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## Main points

In this chapter, we describe the results of our audit of Saskatchewan Telecommunications Holding Corporation (SaskTel). We report that while SaskTel had adequate processes in many areas to safeguard public resources, it needs to make improvements at Navigata Communications Partnership and its pension plan. The Partnership needs to:

- ◆ ensure the completeness of revenue and the accuracy of its financial records
- ◆ improve its computer security
- ◆ ensure the Pension Committee monitors the pension plan
- ◆ ensure the activities of the pension plan are in accordance with the plan text

Also, we outline the criteria we will use to assess SaskTel's processes to manage its intellectual property. We are sharing the criteria to assist other agencies to assess their own processes.

## **Introduction**

Saskatchewan Telecommunications Holding Corporation (SaskTel) provides telephone, cell phone, internet, and e-business services. SaskTel provides these and other services, such as telephone directories and home security, through its many different companies.

### **Related companies and pension plans**

At December 31, 2005, 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 Corporation (100.0%)
- ◆ SecurTek Monitoring Solutions Inc. (100.0%)
- ◆ Navigata Communications Partnership (97.0%)
- ◆ Business Watch International Inc. (95.5%)
- ◆ Hospitality Network Canada Inc. (100.0%)
- ◆ Saskatoon 2 Properties Limited Partnership (70.0%)
- ◆ The Phone Book Company Partnership (85.0%)

Also, SaskTel sponsors and administers the following defined benefit pension plans: Saskatchewan Telecommunications Pension Plan and Navigata Communications 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 exception. Crown Investments Corporation of Saskatchewan has exempted the tabling of the audited financial statements of Business Watch International Inc. due to confidentiality clauses in the agreement with the minority shareholders. For additional information on SaskTel and its companies, see SaskTel's website at [www.sasktel.com](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*.<sup>1</sup> KPMG LLP and our Office formed the following opinions.

**In our opinion, for the year ended December 31, 2005:**

- ◆ **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 except for the matters described in this chapter relating to Navigata Communications Partnership and Navigata Communications Inc. Pension Plan.** Due to the recent acquisition of The Phone Book Company Partnership, we plan to form an opinion on its rules and procedures to safeguard public resources starting with the year ended December 31, 2006.
- ◆ **SaskTel and each of the above-listed companies and the Saskatchewan Telecommunications Pension Plan complied with authorities governing their activities relating to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing. Navigata Communications Inc. Pension Plan complied with authorities governing its activities except for the matter described in this chapter.**

We also report the objective and criteria for a future audit related to assessing the management of intellectual property at SaskTel.

## **Navigata Communications Partnership**

Navigata Communications Partnership (Navigata) is registered under the *Partnership Act* (Alberta). Navigata Communications Partnership

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<sup>1</sup> To view this report, see our website at [www.auditor.sk.ca/rrd.html](http://www.auditor.sk.ca/rrd.html).

operates under the name Navigata Communications Limited. Navigata provides a full range of data and voice telecommunications services and products, including high-speed data networking, internet access, hosting services, web design, long distance service, and local phone service to business and residential customers located in British Columbia, Alberta, Ontario, and Quebec.

Navigata's financial statements for the year ended December 31, 2005 report revenues of \$59.7 million, expenses of \$81.3 million, and a net loss of \$21.6 million. For additional information on Navigata, see SaskTel's website at [www.sasktel.com](http://www.sasktel.com).

### **Timely reconciliations required**

Navigata needs to follow its established procedures to check the completeness of revenue and the accuracy of its financial records.

During the year, Navigata reduced its workforce to respond to competitive pressures. Navigata also experienced a number of unexpected employee resignations affecting its accounting systems and processes.

As a result, several key processes (i.e., reconciliations) were either not performed or not performed on a timely basis. These reconciliations included the reconciliation of phone call detail records to the billing systems and reconciliations between the billing systems and the general ledger.

Failure to prepare these reconciliations on a timely basis exposed Navigata to the risk of a loss of revenue and inaccurate accounting records.

Navigata had rules and procedures requiring these reconciliations to be completed and reviewed. However, staff did not comply with these rules and procedures.

Because of Navigata's failure to prepare or perform these reconciliations on a timely basis, additional audit procedures were performed to ensure there were no material misstatements in Navigata's accounting records. The additional procedures did not identify any loss of revenue or misstatements in the accounting records.

- 1. We recommend Navigata Communications Partnership follow its established procedures to check the completeness of revenue and the accuracy of its financial records.**

Management of Navigata told us the reconciliations between the billing systems and the general ledger have been current since December 2005. They also told us they are in the process of improving the procedures to reconcile the phone detail records to the billing systems and expect these improvements to be implemented in the second quarter of 2006.

## **Computer security policies and procedures required**

Navigata needs computer security policies and procedures.

Navigata needs policies and procedures for computer security including password expiration, monitoring and review of access to systems, and physical access to the computer room. Also, Navigata needs policies and procedures for the computer change management process including segregation of duties and access controls within the development, testing, and approval stages of the change management process.

Without adequate policies and procedures, Navigata is exposed to the risk of unauthorized access and inappropriate changes to its computer system and records.

- 2. We recommend Navigata Communications Partnership establish computer security policies and procedures.**

Management of Navigata told us that physical access to the computer room is now restricted and policies and procedures to improve computer security will be implemented during 2006.

## **Navigata Communications Inc. Pension Plan**

Navigata Communications Inc. Pension Plan (Plan) is registered under *The Pension Benefits Standards Act, 1985 (Canada)*. The Plan provides pension benefits to Navigata's employees.

The Pension Committee oversees the Plan. Navigata performs day-to-day administration of the Plan.

The Plan's financial statements for the year ended December 31, 2005 report it held assets of \$9.1 million, had liabilities of \$11.8 million, and made benefit payments of \$0.2 million. There were no contributions to the Plan during 2005 because the Plan is being wound up.

## **Monitoring of pension plan required**

Navigata needs to ensure the pension Plan has adequate processes to protect the money in the pension Plan.

The Plan Text approved by the Office of the Superintendent of Financial Services (pension regulator) assigns oversight of the Plan to the Pension Committee. The Plan Text requires the Pension Committee to meet at least quarterly. The Plan Text assigns day-to-day administration of the Plan to Navigata. Navigata has hired a custodian and investment manager to manage the Plan's investments, and a consultant to make benefit payments.

In an application made to the pension regulator to wind up the Plan, Navigata has agreed to pay for deficits (i.e., where there are more liabilities than assets) in the Plan. The Plan communicated the terms of the wind up to Plan members. The Plan had a deficit of \$2.7 million at December 31, 2005 (2004 – \$1.8 million).

During the year, the Pension Committee did not meet. Therefore, the Pension Committee did not monitor whether payments from the plan were in accordance with the Plan Text. Also, the Pension Committee did not monitor whether the assets of the Plan remained appropriately safeguarded.

Management of Navigata, charged with the day-to-day administration of the Plan, also did not adequately monitor the activities of the Plan. Management did not check that the benefit payments made from the Plan were in accordance with the Plan Text and that the assets of the Plan remained appropriately safeguarded.

Failure to adequately monitor the assets of the Plan and payments from the Plan expose Navigata to the risk of loss of public resources.

- 3. We recommend Navigata Communications Partnership ensure the Pension Committee monitors the Navigata Communications Inc. Pension Plan in accordance with the Plan Text.**
- 4. We recommend Navigata Communications Partnership prepare and implement policies and procedures to monitor the administrative activities of the Navigata Communications Inc. Pension Plan.**

Management of Navigata told us the Office of the Superintendent of Financial Institutions Canada has now approved the termination of the Plan and the proposed distribution of assets. Management anticipates the assets will be disbursed and the Plan will be terminated in full by June 30, 2006. Also, SaskTel management told us they are monitoring the day-to-day activities of the Plan and will do so until the termination of the Plan.

## **Managing intellectual property**

To deliver services and achieve their objectives, agencies must effectively manage their assets. This includes not only their physical assets, but also intangible assets such as intellectual property.

Intellectual property refers to the creations of the mind, such as inventions, symbols, names, pictures, designs, and models used in business. Patents, trademarks, copyrights, and industrial designs are examples of specific rights regarding intellectual property.<sup>2</sup>

We are planning to audit SaskTel's processes to manage its intellectual property. The objective of our planned audit is to assess whether SaskTel has adequate processes to manage intellectual property at November 30, 2006. We will focus on those areas of intellectual property that are most important to SaskTel.

In this chapter, we outline the criteria we will use to assess SaskTel's processes. We are sharing the criteria to assist other agencies to assess their own processes for managing intellectual property. We will report the results of our audit in a future report.

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<sup>2</sup> Canadian Intellectual Property Office, p.3.



## Background and significance

There is increasing recognition of the importance of intellectual property. Organizations are increasingly taking steps to protect their intellectual property assets. In the last decade the “number of patent applications has nearly doubled and continues to climb.”<sup>3</sup>

Intellectual property is an important issue for the public sector as well as for the private sector. A 2001 audit of public sector intellectual property management in Australia noted that intellectual property could be found throughout the public sector. The audit found that most government agencies did not adequately manage their intellectual property.<sup>4</sup>

Agencies require effective processes to identify and protect their intellectual property. Agencies also require effective processes to identify and manage risks related to their use of others’ intellectual property.

Agencies should not only consider intellectual property as an asset, but also as a component of their business strategy. Agencies find themselves increasingly paying others for the inadvertent use of technology that is not their own. With the large number of patents in the system, “it is impossible to avoid potential infringement, so self-defence becomes imperative.”<sup>5</sup> As has been seen in recent high-profile litigation, infringement can be significant to an agency’s primary business and may threaten it. Agencies are attempting to protect themselves through extensive licensing arrangements.

SaskTel’s management of intellectual property is important. SaskTel needs to know it has adequate processes to identify and protect its own intellectual property, and that it is adequately protecting against the risk of infringing others’ rights.

## Audit criteria and approach

We will follow *The Standards for Assurance Engagements* established by The Canadian Institute of Chartered Accountants in carrying out our audit.

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<sup>3</sup> A Market for ideas, *The Economist*, October 22, 2005.

<sup>4</sup> Audit Office of New South Wales. (2001).

<sup>5</sup> The arms race, *The Economist*, October 22, 2005.

To assess the adequacy of SaskTel's processes to manage intellectual property, we will use the criteria set out in Exhibit 1. SaskTel accepts the criteria as reasonable standards for assessing its processes.

Exhibit 1

Adequate processes to manage intellectual property include:

- ◆ Leadership and corporate support
- ◆ Identification of intellectual property
- ◆ Management of ownership
- ◆ Monitoring and protection
- ◆ Evaluation and reporting

Primary source: Australian National Audit Office, *Intellectual Property Policies and Practices in Commonwealth Agencies*

The following sets out our expectations in more detail.

***Leadership and corporate support***

We expect agencies to be committed to managing intellectual property to ensure that it is protected and available for use.

Senior management is accountable for intellectual property held or used by the agency. An intellectual property policy helps define the importance of intellectual property to the agency. An agency should use its policy to align how it manages intellectual property with the agency's strategic objectives and the risks it faces. The agency's intellectual property policy should set out the principles and criteria by which intellectual property assessments are made and identify who is responsible for making them. The policy should set out who is responsible for developing, approving, and maintaining the agency's intellectual property plan.

The intellectual property plan should define the types of intellectual property that the agency will need to identify and actively manage. The plan should reflect the importance of particular intellectual property to the objectives of the agency. This helps determine the amount of active management needed for that intellectual property.

The plan should include appropriate training (i.e., awareness and education activities) on intellectual property issues. It should also allocate

sufficient resources to manage the agency's intellectual property needs. The policy and the plan should be communicated throughout the agency.

***Identification of intellectual property***

We expect agencies to identify and record significant intellectual property.

To manage intellectual property appropriately requires knowledge of the intellectual property used by the agency. Intellectual property may be obtained from external parties through purchase or licence agreements. Intellectual property may also be developed by the agency.

Agencies need to determine the significance of the identified intellectual property to the strategic objectives of the agency. Agencies need to record significant intellectual property centrally. This should include a description of the intellectual property and where, when, and by whom it was created/purchased, the details of ownership rights (e.g., owned, licensed), who holds the intellectual property, who is directly responsible for its management, and the status of any protection. Documenting this information centrally helps ensure that intellectual property is appropriately managed across operating areas.

To manage intellectual resources adequately to achieve objectives, appropriate staff need access to this information. This awareness and informed use of intellectual property helps avoid duplication.

***Management of ownership***

We expect agencies to determine the appropriate level of ownership of intellectual property and secure that level of ownership.

In its management of ownership decisions for intellectual property, an agency will likely require different levels of ownership (i.e., levels of rights and interests) for different intellectual property assets. The amount of control required over the intellectual property relates to the use of the property to further the objectives of the agency. Management decisions on ownership range from full ownership (e.g., develop, buy), to rights to use (e.g., license), to rights to use and modify (e.g., license then change property) to other combinations resulting in less than full ownership.

Intellectual property issues are best approached before the creation/purchase of specific intellectual property. Therefore, the agency should consider intellectual property ownership issues before property is acquired, contracts are signed, tenders are invited, or consultants are hired.

Intellectual property issues should be a standard part of the agency's processes. For example, ownership rights and clauses should be clearly stated in contracts with outside parties and employees. These contracts should also include non-disclosure and confidentiality clauses where necessary.

To manage ownership of intellectual property, staff need to be aware of potential issues and receive appropriate training.

### ***Monitoring and protection***

We expect agencies to monitor and protect intellectual property.

Agencies need to monitor their use of intellectual property that they own or have secured rights to use. Agencies also need to monitor others' use of agency-owned intellectual property (i.e., that they have commercialized). Agencies must monitor potential infringement of intellectual property rights, by the agency or by others, and appropriately address any identified infringement issues.

An understanding of the issues and processes to seek advice and make decisions can help ensure intellectual property is appropriately protected. It can also significantly lower the risk of agency infringement of others' intellectual property rights.

### ***Evaluation and reporting***

We expect agencies to evaluate and report on both the performance of their intellectual property assets and the effectiveness of their processes to protect and, if applicable, exploit those assets.

Agencies should assess the effectiveness of their intellectual property management processes. Key intellectual property assets should be managed with the same attention given to tangible assets. The processes

should reflect the relative importance of the intellectual property assets to the strategic objectives of the agency and the risks it faces.

Regular reporting to senior management and to the board can identify opportunities for improvement and the need for revised intellectual property management strategies. Failure to regularly report on an agency's intellectual property results in less agency control over and accountability for intellectual property and can reduce the effective protection and development of these assets.

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