

**Saskatchewan Telecommunications
Holding Corporation**

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Main points

Saskatchewan Telecommunications Holding Corporation (SaskTel) is one of Saskatchewan's major Crown corporations. At December 31, 2004, SaskTel had assets of over \$1,200 million, revenues over \$900 million, and net income of \$94.5 million.

SaskTel operates its business through many separate companies. Each of SaskTel's companies has its own board. To ensure SaskTel's success, it is critical these companies have a clear understanding who is responsible to whom and for what. In addition, it is important that SaskTel have sound processes to direct and manage each of these companies so that they fulfill their mandate and make good use of public resources – that is SaskTel must have good governance.

In 2004, we reported how well SaskTel governed its companies and made recommendations for improvement. In this chapter, we highlight progress SaskTel has made towards those two recommendations. SaskTel is improving its processes to communicate its governance expectations. It ensures the boards of the companies it owns and controls have terms of reference. Management advised us that it is introducing new processes for developing shareholder agreements and articles of incorporation to help ensure that owned and controlled companies are subject to the same governance expectations as SaskTel itself.

SaskTel is also improving its processes to assess the effectiveness of the companies' boards. It is ensuring that board and management evaluations take place. Management advised us it is also planning to address governance-related risks more specifically in information provided to the Board.

Introduction

Saskatchewan Telecommunications Holding Corporation (SaskTel) provides telephone, cell phone, internet, and e-business services. It provides these and other services, such as telephone directories and home security, through many different companies. At December 31, 2004, SaskTel owned all or part of 17 companies with active operations in the year. In addition, it owned 27 other companies with no active operations in the year.¹

SaskTel has a complex corporate organizational structure. A complex corporate structure can make it hard to figure out who owns what and who is responsible for what. It can also create challenges for effective governance. Governance is the manner in which an organization directs, controls, and holds itself to account. With its many companies, SaskTel has multiple levels of governing bodies that it must oversee.

SaskTel, as a Crown corporation, must also comply with the laws and policies that apply to Crown corporations (and that apply as well to companies that SaskTel owns and controls). These include the requirements of Crown Investment Corporation of Saskatchewan (CIC) for governing owned and controlled companies.

Related companies and pension plans

At December 31, 2004, SaskTel owned the following companies with active operations (percentage of SaskTel's ownership is set out in parenthesis):

- ◆ Saskatchewan Telecommunications (100.0%)
- ◆ Saskatchewan Telecommunications International, Inc (100.0%)
- ◆ DirectWest Publishing Partnership (100.0%)
- ◆ SecurTek Monitoring Solutions Inc. (100.0%)
- ◆ Navigata Communications Partnership (96.3%)
- ◆ Business Watch International Inc. (95.2%)
- ◆ Hospitality Network Canada Inc. (94.1%)
- ◆ Saskatoon 2 Properties Limited Partnership (70.0%)

¹ For ease of reference, we use the word company to include incorporated businesses and partnerships. For further detail, refer to the Notes to the December 31, 2004 Financial Statements contained in the SaskTel 2004 Annual Report.

In addition, SaskTel sponsors and administers the following defined benefit pension plans: Saskatchewan Telecommunications Pension Plan and Navigata Inc. Pension Plan.

For a full listing of the companies owned by SaskTel, refer to the notes to its audited financial statements. Each year, SaskTel tables its annual report including its audited consolidated financial statements and the audited financial statements of each of the above-listed companies and pension plans in the Legislative Assembly with the following exceptions. Crown Investments Corporation of Saskatchewan has exempted the tabling of the audited financial statements of Business Watch International Inc. and Hospitality Network Canada Inc. due to confidentiality clauses in the agreement for each with the minority shareholders. For additional information on SaskTel and its companies, see SaskTel's web site at <http://www.sasktel.com>.

Audit conclusions

Our Office worked with KPMG LLP, the appointed auditor, to carry out the audit of SaskTel and the above-listed companies and pension plans. We followed the framework in the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors* (see <http://www.auditor.sk.ca/rrd.html>).

In our opinion for the year ended December 31, 2004:

- ◆ **The financial statements of SaskTel and each of the above-listed companies and pension plans are reliable**
- ◆ **SaskTel and each of the above-listed companies and pension plans had adequate rules and procedures to safeguard public resources**
- ◆ **SaskTel and each of the above-listed companies and pension plans complied with authorities governing their activities relating to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing**

In our 2004 Report – Volume 1, we reported on the adequacy of the processes of Saskatchewan Telecommunications Holding Corporation

(SaskTel) to govern the companies it owns and controls. We made two recommendations to improve these processes. In the following section, we describe management's actions to March 15, 2005 on these recommendations.

Status of previous governance recommendations

In Chapter 5 of our 2004 Report – Volume 1, we concluded that at November 30, 2003, SaskTel had adequate processes to govern companies it owns and controls except for the two recommendations set out in Exhibit 1.

Exhibit 1

To improve its processes to communicate governance expectations to companies it owns and controls, we recommend that SaskTel:

- ◆ ensure that the board of each company has current written terms of reference
- ◆ highlight, for example in corporate policy, that the SaskTel Board has delegated to the President of SaskTel its authority to name the board members of SaskTel's companies
- ◆ ensure that companies it controls, or plans to control, are subject to shareholder agreements and articles of incorporation that reflect the governance expectations placed on SaskTel

To improve how it assesses the effectiveness of the boards of companies it owns and controls, we recommend that SaskTel:

- ◆ document the governance risks and identify levels of governance risk that are acceptable for each company
- ◆ require each company board to evaluate its senior management
- ◆ require each company to provide the SaskTel Board with its evaluation of its board

Source: 2004 Report – Volume 1, p. 82-83.

At March 15, 2005, while SaskTel has made some progress, it has not yet fully implemented these recommendations. In the next section, we highlight SaskTel's progress in addressing these recommendations.

Progress in communicating governance expectations

SaskTel now ensures that the boards of the companies it owns and controls have current terms of reference. SaskTel alerts the boards of the

companies to consider and approve terms of reference as well as other measures needed to comply with CIC's governance policy.

The terms of reference for the boards of its companies do not deal extensively with the relationship between the companies and SaskTel. SaskTel should consider whether the terms of reference could be an appropriate place to communicate its governance expectations (or, as indicated below, consider other documented ways to ensure consistent communication of its governance expectations).

In late 2004, SaskTel's Board amended the authority it had delegated to its Chief Executive Officer (CEO) to appoint members to the boards of the companies SaskTel owns and controls. The CEO must now obtain approval from the Board to appoint board members to companies it owns.

SaskTel continues to rely on its staff to ensure that shareholder agreements and articles of incorporation for subsidiaries reflect the governance expectations placed on SaskTel. Staff who prepare and evaluate these agreements also use language tested from past transactions. As with other agencies, SaskTel experiences turnover in staff. Relying primarily on institutional memory and the experience of staff means there is a higher risk of error when turnover takes place. Documented processes such as checklists or guidelines will better ensure SaskTel's governance expectations will flow through to the companies SaskTel owns and controls.

- 1. To improve its processes to communicate governance expectations to companies it owns and controls, we continue to recommend that SaskTel:**
 - ◆ **regularly highlight where its Board delegates to the President of SaskTel authority to name board members of SaskTel's companies**
 - ◆ **ensure that companies it controls, or plans to control, are subject to shareholder agreements and articles of incorporation that reflect the governance expectations placed on SaskTel**

In April 2005, SaskTel management advised us that it plans to highlight the SaskTel Board's delegation of authority in the regular report it produces on the compliance of these companies with CIC's governance policies. It provides the Board with this report at least annually.

Management also advised us that it is introducing new processes for developing shareholder agreements and articles of incorporation for owned and controlled companies. SaskTel expects the new processes to help ensure that its owned and controlled companies are subject to the same governance expectations as SaskTel itself.

Progress in assessing board effectiveness

Although SaskTel has a process to assess risks, the process does not clearly set out risks related to governance. SaskTel management has advised us that they plan to include governance-related risks more specifically in information provided to the Board.

As noted above, SaskTel expects the boards of the companies that it owns and controls to comply with CIC's governance policy. The policy expects boards to evaluate their own performance and that of their CEOs. In 2004, SaskTel ensured its companies completed these evaluations.

At March 15, 2005, SaskTel's Board had not yet received the results of the boards' evaluations. Management told us that the Governance Committee would receive the evaluations at its next meeting. At this time, the Governance Committee's terms of reference do not reflect this responsibility. Management told us it will work with the Board to ensure the Governance Committee's terms of reference appropriately reflect the responsibility of reviewing these evaluations.

- 2. To improve how it assesses the effectiveness of the boards of companies it owns and controls, we continue to recommend that SaskTel:**
 - ◆ **document the governance risks and identify levels of governance risk that are acceptable for each company**
 - ◆ **require each company to provide the SaskTel Board with its evaluation of its board**

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