

Chapter 3

Saskatchewan Telecommunications Holding Corporation

1.0 MAIN POINTS

Saskatchewan Telecommunications Holding Corporation (SaskTel), the companies it owns, and its Pension Plan complied with the authorities governing their activities related to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing. As well, SaskTel's financial statements were reliable, as were those of its companies and Pension Plan.

SaskTel, its companies, and its Pension Plan had effective rules and procedures to safeguard public resources except that the Board of Saskatchewan Telecommunications International, Inc. (SaskTel International) needs to more actively oversee its management to better identify and address risks of management override and circumvention of controls. Management override and deliberate misrepresentation of revenues to the auditor were found during 2013. These signal a significant breakdown of controls. Management has established and implemented a revised accounting policy and internal control procedures related to recording of revenue. Key senior management personnel subsequently changed.

2.0 INTRODUCTION

SaskTel markets and supplies a range of voice, data, Internet, wireless, text, image, directory, security and entertainment products, systems, and services. SaskTel provides these products and services through its companies listed in **Section 2.1**.

This chapter discusses the results of our 2013 audits of SaskTel, the companies it owns, and its Pension Plan.

2.1 Related Companies and Pension Plan

At December 31, 2013, SaskTel wholly owned the following companies with active operations (SaskTel's companies):

Saskatchewan Telecommunications
Saskatchewan Telecommunications International, Inc.
DirectWest Corporation
SecurTek Monitoring Solutions Inc.

Also, SaskTel sponsors and administers the Saskatchewan Telecommunications Pension Plan. For additional information on SaskTel and its companies, see SaskTel's website at www.sasktel.com.



2.2 Financial Overview

For the year ended December 31, 2013, SaskTel had net income of \$90.1 million (2012 - \$106.3 million restated), and at December 31, 2013, had total assets of \$2.01 billion (2012 - \$1.81 billion) and total liabilities of \$1.24 billion (2012 - \$1.24 billion restated).

3.0 AUDIT CONCLUSIONS AND SCOPE

Our Office worked with KPMG LLP, the appointed auditor, to carry out the audit of SaskTel, SaskTel's companies, and its Pension Plan. We followed the framework in the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors*.¹

In our opinion for the year ended December 31, 2013:

- › **SaskTel, SaskTel's companies, and its Pension Plan each had effective rules and procedures to safeguard public resources except for the matter related to SaskTel International described in this chapter**
- › **SaskTel, SaskTel's companies, and its Pension Plan each complied with the following authorities governing their activities related to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing:**

The Saskatchewan Telecommunications Holding Corporation Act
The Saskatchewan Telecommunications Act
The Crown Corporations Act, 1993
The Business Corporations Act (Saskatchewan)
The Financial Administration Act, 1993
The Pension Benefits Act, 1992
The Corporation Capital Tax Regulations, 1984
The Pension Benefits Regulations, 1993
The Crown Corporations Regulations, 1993
Business Corporations Act (Canada)
Telecommunications Act (Canada)
Relevant Canadian Radio-television and Telecommunications Commission decisions
Orders in Council issued pursuant to the above legislation

- › **SaskTel, SaskTel's companies, and its Pension Plan each had reliable financial statements**

We used the control framework developed by the Canadian Institute of Chartered Accountants (CICA) to make our judgments about the effectiveness of SaskTel's controls. The CICA defines control as comprising elements of an organization that, taken together, support people in the achievement of an organization's objectives.

For SaskTel, SaskTel's companies, and its Pension Plan, we examined the effectiveness of the financial-related controls used to administer their revenues, expenses, assets and liabilities. Also, we examined the effectiveness of the controls used to keep reliable financial records and prepare reliable financial reports.

¹See our website at www.auditor.sk.ca.

4.0 KEY FINDING AND RECOMMENDATION

In this section, we outline key observations from our assessments and the resulting recommendation.

4.1 SaskTel International – Collusion Circumvents Controls

SaskTel International provides customized software, turn-key telecommunications projects, and consulting services. For the year ended December 31, 2013, SaskTel International had net income of \$1.7 million (2012 - \$0.5 million restated), and at December 31, 2013, had total assets of \$6.9 million (2012 - \$6.3 million restated) and total liabilities of \$5.4 million (2012 - \$3.8 million restated).

To recognize its revenue from operations, SaskTel International uses the percentage of completion method. Under the percentage of completion method, revenue is recognized in the accounting period based on the extent of work completed in that period relative to the value of the contract. During 2013, it was discovered that SaskTel International, in prior years, did not record revenue related to certain software development projects in the correct accounting period and reported inaccurate interim and year-end financial results. For example, the reported 2012 revenue of \$12.7 million was overstated by \$250,000.

Further examination indicated that these errors appeared to be the result of collusion, including management override,² to circumvent control activities³ and deliberate misrepresentation of information to the auditor during the financial statement audits for the years ended December 31, 2011 and December 31, 2012. Also, further examination did not identify any personal gain on behalf of management or employees of SaskTel International as a result of these errors.

Before year end, SaskTel International revised its accounting policy and internal control procedures related to revenue. Management corrected its prior year financial results. As a result, the December 31, 2013 financial statements disclose material adjustments to increase opening retained earnings⁴ as of January 1, 2012 by \$760,000 and to decrease revenue for the year ending December 31, 2012 by \$250,000. Also, members of SaskTel International management and other employees responsible for the inaccurate reporting were either terminated or have left the company.

SaskTel International's Board is responsible for actively overseeing management. Active oversight helps ensure appropriate controls are in place and functioning effectively. It also helps the Board identify risk of potential failures or breakdowns of controls and to take appropriate mitigating steps. The Board of SaskTel International needs to more actively oversee its management.

² Management override is the deliberate intervention by management in handling financial information and making decisions contrary to established internal control policies.

³ Control activities include policies and procedures, such as segregation of duties and the performance of financial reconciliations.

⁴ Retained earnings represent the portion of net income of a corporation that is retained rather than distributed to shareholders as dividends. Retained earnings are reported on the statement of financial position as part of shareholders' equity.



- 1. We recommend that the Board of Saskatchewan Telecommunications International, Inc. more actively oversee management to better identify risk of management override and circumvention of controls.**