the quality of SOE business plans, and conducting financial and governance assessments. The manual also addresses how the CMU assesses risk, specifically through risk reporting, contingent liabilities assessments etc. By outlining these functions, the manual offers clarity on the CMU's internal workflow.

The SOE Act vide Chapter 9: Monitoring Performance of the SOE (State-Owned Enterprises) Act, 2023 lays down the establishment of the CMU and the roles thereof.

Key Highlights from Chapter 9 of the SOE Act, 2023 are as follows:

1. Central Monitoring Unit (CMU) Establishment:

- The Federal Government has to establish a Central Monitoring Unit (CMU) for SOE monitoring within the Finance Division.
- The CMU is responsible for maintaining an electronic database capturing the financial and operational performance of SOEs.
- Specific information to be stored includes:
 - Statements of Corporate Intent.
 - Business plans.
 - Half-yearly and annual reports.
 - Any other relevant information as per SOE management policy.

2. CMU Responsibilities:

- The CMU will analyze SOE performance from a financial, commercial, and operational perspective.
- Based on this analysis, it will submit recommendations to the Federal Government regarding SOE performance and governance.
- Analysis will include overall performance, comparison against business objectives, financial investments, loans, and guarantees issued to SOEs.

3. Risk and Performance Assessment:

- The CMU will assess the risks related to SOEs, including risks that could affect the state's investment in them.
- It will review major transactions, public service obligations, and compliance with SOE policies.

4. Reporting and Evaluation:

- The CMU will issue periodic reports (at least every six months) detailing the performance of SOEs and related matters.
- A consolidated annual report on SOE performance will also be published, with the Federal Government's approval.

2. DISCLOSURES TO THE CMU

Section 32 of the SOE Act lays down the disclosures to the CMU which are summarized as follows:

1. **Information Submission Requirement:** Every State-Owned Enterprise (SOE) must submit relevant information to the Central Monitoring Unit (CMU) as required by the SOE Act.
2. **Correction of Errors:** If any changes or errors are found in the previously submitted information, the SOE must update or correct the details within 15 days of discovering the change or error.
3. **Disclosure Requests by CMU:** The CMU can issue written notices to SOEs, requesting disclosures necessary to fulfill its functions under the Act.
4. **Compliance Timeline:** SOEs must comply with any CMU disclosure request within 10 working days of receiving the notice.

3. FUNCTION PROCESSES AND TIMELINES OF CMU

1. Semi-Annual Report on SOE Performance:

- Timing: 4 months after the end of the first half of the financial year.
- Action: CMU will prepare and submit a summary report on SOEs' progress against business plan targets based on SOE semi-annual reports and other inputs as required.

2. Annual Report on SOE Performance:

- Timing: 6 months after the end of the financial year.
- Action: CMU will prepare and submit a report on SOEs' progress against business plan targets based on analysis of audited financial statements and annual reports.

3. Report on Quality of Business Plans:

- Timing: 3 months after the commencement of the financial year.
- Action: CMU will analyze SOEs' business plans for quality, relevance, and if the key performance indicators are SMART (Specific, Measurable, Achievable, Relevant, Time-bound). Feedback and recommendations will be submitted to CCoSOEs.

4. Report on Quality of Annual Reports:

- Timing: 5 months after the end of the financial year.
- Action: CMU will conduct a high-level analysis of SOEs' annual reports, assessing content against good practices, accounting standards, and providing feedback to improve relevance. This will be submitted to FG and other relevant bodies.

5. Report on Risks:

- Timing: 1 month after the commencement of the financial year.
- Action: CMU will report to FG, Line Ministries, and MOF on risks associated with SOEs that could impact the state's investment in SOEs.

6. Annual Aggregate Report on SOE Performance:

- Timing: 6 months after the end of the financial year.
- Action: CMU will prepare a draft aggregate report on SOE performance covering financial performance, compliance, board composition, sector distribution, and more. The draft will be submitted to Line Ministries, Ministry of Finance, and CCoSOEs.

7. Feedback Collection on Annual Aggregate Report:

- Timing: 7 months after the end of the financial year.
- Action: The report is shared with relevant stakeholders for feedback.

8. Submission of Final Report:

- Timing: 8 months after the end of the financial year.
- Action: CMU submits the final report to CCoSOEs for consideration.

9. Publication of Report:

- Timing: 9 months after the end of the financial year.
- Action: The report is published on the CMU/Finance Division's website.

This timeline highlights the structured approach of the CMU in monitoring and reporting the performance of SOEs, ensuring alignment with government objectives and transparency in reporting processes.

4. MONITORING MATRIX OF CMU

Monitoring Matrix for SOE Business Plans

Area of Evaluation	Key Elements	Metrics/Indicators	Source of Data	Weightage	Notes
1. Introduction and Overview	Purpose and scope/clarity (important)	Clarity and alignment with national policy/strategic vision of SOE	Business plan document	10	Assess how well the plan sets the context and aligns with national goals. Is it realistic???
2. Operations and Strategic Direction	Current operations Strategic goals	SWOT analysis result. Strategic objectives clarity	Business plan document	20	Evaluate operational efficiency and strategic alignment
3. Financial Performance Measures	Financial goals Budgets and forecasts Financial health indicators Risk management	Achievement of financial targets. Accuracy of forecasts. Liquidity, debt ratios, etc Risk management effectiveness	Business plan document (projections)	20	Monitor financial health and risk mitigation
4. Non-Financial Performance Measures	Operational metrics Sustainability Talent development	Efficiency metrics Sustainability targets Training and development initiatives	Business Plan document Operational data Sustainability reports HR reports	10	Check non-financial operational efficiency and CSR initiatives/ESG etc.
5. Linking Measures to Objectives	Integrated performance measurement	Alignment of metrics with strategic objectives	Balanced scorecard reports	10	Ensure that all measures contribute to overarching goals
6. Monitoring and Reporting	Review mechanisms Continuous improvement	Effectiveness of review processes. Implementation of improvements	Review meeting notes Improvement reports	15	Track the effectiveness of monitoring and adaptability
7. Stakeholder Engagement	Communication and accountability	Quality and frequency of communication. Accountability measures	Stakeholder feedback Compliance reports	10	Gauge stakeholder satisfaction and compliance
8. Conclusion and Summary	Coherence and executive summary	Completeness and clarity	Business plan document	5	Review the overall coherence and summary effectiveness

Area of Evaluation	Weighting (%)	Rationale
1. Introduction and Overview	5%	Important for alignment but lower direct risk
2. Operations and Strategic Direction	15%	Core to operational success and strategic alignment
3. Financial Performance Measures	25%	High impact on SOE's viability and financial health
4. Non-Financial Performance Measures	10%	critical for long-term sustainability but slightly lower immediate financial impact
5. Linking Measures to Objectives	10%	ensures strategic alignment but overlaps with other areas
6. Monitoring and Reporting	10%	Crucial for ongoing assessment and transparency
7. Stakeholder Engagement	10%	Key for maintaining public and government trust
8. Conclusion and Summary	5%	Summarizes plan but lower direct impact on risk

Monitoring Matrix for SCI

Area of Evaluation	Key Elements	Metrics/Indicators	Source of Data	Weightage	Notes
1. Defining Objectives	Alignment with national policies	Relevance and alignment with government priorities	SCI document	Annual	Ensure objectives are in line with national goals
2. Performance Expectations	Financial and non-financial targets	Achievement of set KPIs	Performance reports	Quarterly	Measure effectiveness against set targets
3. Strategic Framework	Direction and risk management	Strategic plan adherence Risk mitigation effectiveness	Strategic plan Risk assessment reports	Bi-annually	Assess strategic direction and risk management
4. Financial Planning	Financial targets and structure	Revenue growth, profitability, etc. Debt-equity ratio	Financial statements	Quarterly	Financial health and capital structure analysis
5. Non-Financial Goals	Community and employee engagement	Community project outcomes Employee satisfaction	Community reports Employee surveys	Annually	Assess impact on community and employee welfare
6. Governance and Compliance	Governance structure and legal compliance	Board effectiveness Compliance with laws	Governance reports Legal audit reports	Annually	Ensure effective governance and legal compliance
7. Monitoring, Reporting, Review	Evaluation and transparency	Quality of reporting Adaptation to changes	Performance reviews Update reports	Quarterly As needed	Monitor the effectiveness of reporting and SCI updates

Weighting for SCI

Area of Evaluation	Weighting (%)	Rationale
1. Defining Objectives	10%	Foundation of SCI, guiding all actions
2. Performance Expectations	20%	Directly related to SOE's success and accountability
3. Strategic Framework	15%	Guides long-term direction and risk management
4. Financial Planning	20%	Financial health is critical for SOE stability
5. Non-Financial Goals	10%	Important for social responsibility and long-term sustainability
6. Governance and Compliance	15%	Essential for legal and ethical operation
7. Monitoring, Reporting, Review	10%	Enables adaptability and continuous improvement

FINANCIAL PERFORMANCE EVALUATION MATRIX

Category	Metric	Description	Target/Threshold
Liquidity	Current Ratio	Measures the ability of the SOE to pay short-term obligations.	> 1.5
	Quick Ratio	Assesses the SOE's ability to meet short-term obligations with its most liquid assets.	> 1.0
Solvency	Debt to Equity Ratio	Indicates the proportion of equity and debt the SOE uses to finance its assets.	< 2.0
	Interest Coverage Ratio	Measures how well the SOE can meet its interest obligations.	> 1.5
Profitability	Net Profit Margin	Shows the percentage of revenue that remains as profit after all expenses.	Industry-specific benchmark
	Return on Assets (ROA)	Indicates how efficiently the SOE uses its assets to generate profit.	Industry-specific benchmark
	Return on Equity (ROE)	Measures the return on the shareholders' equity.	Industry-specific benchmark
Efficiency	Asset Turnover Ratio	Shows how efficiently the SOE uses its assets to generate sales.	Industry-specific benchmark
	Inventory Turnover Ratio	Measures how quickly inventory is sold and replaced over a period.	Industry-specific benchmark
Social and Environmental Impact	Carbon Footprint	Measures the total greenhouse gas emissions caused directly and indirectly by the SOE.	Set reduction targets
	Social Impact Score	A composite index reflecting the SOE's impact on social goals such as employment creation, skills development, and community support.	Set improvement targets

CORPORATE GOVERNANCE OVERALL EVALUATION MATRIX

Category	Criteria	Description	Evaluation Method
Board Structure and Composition	Board Independence	Proportion of independent directors on the board.	Percentage of independent directors.
	Diversity	Diversity in board composition regarding gender, ethnicity, experience, and skills.	Diversity index or score.
	Board Size and Composition	Appropriateness of the board size and mix of skills to effectively oversee the company.	Assessment of skills and size.
Board Functions	Role Clarity	Clear definition and separation of roles between the board and management.	Review of charter and policies.
	Board Meetings Frequency and Quality	Adequacy of the number of meetings and the quality of discussions and decision-making.	Number of meetings and meeting minutes review.
	Board Committees	Existence and effectiveness of key committees (e.g., Audit, Risk, Remuneration, Nomination).	Evaluation of committee charters and reports.
Risk Management and Internal Controls	Risk Management Framework	Comprehensive risk management framework tailored to the company's context.	Review of risk management policies and procedures.
	Internal Control Systems	Effectiveness of internal controls in ensuring accurate and reliable financial reporting and compliance.	Audit reports and internal control assessments.
Transparency and Disclosure	Public Disclosures and Transparency	Quality, timeliness, and accuracy of information disclosed to stakeholders.	Analysis of annual reports, press releases, and regulatory filings.
	Shareholder Communication	Effectiveness of communication with shareholders and responsiveness to their concerns.	Review of shareholder meeting minutes and feedback mechanisms.
Ethics and Social Responsibility	Code of Ethics and Conduct	Existence and enforcement of a code of ethics that governs corporate behavior.	Review of code and examples of enforcement.
	Corporate Social Responsibility (CSR)	Commitment to CSR and sustainability practices.	Evaluation of CSR initiatives and sustainability reports.
Executive Compensation and Performance	Alignment with Performance	Alignment of executive compensation with company performance and long-term shareholder value.	Analysis of compensation policies and performance metrics.
	Transparency of Compensation Policies	Transparency and fairness of the process for setting executive compensation.	Review of disclosure on compensation determination process.

5. HIERARCHY OF CMU

The hierarchy of the Central Monitoring Unit (CMU), starting from the Director General and flowing through Unit Heads, Portfolio Managers, and Financial Analysts, with a reporting line to the Cabinet Committee on State-Owned Enterprises (CCoSOEs) is as follows:

1. Director General (DG)

- Role: The DG oversees the CMU's overall strategy, operations, and alignment with national objectives, ensuring effective monitoring and support for SOEs and to monitor compliance with SOE Act 2023.
- Reporting: The DG reports directly to the Cabinet Committee on State-Owned Enterprises (CCoSOEs) and the Ministry of Finance, presenting key findings, risks, and strategic recommendations.

2. Unit Heads

- Each unit within the CMU is led by a Unit Head who is responsible for specific functional areas. These leaders directly report to the DG and are responsible for guiding the overall focus of their units.

3. Portfolio Managers

- Role: Portfolio Managers work within the respective units, managing groups of SOEs according to sector or specific risk profiles. They focus on detailed analysis, sector-specific performance, and the strategic oversight of their portfolios.
- Responsibilities: Portfolio Managers conduct in-depth analysis of assigned SOEs, track performance against key metrics, and identify areas requiring intervention or improvement. They provide regular updates to their respective Unit Heads and collaborate on recommendations for SOEs under their purview.
- Reports to: Relevant Unit Heads

Overall Reporting Flow:

- Director General (DG) → Unit Heads → Portfolio Managers

Key Reporting to CCoSOEs:

- The Director General regularly compiles reports from all units, including fiscal risk assessments, governance evaluations, and performance metrics. These reports are submitted to the Cabinet Committee on State-Owned Enterprises (CCoSOEs) to inform strategic decision-making, policy development, and ongoing fiscal oversight of SOEs. This manual will be updated as per requirements deemed necessary.