

**Saskatchewan Telecommunications
Holding Corporation**

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Executive summary

Saskatchewan Telecommunications Holding Corporation (Corporation) owns and controls numerous companies that provide a range of communications systems and services.

This chapter sets out the results of our audits of the Corporation, of six of its wholly-owned subsidiaries including Saskatchewan Telecommunications (SaskTel), of one company that the Corporation controls, and of the pension plan that it sponsors.

Each entity had reliable financial statements for the year ended December 31, 2000. Also, the Corporation complied with authorities governing its activities and those of its companies. It has adequate processes to ensure compliance with authorities and to safeguard and control its assets and those of its companies with one exception. This exception relates to concerns about access to one of its financial computer systems managed by SaskTel. The Corporation and other companies it owns use this system. SaskTel needs to develop and implement a comprehensive security strategy for this financial system.

The chapter also notes that the Minister responsible for the Corporation tables, in the Legislative Assembly, the financial statements of the Corporation and of almost all of its actively operating companies. Only two sets of financial statements for two actively operating companies that are partially owned by the Corporation are not tabled. The Crown Investments Corporation of Saskatchewan (CIC) has given the Corporation permission to not table these financial statements due to commercial confidentiality reasons. In the past, legislators have asked to receive the financial statements of all government corporations. We recommend the Corporation discuss its financial statement disclosure practices with legislators to ensure these practices meet the legislators' needs.

Lastly, the chapter reports on the results of our review of the Corporation's annual report. It notes improvements in the report and calls for continued improvements.

Introduction

In this chapter, we set out:

- ◆ an overview of and changes in the corporate ownership structure of Saskatchewan Telecommunications Holding Corporation (Corporation).
- ◆ The results of our audits of the Corporation; of six of its wholly-owned subsidiaries—Saskatchewan Telecommunications (SaskTel), Saskatchewan Telecommunications International Inc. (SaskTel Intn'l), DirectWest Publishing Partnership (DirectWest), SecurTek Monitoring Solutions Inc. (SecurTek), 323518 Canada Ltd. (clickabid™), IQ&A Partnership; of Hospitality Network of Canada Inc. (HNCI); and of the pension plan that it sponsors—Saskatchewan Telecommunications Pension Plan (Pension Plan).

Understanding the Corporation's corporate structure

The Corporation is a subsidiary of the Crown Investments Corporation of Saskatchewan (CIC). The Corporation owns and controls many companies. Through these companies, it markets and supplies a range of systems and services in the areas of voice, data, Internet, text, and image products and provides cellular and paging services. In addition, its wholly-owned subsidiary, SaskTel, sponsors the Pension Plan.

Each year, the Corporation tables its annual report on operations in the Legislative Assembly. This report includes its consolidated financial statements. These statements include the financial activities of the Corporation, the companies it owns and controls (subsidiaries), and its other investments.

In 2000, the Corporation had consolidated revenue of \$779 million and consolidated net income of \$97 million (including a \$23 million gain on sale of investments). At December 31, 2000, it held consolidated assets of \$1.24 billion and consolidated debt of \$358 million.

Corporation's subsidiaries and investments in entities

Exhibit 1 in Chapter 11 (Crown Investments Corporation of Saskatchewan) lists companies that the Corporation, at December 31, 2000, owned and controlled either directly or through one or more of its wholly-owned subsidiaries. Note 2 to the 2000 Financial Statements of the Corporation lists the Corporation's 13 operating entities and 23 non-operating entities. Of those actively operating, most operate in Saskatchewan. A few operate internationally.

At December 31, 2000, the Corporation wholly-owned six of the 13 operating entities. They are:

- ◆ SaskTel,
- ◆ Saskatchewan Telecommunications International Inc.,
- ◆ DirectWest Publishing Partnership,
- ◆ SecurTek Monitoring Solutions Inc.,
- ◆ 3231518 Canada Ltd., and
- ◆ IQ&A Partnership.

The Corporation owned the majority of the shares of two operating subsidiaries. They are: Hospitality Network of Canada Inc. (96.4%) and Hospitality Network Canada Partnership (96.5%). The remaining five operating entities where the Corporation or its subsidiaries have a partial ownership interest are: Retx.com, Inc. (49%), Craig Wireless International Inc. (29.9%), SoftTracks Enterprises Ltd. (19.6%), Regional Cablesystems Inc. (7.6%), and Austar United Communications Limited (1.9%).

As described in its annual report and in the notes to the Corporation's audited financial statements, the Corporation and its companies actively acquire existing companies and set up new companies each year.

Saskatchewan Telecommunications Pension Plan

The Saskatchewan Telecommunications Pension Plan (Pension Plan) is a defined benefit pension plan. Effective January 1, 1999, SaskTel registered its pension plan under *The Pension Benefits Act, 1992*. The Superannuation Plan was continued under the name of The Saskatchewan Telecommunications Pension Plan.

At December 31, 2000, the Pension Plan had assets of \$811 million, and estimated actuarial liabilities of \$652 million.

Our audit conclusions and findings

Our Office worked with PricewaterhouseCoopers LLP, the appointed auditor, to carry out audits of the Corporation, SaskTel, SaskTel Intn'l, DirectWest, SecurTek, clickabid™, IQ&A Partnership, HNCI, and of the Pension Plan. Our Office and the appointed auditor worked together using the framework recommended by the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors*¹. PricewaterhouseCoopers LLP and our Office formed the following opinions.

In our opinion, for the year ended December 31, 2000:

- ◆ **the financial statements of the following entities are reliable:**
 - **SaskTel Holding Corporation,**
 - **SaskTel,**
 - **SaskTel Intn'l,**
 - **DirectWest,**
 - **SecurTek,**
 - **clickabid™,**
 - **IQ&A Partnership,**
 - **HNCI, and**
 - **Pension Plan.**

- ◆ **the Corporation complied with the authorities governing the activities of the entities listed above relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing activities; and**

- ◆ **the Corporation had adequate rules and procedures to safeguard and control the assets of the entities listed above except for a matter relating to access to computer systems described later in this chapter.**

In this chapter, we also report for the Assembly's attention other matters relating to improving public accountability.

¹ To view a copy of this report, see our website at <http://www.auditor.sk.ca/rrd.html>.

Preventing unauthorized access to computer systems

SaskTel needs to develop and implement a comprehensive security strategy for one of its key financial systems.

SaskTel uses computerized financial information systems to record and report on its financial activities and on the activities of the Corporation, SaskTel Intn'l., and clickabid™. Management and the Board rely on the information produced from the computerized financial information systems to make decisions.

A security strategy for computer systems focuses on their risks and complexities, sets the parameters for assessing security policies and procedures, and defines the roles and responsibilities for managing security. When risks and complexities are high, a security strategy addresses the need for periodic security audits. Such audits are designed to assess and to report on the continued effectiveness of security. These audits provide boards and management with the information they need to ensure the risks to the computer systems and data are reduced to an appropriate level and to ensure the computer systems and data are adequately protected.

SaskTel has security policies and procedures to limit access to its various financial computer systems and data. However, the security strategy for one of its key financial systems was not sufficiently comprehensive to meet its complexities. We noted that adequate segregation of duties within this financial system's technical support team did not exist, that documentation of the security component of the system's recent upgrade was not available, and that for a period after the upgrade, more users than would normally be required had access privileges beyond their areas of responsibilities. These weaknesses allowed access to sensitive financial information and the possibility that this data could have been subjected to unauthorized changes and or disclosure.

As a result of these weaknesses, we did additional audit procedures. We concluded that the financial data were reliable.

In the absence of a comprehensive security strategy for all aspects of its financial systems, SaskTel faced increased risks of unauthorized system access, loss of data integrity, malicious damage, and the disclosure of

confidential financial information. These risks could result in financial losses.

1. We recommend that SaskTel develop and implement a comprehensive security strategy for its financial system.

Management has told us that they made appropriate changes by the end of February 2001. Through these changes, management told us that SaskTel has reduced access to the financial system to a more appropriate number of users and that it has adequately segregated duties within this system. Also, management told us that SaskTel plans to review and update its security strategy and procedures related to the financial system by the end of June 2001.

Improving public accountability

For several years in our reports, we have discussed areas where the Corporation could provide the Members of the Legislative Assembly with more or better information. These areas included provision of audited financial information, information on persons who receive public money, and better information in annual reports. This section provides an update on the status of the last area. See Chapter 11 (Crown Investments Corporation of Saskatchewan) for an update on information on persons who receive public money.

Performance reporting – annual report

Based on our review of the Corporation's annual report for the year ended December 31, 2000, the Corporation needs to improve its reports to provide better information to assist legislators and the public to assess its performance.

Chapter 1 of our 2000 Spring Report set out the principles for performance reporting. See Exhibit 1 at the end of this chapter. These principles provide guidance on the content of good annual reports to help ensure they provide sound information on the entity's performance.

In 2000, CIC's Board approved a performance reporting and disclosure policy for CIC and its subsidiaries. The policy expects public reporting on

the key elements of the Balanced Scorecard² in annual reports. The policy requires progressive improvement of performance reporting in annual reports. It sets minimum disclosure requirements for the 2000 annual reports and additional disclosure required no later than the 2002 annual reports. This policy applies to the Corporation.

The principles set out in Chapter 1 of 2000 Spring Report are consistent with the CIC's policy on performance reporting and disclosure policy. We assessed the Corporation's 2000 annual report against the principles for performance reporting keeping in mind CIC's policy.

We found that the Corporation's 2000 annual report set out three strategic objectives—growth through diversification, cost-containment with customers and employees in mind, and bringing the best communications services to Saskatchewan people. It discusses key activities undertaken in the year with respect to these objectives. It provides a good analysis of its financial operations overall and by its key business segments. It provides long-term trends of some key data but not of others (e.g., market share). It provides a good discussion of factors affecting the Corporation's near term financial outlook and strategies in place or planned to reduce risks for these factors.

The Corporation's 2000 annual report concludes it has met its objectives but does not tell the reader what constitutes successful achievement of them. That is, it does not clearly set out the key performance measures or targets used to measure the achievement of its objectives.

We continue to recommend the Corporation improve its annual report to clearly report on the achievement of its plans.

² See Chapter 2 – Crown Investments Corporation of Saskatchewan of our 2000 Spring Report (pages 30-32) for a description of the Balanced Scorecard performance measurement system and CIC's initiative in this area.

Exhibit 1 – Principles for performance reporting

1. Performance information should be relevant

- ◆ it relates to the stated objectives of the agency and its strategies and programs, and enables an assessment of the extent to which the objectives are being achieved;
- ◆ it is reported in sufficient time to influence decisions;
- ◆ it measures something that is significant in that it is used in forming assessments and judgements; and
- ◆ it is aggregated at an appropriate and meaningful level.

2. Performance information should be reliable

- ◆ it is neutral and fair, in that judgements made on performance by users are not influenced by the way information is provided;
- ◆ it is reasonably accurate and complete—that is, free from material error or omissions; and
- ◆ it is capable of being replicated or verified by independent and knowledgeable observers.

3. Performance information should be understandable

- ◆ it provides the minimum level of detail needed to enable users to gain a proper understanding of the activities and performance;
- ◆ it focuses on a small set of key performance measures;
- ◆ it explains the context as to what happened and why it happened, to enable users to judge whether performance is improving or declining; and
- ◆ it includes comparative information from similar agencies and information regarding best practice, to provide users with a frame of reference for assessing performance.

Additional attributes: Performance reports should:

- ◆ include an assessment of the effectiveness of the control established to help achieve objectives;
- ◆ be focused on results and achievements;
- ◆ report in the context of expectations (plans);
- ◆ be complete and unbiased (i.e., cover both successes and shortcomings);
- ◆ attribute achievements to activities (how activities contribute to results);
- ◆ relate costs to results; and
- ◆ explain strategies, risks and context .

Source: Adapted from *Principles for Building a Public Performance Report – A discussion paper from Canada’s legislative audit community*, 1999, CCAF, Ottawa.

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