



**Government of the Republic of Trinidad and Tobago**  
**Ministry of Public Utilities**  
**Office of the Permanent Secretary**

MPU 18/2/3  
PS/ASF/mb

January 31, 2018

**Mrs. Jacqui Sampson-Meiguel**  
**Clerk of the House**  
Parliament  
International Waterfront Centre  
Levels 1-8 Tower D  
#1A Wrightson Road  
PORT OF SPAIN

Dear Mrs. Sampson-Meiguel,

**Re: Ninth Report of the Public Accounts (Enterprise) Committee (PAEC) on the Examination of the Audited Financial Statements of the Telecommunications Services of Trinidad and Tobago Limited (TSTT).**

Reference is made to the matter at caption, as well as, the letter from the Speaker of the House of Representatives to the Minister of Public Utilities dated November 30, 2017 in respect of same.

As you are aware, therein the Ninth Report of the PAEC, were recommendations made toward TSTT. In accordance with the instructions detailed in the said letter, please find enclosed the Ministerial Response to the Ninth Report of the Public Accounts Enterprises Committee, and also be advised that the Ministerial Response was forwarded to your office via email on January 31, 2018.

In the event that you require any additional information and/or clarification, you may contact **Ms. Anika Sarah Farmer, Director, Legal Services**; her contact information is as follows:

**PBX: 628-9500 ext. 5210**  
**E-mail: [AFarmer@mpu.gov.tt](mailto:AFarmer@mpu.gov.tt)**

Yours faithfully,

.....  
Permanent Secretary (Ag.)  
Ministry of Public Utilities

**PERMANENT SECRETARY**  
**Ministry of Public Utilities**

**One Alexandra Place, #1 Alexandra Street, St. Clair, Trinidad W.I.**  
• Tel: (868) 628-9500 • Fax: (868) 628-6067  
website: [www.mpu.gov.tt](http://www.mpu.gov.tt)





**Government of the Republic of Trinidad and Tobago**  
**Ministry of Public Utilities**

**MINISTERIAL RESPONSE TO NINTH REPORT OF THE PUBLIC  
ACCOUNTS (ENTERPRISES) COMMITTEE ON ITS EXAMINATION  
OF THE AUDITED ACCOUNTS, BALANCE SHEET AND OTHER  
FINANCIAL STATEMENTS OF THE TELECOMMUNICATIONS  
SERVICES OF TRINIDAD AND TOBAGO FOR THE FINANCIAL  
YEARS 2008 - 2016**

JANUARY 30, 2018

## 1. INTRODUCTION

- 1.1. A report entitled the Ninth Report of the Public Accounts (Enterprises) Committee (“the Committee”), Third Session of the Eleventh Parliament on its Examination of the Audited Accounts, Balance Sheet and Other Financial Statements of the Telecommunications Services of Trinidad and Tobago (“TSTT”) for the financial years 2008 – 2016 was laid in the House of Representatives on November 24, 2017 and in the Senate on November 28, 2017.
  
- 1.2. Standing Orders 100(6) and 110(6) of the Senate and the House of Representatives respectively, require the Ministry with responsibility for the Ministry/Body reported on by a Joint Select Committee to present to each House, a paper responding to the recommendations/comments contained in the Report.
  
- 1.3. In accordance with the above Standing Orders, the Ministry of Public Utilities has prepared a response on behalf of Senator, The Honourable Robert Le Hunte, Minister of Public Utilities; and, the said response as contained in this paper is being submitted for the consideration of the House of Representatives and the Senate.

## 2. Issues Observations and Recommendations of the Committee and the Ministerial Response

### 2.1. II – Lack of Cabinet Approval for TSTT’s \$255Mn Acquisition of Massy Communication

#### **2.1.1. Observations and Recommendations of the Committee**

According to Section 2.2 of the State Enterprises Performance Monitoring Manual, “the Cabinet under the principle of collective responsibility approves Shareholder rights and the responsibilities of Line Ministries with respect to State Enterprises. It is accountable through Parliament to the Public with regard to the management of the investments of the State.” In oral response, TSTT advised the Committee that no approval was sought from the Government or the Cabinet of the Republic of Trinidad and Tobago for the \$255Mn acquisition of Massy Communications. TSTT further indicated that its decision to acquire Massy Communications’ assets was an operational decision and thus, the Board of Directors acted within TSTT’s mandate. It reiterated that fifty-one percent of TSTT was owned by NEL, a publicly traded company which was partially owned by the Government of Trinidad and Tobago. Thus, it was the Committee’s view that TSTT should have sought approval from Cabinet for this major acquisition.

#### ***Recommendations:***

- ***As a State Enterprise, the Board of TSTT must seek approval from the Cabinet of the Republic of Trinidad and Tobago when making major investment decisions going forward; and***
- ***The company should provide a copy of the purchase agreement between TSTT and Massy Communications to the Parliament no later than December 31, 2017.***

### **2.1.2. Ministerial Response**

- *As a State Enterprise, the Board of TSTT must seek approval from the Cabinet of the Republic of Trinidad and Tobago when making major investment decisions going forward; and*

While the recommendation of the Committee is noted it is respectfully submitted that there is no existing requirement on State Enterprises to seek the approval of Cabinet for major investment decisions. Section 3.1.14 of the State Enterprises Performance Monitoring Manual imposes an obligation on State Enterprises 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.

The Ministry therefore sees value in the recommendation but is of the view that having regard to the fact that implementation of same would involve a change to the official policy position of the Government of the Republic Of Trinidad and Tobago as set out in the State Enterprises Performance Monitoring Manual, this recommendation is better placed with the Minister of Finance in his capacity as Corporation Sole, as the Board of TSTT will be guided by the existing provisions of the State Enterprises Monitoring Manual.

- *The company should provide a copy of the purchase agreement between TSTT and Massy Communications to the Parliament no later than December 31, 2017.*

Based on legal advice obtained, the Ministry is of the view that the purchase agreement contains commercially sensitive information which should not be provided to the Parliament. To do so, there is risk of breaching the fiduciary duties of the directors and the relevant mergers and acquisitions legislation. Further, the shares of TSTT, held by NEL, are traded on the Stock Exchange and subject to the SEC regulations.

## **2.2. III - Exorbitant Personnel Costs**

### **2.2.1. Observations and Recommendations of the Committee**

TSTT's annual personnel cost was approximately \$750 million. The number of employees employed by TSTT was 2,700 and total annual operating expenditure was approximately fifty percent (50%) of total revenues. During the public hearing, the company advised that in the context of the telecommunications industry, employee costs as a percentage of operating expenditure and revenue were about thirty-three percent and sixteen percent, respectively. TSTT stated that its employee costs were approximately forty-five percent and twenty-five percent of operating expenditures and revenues, respectively. Therefore, it was concluded that personnel costs for TSTT were significantly above the industry's key performance indicators.

#### ***Recommendations:***

- ***TSTT should engage its various stakeholders in identifying ways of reducing operating and administrative costs during the ensuing financial year in an attempt to enhance its profitability.***

- *TSTT should address the fundamental issue of the high employee costs and report to the Committee no later than December 31, 2017 on its progress in reducing employee costs and achieving the intended savings.*

#### **2.2.2. Ministerial Response**

- *TSTT should engage its various stakeholders in identifying ways of reducing operating and administrative costs during the ensuing financial year in an attempt to enhance its profitability.*

The Ministry endorses this recommendation and, in this regard the Committee is asked to note that TSTT as a part of its governance practices continuously engages its stakeholders as it strives to transform the organization into an agile broadband company. This practice will continue during the ensuing financial year as every attempt is made to enhance its profitability.

- *TSTT should address the fundamental issue of the high employee costs and report to the Committee no later than December 31, 2017 on its progress in reducing employee costs and achieving the intended savings.*

TSTT views the management of high employee costs as pivotal to its goal of achieving its planned profitability/savings and in this regard every avenue will be examined as the organization identifies initiatives to reduce both operational and administrative costs. These initiatives

will include Digital Transformation, Path to Service Excellence and Zero Copper programs the details of which are contained in TSTT's Strategic Plan.

### 2.3. IV - Failure of TSTT's VSEP Programme in 2014

#### 2.3.1. Observations and Recommendations of the Committee

The Committee noted that TSTT implemented a VSEP programme which was revisited in 2014. The Committee sought an explanation for TSTT's reasons for revisiting the programme. Through oral response, the company indicated that the programme failed as employees were prevented from accepting the offer due to legal actions by the trade unions. TSTT suggested that this programme was no longer an option for recalibrating staff and intended to use different mechanisms to identify how the workforce will be calibrated in the future.

#### ***Recommendation:***

- ***TSTT should write to the Committee outlining its proposals to address the recalibration of its workforce as was proffered no later than December 31, 2017.***

#### 2.3.2. Ministerial Response

- ***TSTT should write to the Committee outlining its proposals to address the recalibration of its workforce as was proffered no later than December 31, 2017.***

TSTT has already undertaken a restructuring exercise against the background of cost reduction. This restructuring exercise included a recalibration of a number of divisions. Given the

impact of this proposed restructuring exercise on employees the company is presently engaging the recognized majority union in accordance with good industrial relations practices.

## **2.4. V- Insufficient Contributions to satisfy Health Plan Claims**

### **2.4.1. Observations and Recommendations of the Committee**

Loss ratios may be defined as the difference between the ratios of premiums paid to an insurance company and the claims settled by the Company. TSTT, though facing challenges of loss ratios, indicated that they were satisfied that their loss ratios for employees were decreasing. According to the collective agreement, TSTT was not allowed to make any amendments to the group plan without agreement from the Union. Thus, a proposal was made to the union to separate the two plans. Moreover, this proposal included a forty percent increase monthly. On the other hand, retirees were now required to pay towards the health plan which was not the norm prior to 2012. As a result of these two policies, the company has reported a decrease in loss ratios for employees.

#### ***Recommendation:***

- ***Provide the Committee with a plan of how the company intends to address the issue of insufficient funds to satisfy health plans claims.***

### **2.4.2. Ministerial Response**

- ***Provide the Committee with a plan of how the company intends to address the issue of insufficient funds to satisfy health plans claims.***

TSTT has always provided sufficient funds to satisfy legitimate health plan claims which it is legally bound to do.

With respect to a health plan for retirees, discussions are ongoing with the recognized majority union.

## **2.5. VI - Poor Management of Vacation Leave**

### **2.5.1. Observations and Recommendations of the Committee**

The sale and utilization of vacation leave appeared to be a customary practice at TSTT. It was important to note that the company had incurred a liability of approximately \$91 million for vacation leave. Moreover, the company indicated that a new collective agreement was introduced for every three (3) years, impacting the costs of leave as leave was extended from a fully paid 25-day period to a fully paid 35-day period for the longer period service of staff.

Consequently, this increased the liability for leave. In an attempt to reduce this exorbitant liability, employees were given the option to sell their leave back to the organization in exchange for monetary compensation and/or use the leave to buy equipment, or handsets, in the organization as a means of reducing the company's liability. Additionally, TSTT advised that the company implemented several measures, including leave schedules which must be supplied by November 15<sup>th</sup> every year.

***Recommendations:***

- ***TSTT should re-evaluate the practice of selling vacation leave as this is not an exorbitant leave liability by December 31, 2017.***
- ***Operationalization of an effective automated system can resolve a lot of the vacation leave and other related issues;***
- ***The Human Resource Department should make every effort to ensure that all records of all employees should be updated regularly and thoroughly checked and audited internally in an attempt to eliminate any deficiencies.***

**2.5.2. Ministerial Response**

- ***TSTT should re-evaluate the practice of selling vacation leave as this is not an exorbitant leave liability by December 31, 2017.***

The Ministry endorses this recommendation and has been advised that TSTT's leave liability was accumulated over a time span in excess of a decade. Over the last three years TSTT has been exploring several options to reduce this leave liability.

Management has sought to employ different mechanisms to quickly reduce the leave liability to manageable levels. The reality being that unless this is done then once negotiations are completed for salary increases for a new trimester then the leave liability presently in existence automatically increases by millions of dollars

Against this background the selling of leave is but one option employed by Management. However, this option is not exercised in isolation. Before any leave is sold the employee has to apply for and obtain approval to proceed on normal vacation leave. In addition, there are several other mechanisms applied by Management to reduce the leave liability. These are as follows:

- I. The purchasing of phones
  - II. The purchasing of laptops/computers
- ***Operationalization of an effective automated system can resolve a lot of the vacation leave and other related issues;***

The Ministry endorses this recommendation and has been advised by TSTT that as a part of its HR management TSTT has implemented a reliable HRIS system. However, it is acknowledged that a more prudent approach to leave management is required and this is being undertaken. The Ministry intends to follow up on this issue with TSTT over the course of the upcoming fiscal year.

- ***The Human Resource Department should make every effort to ensure that all records of all employees should be updated regularly and thoroughly checked and audited internally in an attempt to eliminate any deficiencies.***

The Ministry endorses this recommendation and has been advised by TSTT that as part of its HR management a reliable HRIS system is in place for the entering and management of

leave and other employee records. Further, the management process includes the conduct of monthly audits internally and annual audits through TSTT's external auditors.

## **2.6. IX - The Lack of an Official Internal Fraud Policy**

### **2.6.1. Observations and Recommendations of the Committee**

In written response, TSTT advised that no official internal fraud policy is in place, and as such six cases of internal fraud were reported during the period 2012 – 2016. However, the company's anti-fraud policies were incorporated as part of the Employee Code of Conduct and in the Purchasing and Procurement rules. However, a draft fraud policy was prepared and submitted to the Executive Management and the Board for Review and approval.

#### ***Recommendations:***

- ***TSTT should review its guidelines for reporting fraud and implement an approved fraud policy no later than December 31, 2017;***
- ***TSTT should submit a copy of this policy to the Committee no later than January 31, 2017.***

### **2.6.2. Ministerial Response**

- ***TSTT should review its guidelines for reporting fraud and implement an approved fraud policy no later than December 31, 2017;***
- ***TSTT should submit a copy of this policy to the Committee no later than January 31, 2018.***

The Ministry endorses these recommendations and has been advised by TSTT that subsequent to its appearance before the

Committee in May 2017, it developed a draft fraud policy. Further, TSTT has also advised that this draft fraud policy is presently being circulated internally for comments. Subsequent to this, the document will be forwarded to the Board for approval. The entire process should be completed by the end of TSTT's present financial year (i.e. April 2018). Once approved, the policy will be provided.

## 2.7. X - Profitability and Return on Assets

### 2.7.1. Observations and Recommendations of the Committee

The Company noted that between the periods 2015 and 2016, TSTT's profits declined significantly from \$212.9Mn to a loss of \$300.7 Mn and a negative trend in return on assets, declining from 0.1 in 2011 to (0.07) in 2016. Through oral response, the Company advised that this was due to a decision to accelerate TSTT's depreciation as well as take an impairment on fixed assets. This combination of accelerated depreciation and impairment expense of just around \$575 million contributed to a significant loss of \$300Mn in 2016.

#### ***Recommendations:***

- ***TSTT should examine ways of boosting its return on assets going forward; and***
- ***TSTT should develop a detailed plan to monitor the progress of the steps to increase revenue generation and profit maximization.***

### **2.7.2. Ministerial Response**

- *TSTT should examine ways of boosting its return on assets going forward; and*

The Ministry endorses this recommendation and has been advised by TSTT that boosting its return on assets is an ongoing exercise which manifests itself in its existing Five Year Strategic Plan and the Annual Operating Plans emanating from the Strategic Plan.

- *TSTT should develop a detailed plan to monitor the progress of the steps to increase revenue generation and profit maximization.*

TSTT has advised that it already has a plan in place to monitor its progress of the strategies being implemented to increase revenue generation and profit maximization. A detailed and robust monthly financial report is provided to the Board of Directors. This forms a regular scheduled board agenda item for review and discussions. In addition, annual financial statements are submitted to the Ministries of Finance and Public Utilities.

## **2.8. XI - Accountability to Parliament**

### **2.8.1. Observations and Recommendations of the Committee**

During the Public Hearing held on May 3, 2017, the Committee sought clarification on the due diligence conducted by TSTT prior to its recent acquisition. However, the company's officials expressed an unwillingness to respond to the questions on the Due Diligence report posed by the Committee. Though the

request by the Committee to receive information was fulfilled, the responses submitted were vague and lacked pertinent information.

***Recommendations:***

- *TSTT must submit its Due Diligence report to the Committee no later than December 31, 2017.*

**2.8.2. Ministerial Response**

- *TSTT must submit its Due Diligence report to the Committee no later than December 31, 2017.*

Based on legal advice obtained, the Ministry is of the view that the Due Diligence Report contains commercially sensitive information which should not be provided to the Parliament. To do so, there is risk of breaching the fiduciary duties of the directors and the relevant mergers and acquisitions legislation. Further, the shares of TSTT, held by NEL, are traded on the Stock Exchange and subject to the SEC regulations.

