



Universal Service and Access Fund Annual Report



2015/2016

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List of Abbreviations /Acronyms

ADSL	Asymmetric Digital Subscriber Line
AG	Auditor-General
APP	Annual Performance Plan
BARC	Board Audit and Risk Committee
BBBEE	Broad Based Black Economic Empowerment
BDM	Broadcasting Digital Migration BDS Business Development Services CAE Chief Audit Executive
CEO	Chief Executive Officer
CFO	Chief Financial Officer
COBIT	Control Objectives for Information and Related Technologies
DoC	Department of Communications
DSLAMs	Digital Subscriber Line Access Multiplexers
DTPS	Department of Telecommunications and Postal Services
DTH	Direct To Home
DTT	Digital Terrestrial Television
EC	Eastern Cape
ECA	Electronic Communications Act, 2005 (Act No. 36 of 2005)
ERP	Enterprise Resource Planning
EXCO	Executive Management Committee
FIFO	First In First Out
FS	Free State
Gbps	Gigabits per second
GIS	Geographic Information System
GITO	Government Information Technology Officers
GRAP	Generally Recognised Accounting Practice GRC Governance, Risk and Control
ICASA	Independent Communications Authority of South Africa
ICT	Information Communications Technology
IPC	Institute for Printed Circuits
ISP	Internet Service Provider
ITU	International Telecommunication Union
ITIL	Information Technology Infrastructure Library
KZN	KwaZulu-Natal
LP	Limpopo
LTE	Long-Term Evolution
Mbps	Megabits per second

MEC	Member of the Executive Council MIOS
	Minimum Inter-Operability Standards
MISS	Minimum Information Security Standards
MOU	Memorandum of Understanding
MP	Mpumalanga
MSAN	Multiservice Access Node
MTSF	Medium-Term Strategic Framework
NDP	National Development Plan
NC	Northern Cape
NGP	New Growth Path
NRI	Network Readiness Sub-Index
NW	North West
OD	Organisational Development
PAA	Public Audit Act of South Africa, 2004 (Act No. 25 of 2004)
PFMA	Public Finance Management Act, 1999 (Act No. 1 of 1999)
PoPI	Protection of Personal Information Act, 2013 (Act No. 4 of 2013)
PPPFA	Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000)
PWD	Persons with Disability
RDP	Reconstruction and Development Programme
REMCO	Human Resources and Remuneration Committee
RSA	Republic of South Africa
SA CONNECT	South Africa Connect: Creating Opportunities, Ensuring Inclusion South Africa Broadband Policy (2013)
SANRAL	South African National Roads Agency Limited
SANS	South African National Standards
SAP	Systems, Applications and Products
SAPO	South African Post Office
SCM	Supply Chain Management
SIP 15	Strategic Integrated Project (15) - Expanding Access to Communication Technology
SITA	State Information Technology Agency
SKA	Square Kilometre Array
SOC	State Owned Companies
STBs	Set-top boxes
USAASA	Universal Service and Access Agency of South Africa
USAF	Universal Service and Access Fund
VAT	Value Added Tax
VDSL	Very-high-bit-rate Digital Subscriber Line
VIP	Variable Information Processing

GENERAL INFORMATION

General Information

REGISTERED NAME	Universal Service and Access Fund
REGISTERED NUMBER	Not Applicable
ACTING CHAIRPERSON OF THE BOARD	Mawethu Cawe
CHIEF EXECUTIVE OFFICER	Lumko Mtimde
REGISTERED ADDRESS	Building 1 Thornhill Office Park 94 Bekker Road Vorna Valley Midrand 1686
POSTAL ADDRESS	PO Box 12601 Vorna Valley 1686
TELEPHONE NUMBER	+27 11 564 1600
FAX NUMBER	+27 11 564 1629
E-MAIL ADDRESS	elsabe@usaasa.org.za
WEBSITE ADDRESS	www.usaasa.org.za
BANKERS	Nedbank South Africa
AUDITORS	Auditor-General: South Africa
COMPANY SECRETARY	Elsabe Marx



Foreword by the Acting Chairperson

Mawethu Cawe

It is a great honour to present the annual report for the 2015/16 financial year outlining performance outcomes against the predetermined strategic objectives for the Universal Service and Access Fund (USAF) administered by the Universal Service and Access Agency of South Africa (USAASA). This foreword has been prepared in line with functions of the Board in terms of section 81(2)(d) of the Electronic Communications Act, 2005 which enjoins the Board to approve the annual report referred to in section 86 prior to its submission to the Minister.

The year under review was a particularly challenging one as I had to assume the leadership of the USAF Board of Directors within three months of my appointment as a Board member following the resignation of the Board Chairperson, Mrs Pumla Radebe, towards the end of the third quarter of the financial year. This coincided with the expiry of the Board Audit and Risk Committee's term in the third quarter which was closely followed by the end of the Chief Executive Officer's tenure in office in the final quarter of the year. These developments negatively impacted on the governance and stability of the organisation, and resulted upon the Auditor-General noting instability in the entity's management during the 2015/16 external audit.

The journey for the financial period under review began with the crafting of the Fund's five-year strategic path through the development of a Strategic Plan and an Annual Performance Plan consistent with the plans of the DTPS, and other plans of national government in order to ensure sound governance and compliance with the Public Finance Management Act (PFMA) and the National Treasury Framework for Strategic Plans and Annual Performance Plans. The key focus of the Board and management throughout the financial year has been on

tracking the implementation of the Fund's plan, culminating in the development of this annual report reflecting the year-end performance outcomes for 2015/16 against the USAF Annual Performance Plans and Budget.

In pursuit of its vision of Universal Access and Service to Information and Communications Technology (ICT) for All the broadband networks were successfully completed and launched through the Fund in the under-served local municipal areas of Chief Albert Luthuli (Mpumalanga) and Mutale (Limpopo) and also facilitated the connectivity of three schools for learners with special needs to ICT services amongst a total of six schools connected through USAF. This is a key policy expression of the National Development Plan on extended broadband penetration which requires all schools, health facilities and similar institutions to be connected and that individual citizens should have affordable access to information service and voice communication at appropriate locations.

Such achievements are indeed affirmation that USAF, under the administration of USAASA continues to play a pivotal role in ensuring South African citizens, particularly in under-served rural communities, have access to basic ICT services.

USAF is proud to be part of a historic journey that will ultimately lead to South Africa migrating its analogue broadcasting signal to digital through the Broadcasting Digital Migration (BDM) project. The Fund made a vital contribution to this process during the year under review by subsidising 1 613 TV-owning poor households to acquire set-top boxes (STBs) and antennas, as well as, providing installation services.

“USAF is proud to be part of a historic journey that will ultimately lead to South Africa migrating its analogue broadcasting signal to digital through the Broadcasting Digital Migration (BDM) project. ”

The BDM project was launched towards the end of the 3rd quarter of the 2015/16 financial year and this together with the low Set-Top Box uptake levels negatively impacted on the Fund's ability to reach the targeted number of needy households in 2015/16. USAF's involvement in providing digital access to needy households, however, is to remain a key area of focus in the 2016/17 financial year with the aim of ensuring that previously marginalised poor communities on the peripheral parts of the country also have access to good quality broadcasting services. This will lead to the availability of additional spectrum for the provision and accessibility of additional ICT services to these communities.

It is recorded that the tenure of the previous USAF Board of Directors under the leadership of Mrs Pumla Radebe ended on 31 August 2015. I wish to express sincere gratitude to my fellow USAF Board members who took on the huge responsibility of continuing with the execution of the Fund's mandate and have worked tirelessly since their appointment on 1 September 2015 in providing strategic direction and steering the Fund towards the achievement of the USAF vision of “Universal Access and Service to ICT for All”.

The On behalf of the USAF Board, I wish to acknowledge the Portfolio Committee of Telecommunications and Postal Services, under the leadership of Chairperson Ms Mmamoloko Kubayi for their steady persistence in providing oversight to ensure USAF remains focused on achieving its core mandate of promoting the goal of universal access and universal service.

I wish to thank the Minister of Telecommunications and Postal Services, (DTPS) Honourable Siyabonga Cwele (Dr) for his support in my first year as the Acting Chairperson of the Board. I am also grateful to the Acting Director-General and the entire DTPS team for welcoming and supporting the new Board of Directors. The Board also appreciates the support by the Department of Communications Minister, Honourable Faith Muthambi, during the 2015/16 financial year and wishes to affirm its commitment to providing leadership and guidance to the USAASA management team on the Broadcasting Digital Migration programme.

The Board Audit and Risk Committee under the leadership of Mr Linda Nene, to whom the Board is sincerely indebted, concurs and accepts the conclusion of the Auditor-General of South Africa on the USAF Annual Financial Statements and is of the opinion that the audited 2015/16 financials be accepted and read with the report of the Auditor-General. This committee will continue to support USAASA in its administrative role of ensuring USAF's adherence to relevant policies and procedures applicable to performance information monitoring and reporting, as well as, tracking the implementation of action plans to ensure challenges related to non-performance can be arrested timeously. This will hold members of the executive management team accountable for the non-achievement of targets related to their particular areas of responsibility.

In conclusion, we salute the USAASA management team and employees for their resilience and unwavering commitment to contributing to the reduction of poverty and unemployment in South Africa by facilitating the provision of ICT services in under-served communities through the Fund.



Mawethu Cawe
Acting Chairperson: USAF Board of Directors



Overview by the Chief Executive Officer

Lumko Mtimde

The Constitution of the Republic of South Africa, 1996 aims to "... improve the quality of life of all citizens and free the potential of each person" and, in doing so, enables equality in the rights, privileges and benefits of citizenship, including the guarantee of freedom of expression associated with the Bill of Rights in the digital world.

The National Development Plan (NDP) 2030, which underpins the development of a dynamic and connected information society and a vibrant knowledge economy that is more inclusive and prosperous, requires South Africa to sharpen its innovative edge and continue contributing to global scientific and technological advancement. This is also emphasised by the New Growth Path and Nine-Point Plan priorities of Government which seek to promote rapid deployment of ICT infrastructure and broadband rollout aimed at igniting economic growth and a vibrant knowledge society.

These plans are further supported by the National Infrastructure Plan formalised through the Infrastructure Development Act, No. 23 of 2014 which seeks to achieve 100% access to digital ICTs for all South Africans by 2020 as a driver of new economic opportunities and digital equity as part of the Strategic Integrated Project (SIP-15). USAF's role in connecting educational institutions, health care facilities and government institutions in under-served areas thus finds expression in these key

policies of government, as well as, the recent Operation Phakisa in Education which is aimed at addressing the need to train teachers in integrating ICT resources to their teaching practices.

All South Africans should be able to acquire and use knowledge effectively, however, the high domestic cost of broadband internet connectivity is a major hindrance. To this end the NDP emphasises that institutional arrangements to manage the ICT environment need to be better structured to ensure that South Africa does not fall victim to a "digital divide". The Fund as an entity mandated through the Electronic Communications Act (ECA) to promote the goal of universal access and universal service thus has a crucial role to play in bringing the NDP objective of closing the digital divide closer to becoming a reality.

The South Africa Connect Policy, 2013 that informs USAF's operational activities is centred on ensuring connectivity at the Presidential National Health Insurance (NHI) eight (8) Pilot Districts, wherein government institutions are to be provided with connectivity, in line with the specified bandwidths.

In responding to the requirements of SA Connect, USAF deployed integrated broadband infrastructure and services in the Mutale Local Municipality (Limpopo) and Chief Albert Luthuli Local Municipality (Mpumalanga), through competitive

“The installation of new Wi-Fi enabled networks and integrating these into essential services through USAF once again brought to life the intent of the National Development Plan (NDP)”

bidding processes. This enabled the installation of new Wi-Fi enabled networks and the integration of essential services to poor communities using the anchor tenancy model in order to ensure provision of sustainable broadband services to these impoverished communities. The Fund further deployed internet connectivity to 38 Community Health Clinics with 17 of these being in the Mutale Local Municipality while 21 clinics in the Chief Albert Luthuli Local Municipality received ICT equipment and devices such as notebooks, tablets and printers. These healthcare facilities were further enabled as Wi-Fi hotspots thus allowing community members to have free access to internet connectivity.

The 2015/16 USAF annual target for schools' connectivity was for three schools for learners with special needs to be connected and the Agency exceeded this target by connecting three additional mainstream schools and one access centre. While this is recorded as an exceeded achievement in terms of Treasury's reporting standards, it remains unsatisfactory considering the cumulative 24 000 public schools that require urgent ICT intervention. It really and truly is 'a drop in the ocean' and does not bode well for the intents of the country as espoused in the National Development Plan.

The second quarter of the year brought the completion of USAF audit processes for the 2014/15 financial period by the Auditor-General; the outcome of which reflected a significant improvement in the Fund's internal control environment.

The 2015/16 external audit by the AG resulted in an unqualified audit opinion with findings of non-compliance. Management will ensure action plans are developed in the second quarter of 2016/17 and implemented to address all 2015/16 AG audit findings. Efforts toward the achievement of a clean audit will continue during the 2016/17 financial year.

The temporary reprieve of the legal impediment related to the Digital Broadcasting Policy between the Ministry of Communications and e.tv paved the way for placement of orders for Digital Terrestrial Television (DTT) and Direct To Home (DTH) set-top boxes (STBs) and Antennas during the second quarter of 2015/16, thus triggering the implementation of the Broadcasting Digital Migration Programme and spending of the allocated BDM budget.

The Supreme Court of Appeal (SCA) judgement of 31 May 2016 has implications on the R1,3 billion currently allocated for the BDM project, risking wasteful expenditure. The technical opinion received by management is that contrary to the affidavit signed between the DoC and manufacturers, an upgrade of software at approximately US\$6.00 will save the potential wasteful expenditure ensuring compliance with the SCA judgement and completion of the project. The Minister of Communications, however, lodged a petition to the Constitutional Court, which is likely to further delay the project.

The delay in the implementation of the BDM programme results upon the Fund not receiving adequate support from licensed operators owing to the delayed issuing of the Digital Dividend spectrum which is made up of frequencies that are currently used for Analogue Television (400Mhz, 700Mhz and 800Mhz). DTT allows this spectrum to be cleared, freeing it up for broadband. This freeing up of spectrum will enhance efficiency in the broadband space as operators will require fewer towers to cover more ground in the under-served areas. The migrating of television from analogue to digital thus means there will be better coverage of broadband services, specifically in rural and under-served areas.

In conclusion, a special word of gratitude goes to the Board of Directors for their unwavering commitment and support. I am proud to be part of the committed and hardworking USAASA team responsible for administering the USAF towards the vision of Universal Access and Service to ICT for All.



Lumko Mtimde
Chief Executive Officer

Strategic Overview

VISION

Universal Access and Service to ICT for All.

MISSION

- To facilitate the rollout of adequate Information and Communications Technology infrastructure to enable universal access to under-served areas in South Africa.
- To facilitate ICT service to under-served areas and thereby contributing to the reduction of poverty and unemployment in South Africa.
- To promote and pursue the goal of Universal Access and Services and contribute to the sharing and preservation of information in order to build South Africa's sustainable knowledge society.

VALUES

The following values essentially guide USAF's efforts towards achieving the set strategic objectives:

- Batho Pele – We believe in providing excellent, efficient and effective service to all customers and stakeholders.
- Integrity – We uphold high standards of trust; condemn bribery and corruption; and uphold honesty and respect in all interactions with stakeholders.
- Accountability – We foster employee ownership and responsibility in ensuring quality service.
- Innovation – We support employee creativity in delivering all our services.
- Transparency – We encourage openness in all our activities.
- Teamwork – We strive to create a harmonious work environment, where all employees and contributors are respected.

LEGISLATIVE AND OTHER MANDATES

Constitutional Mandates

The Constitution of South Africa (1996) describes the Bill of Rights as a cornerstone of democracy in South Africa and states that: "It enshrines the rights of all people in our country and affirms the democratic values of human dignity, equality and freedom". Section 16 of the Bill of Rights is one of the sections unpinning the higher guiding principle of USAF's mandate to provide access and service that will ensure freedom of expression for the people of South Africa:

16. FREEDOM OF EXPRESSION

1. Everyone has the right to freedom of expression, which includes:
 - a. freedom of the press and other media;
 - b. freedom to receive or impart information or ideas;
 - c. freedom of artistic creativity; and
 - d. academic freedom and freedom of scientific research.

Figure 1: Section 16 of the Bill of Rights

The right to free expression has been interpreted as a right to the resources, facilities and equipment to enable free expression. It follows that the right to have access to telecommunication resources, facilities and equipment is a basic right in South Africa. In addition, Section 32 of the Bill of Rights also describes the "Right to information" and if access is limited due to a lack of ICT resources, facilities and access, this right cannot be fulfilled.

Legislative Mandates

The existence, functions, duties and mandate of the Fund are governed by the Electronic Communications Act, 36 of 2005 (the ECA) which came into operation in 2006. The new amendments to the ECA, which have a direct bearing on governance of the Agency, came into operation on 21 May 2014.

The ECA established the Universal Service and Access Fund (the Fund) which is financed by contributions from electronic

communications service, electronic communications network service and broadcasting service licensees. The money in the Fund must be utilised for specific subsidies to needy persons, under-serviced areas and schools.

In terms of the ECA the Agency must:

- strive to promote the goal of universal access and universal service;
- encourage, facilitate and offer guidance in respect of any scheme to provide universal access, universal services or telecommunication services in terms of the Reconstruction and Development Plan (RDP);
- foster the adoption and use of new methods of attaining universal access and universal service;
- make recommendations to enable the Minister to determine what constitutes universal access, universal service and under-serviced areas;
- conduct research into and keep abreast of developments in the Republic and elsewhere on information communication technology, electronic communications services and electronic communications facilities;
- continually survey and evaluate the extent to which universal access and service have been achieved;
- make recommendations to the Minister in relation to policy on any matter relating to universal access and universal service;
- advise the Authority (ICASA) on any matter relating to universal access and universal service;
- continually evaluate the effectiveness of this Act and things done in terms thereof towards the achievement of the goal of universal access and universal service;
- manage the Universal Service and Access Fund (USAF) in accordance with the provisions of the Act;
- submit annual reports in its operations, budget and expenses to the Minister;
- utilise the USAF exclusively for the payment of certain subsidies; and
- provide incentives to network licensees to construct operate and maintain networks in areas declared under-serviced by ICASA.

In terms of the most recent amendments to the ECA, the distinction between public and independent schools and between public and private colleges has fallen away and the

scope of application for USAF subsidies has been increased to include provision to independent schools, private colleges and primary health care facilities; in addition, USAF is subjected to the Public Finance Management Act to improve its governance. The amendments also seek to ensure there is consistency in terms of provisions relating to universal access, universal service and needy persons. Finally, the Minister of Telecommunications and Postal Services, acting with the concurrence of the Minister of Finance, may prescribe additional uses of money held in USAF.

The ICT Policy Review Panel submitted its recommendations to the Minister for Postal Services and Telecommunications and these recommendations address proposed changes to the ICT policy environment. The DTPS will produce an ICT White Paper, and make recommendations with respect to new or amended legislation arising from the White paper. The most significant proposal with respect to universal service and access relates to the creation of an ICT Development Fund which would replace USAASA and USAF. It would exclude the policy making and regulation making functions currently with the Agency, and the Fund would be responsible in the main for identifying, awarding and managing projects.

POLICY MANDATE

Medium-Term Strategic Framework

The five-year Medium-Term Strategic Framework (MTSF) priorities are:

- Creation of more jobs, decent work and sustainable livelihoods for inclusive growth;
- Rural development, land reform and food security;
- Education;
- Health; and
- Fighting crime and corruption.

These priorities are supported by various strategies and USAF is directly impacted by the first priority, related to economic growth and job creation through industrialisation and infrastructure expansion.

The USAF plays a key role in contributing to the connecting of schools, public health and other government facilities through broadband and ensuring under-serviced communities have access to fast broadband capacity by 2020.

National Development Plan

The National Development Plan aims to eradicate poverty, increase employment and reduce inequality by 2030.

The NDP goals that have an influence on USAF's strategy include the following:

- Implementation of an integrated e-strategy for the country;
- 100% broadband penetration by 2020 (>2mbs);
- Deployment of a full range of government, educational and informational services by 2030.

New Growth Path strategies

Jobs Driver 3: Seizing the potential of new economies. Technological innovation opens the opportunity for substantial employment creation.

The New Growth Path targets the creation of 100,000 new jobs by 2020 in the knowledge-intensive sectors of ICT, higher education, healthcare, mining-related technologies, pharmaceuticals and biotechnology.

SIP-15: Expanding Access to Communication Technology

AIM: 100% access to digital ICTs to all South Africans by 2020 as a driver of new economic opportunities and digital equity. Interim implementing agencies include: Sentech, Broadband Infraco, Telkom, SANRAL, Eskom, Transnet and the Universal Service and Access Agency of South Africa which is responsible for administering USAF.

South Africa's Broadband Policy: South Africa Connect

In terms of the Electronic Communications Act, 2005 (Act No.36 of 2005), the Department of Communications of South Africa published a policy document "South Africa Connect: Creating Opportunities, Ensuring Inclusion: South Africa's Broadband Policy". This was gazetted on 6 December 2013.

SA Connect guides the ICT sector as a whole, and USASA in particular, in terms of the approach that must be taken to promote broadband deployment, usage and uptake in the country. The integrated broadband projects implemented through USAF in the 2015/16 financial year were geared towards bringing the country closer to achieving its SA connect targets.

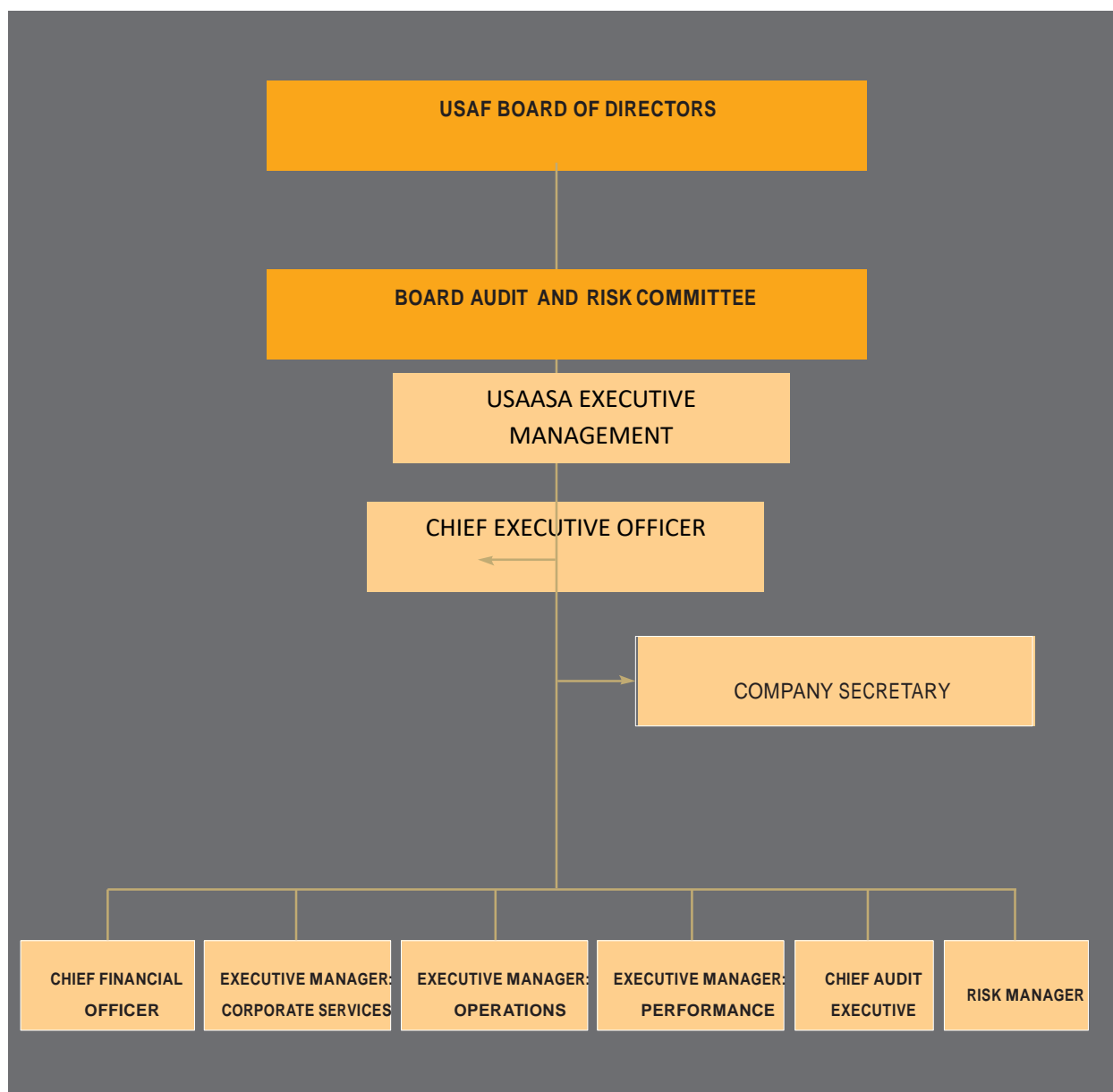
Table 1: SA Connect Targets

TARGET	PENETRATION MEASURE	BASELINE (2013)	BY 2016	BY 2020	BY 2030
Broadband access in Mbps user experience	% of population	33.7% Internet access	50% at 5Mbps	90% at 5Mbps 50% at 100Mbps	100% at 10Mbps 80% at 100Mbps
Schools	% of schools	25% connected	50% at 10 Mbps	100% at 10Mbps 80% at 100Mbps	100% at 1Gbps
Health facilities	% of health facilities	13% connected	50% at 10Mbps	100% at 10Mbps 80% at 100Mbps	100% at 1Gbps
Public sector facilities	% of government offices		50% at 5Mbps	100% at 10Mbps	100% at 1Gbps

Source: SA Connect Policy 2013

Organisational Structure

The Fund does not have personnel. All personnel managing projects financed by the Fund are resident in USAASA, the administrator of the Fund. A high – level organisational structure is depicted below:



BOARD OF DIRECTORS



Mawethu Cawe
Acting Chairperson



Lungelwa Shandu
Board Member



Tshegofatso Maloka
Board Member



Malose Kekana
Board Member



Nqabekaya Nqandela
Board Member

BOARD AUDIT AND RISK COMMITTEE

Linda Nene
BARC Chairperson



Fortunate Mdanda
BARC Member



Thulani Ntuli
BARC Member

Tshegofatso Maloka
BARC Alternate Member

EXECUTIVE LEADERSHIP

Executive Leadership and personnel managing projects financed by the Fund are resident in USAASA.



Lumko Mtimde
Chief Executive Officer



Elsabe Marx
Company Secretary



Mokgobo Sephiri
Acting Chief Financial Officer



Musa Ngidi
Executive: Corporate Services



Makhotsa Moiloa
Executive Manager: Operations



Vuyo Ntshoko
Executive Manager: Performance



Jimmy Mashiane
Chief Audit Executive



Lavhe Netshidzivhani
Risk Manager

PERFORMANCE INFORMATION



Statement of Responsibility for Performance Information

STATEMENT OF RESPONSIBILITY BY THE USAASA CHIEF EXECUTIVE OFFICER

The Chief Executive Officer (CEO) is responsible for establishing, and implementing systems of internal control designed to provide reasonable assurance as to the integrity and reliability of USAF's reported financial and performance information.

This Annual Report has been prepared in accordance with the Annual Report Guide for Schedule 3A and 3C Public Entities issued by National Treasury. The Annual Financial Statements outlined in Part E have been prepared in accordance with the Generally Recognised Accounting Practice (GRAP) Standards applicable to the Fund.

In my opinion, the performance information fairly reflects the actual achievements against planned objectives, indicators and targets as per the Strategic and Annual Performance Plans of USAF for the financial year ended 31 March 2016.


Lumko Mtimde
Chief Executive Officer

STATEMENT OF RESPONSIBILITY BY THE ACTING CHAIRPERSON: USAF BOARD OF DIRECTORS

The performance information of the Fund set out on pages 25 to 27 was reviewed by the Board Audit and Risk Committee (BARC) and approved by the Board.

The Auditor-General of South Africa was engaged to express an independent opinion on the USAF Annual Financial Statements for the year under review.

The USAF performance information for the year ended 31 March 2016 has also been examined by the AG as the external auditors of the Fund and their report is represented on page 50.



Mawethu Cawe
Acting Chairperson: USAASA Board of Directors

Situational Analysis

SERVICE DELIVERY ENVIRONMENT

South Africa is a middle income country with a population of approximately 54.96 million inhabitants. Out of the number indicated above, the unemployment rate as of first quarter of 2016 stood at 26,7%. The number of people depending on social grants continues to grow, ranging from 12,7% in 2003 to 30,1% in 2015. Over the same period, the number of households receiving some form of a social grant also continued to grow, ranging from 29,9% in 2003 to 45,5% in 2015 (Statistics South Africa).

The General Household Survey results released by Statistics South Africa in 2015 found that there was high access to telecommunications for households nationally, as only 3,5% of households did not have access to either landlines or cellular phones in 2015. By comparison, 85,5% of households had access to at least one cellular phone, while 10,9% of households had access to both a landline and a cellular phone. Only 0,1% of households had only a landline. The reasons advanced in the Report by ICT Research Africa (2012) for not using a fixed line telephone are that landline telephony is either not available where respondents live, or that accessing it was unaffordable. However access to these means of communication differed by province.

Households in historically rural provinces such as Mpumalanga (94,4%) and Limpopo (94,1%) were very reliant on the more accessible cellular telephones than landlines. By contrast, a combination of both cellular phones and landlines in households were most prevalent in the more affluent provinces, namely Western Cape (26,2%) and Gauteng (14,1%). Half of South African households (53,5%) had at least one member who used the Internet either at home, workplace, place of study, or Internet cafés. More than half of households in Gauteng (65,7%) and Western Cape (63,3%) had access to the Internet while only just over one-third of households in Limpopo (39,3%) had access to the Internet.

The World Economic Forum Network Readiness Index (NRI) of 2015 measures the country's overall potential to exploit the opportunities presented by the ICT sector, and the impact of the sector on the competitiveness of the country against others. In terms of the NRI rankings South Africa has been on a gliding scale from position 70 (out of 144 countries) in 2013 gliding to position 75 (out of 148 countries) in the 2015 NRI report. The Readiness Sub-Index measuring infrastructure, affordability and skills measurement values for South Africa fell below the group average of other similar jurisdictions.

The sub-indexes indicated in figure 2 are part of the Agency's mandate to ensure provision of universal affordable access to ICT,

	VALUE (1-7)	RANK (out of 143)
NETWORK READINESS INDEX 2015	75	4.0
Network Readiness Index 2014 (out of 148)	70	4.0
Network Readiness Index 2013(out of 144)	70	3.9
A. Environment subindex	31	4.8
1 st pillar: Political and regulatory environment	24	5.0
2 nd pillar: Business and innovation environment	55	4.5
B. Readiness subindex	102	4.0
3 rd pillar: Infrastructure	85	3.5
4 th pillar: Affordability	107	4.1
5 th pillar: Skills	95	4.4
C. Usage subindex	67	3.9
6 th pillar: Individual usage	68	4.0
7 th pillar: Business usage	34	4.2
8 th pillar: Government usage	105	3.4
D. Impact subindex	92	3.4
9 th pillar: Economic impacts	58	3.4
10 th pillar: Social impacts	110	3.3

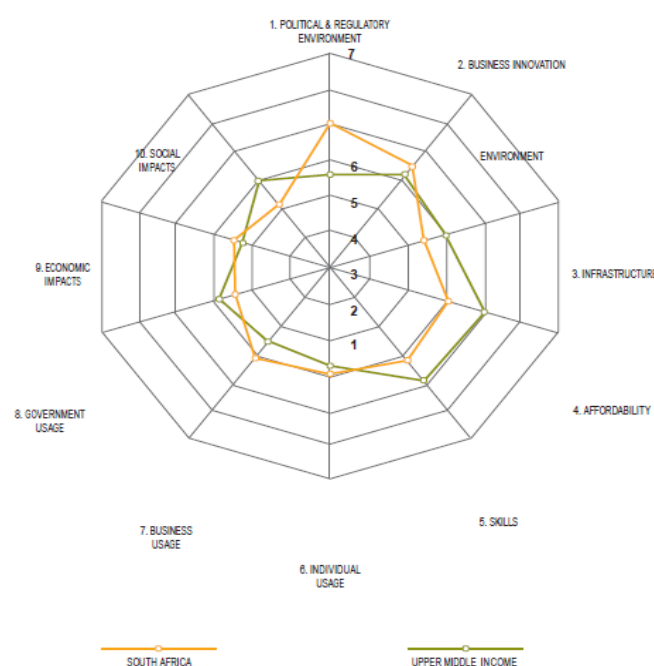


Figure 2: Network Readiness Index

a wide range of online broadband and digital communications services and ensuring that there is uptake and usage of such services through community skills capacity building programmes. In a nutshell, the performance of the Fund in terms of successfully rolling out broadband infrastructure and connectivity has an effect on the competitiveness of the country in terms of world rankings.

In the 2014/15 financial year, the Department of Telecommunications and Postal Services received a report from the ICT Policy Review Panel which was responsible for conducting a National Integrated ICT Policy Review to advise government on the manner in which to regulate the ICT sector going forward, learning from past experiences. In terms of the ICT Policy Review Recommendations, the Agency and the Fund would cease to exist and be replaced by an ICT Development Fund that will be responsible for ICT infrastructure and demand stimulation. The DTPS will produce an ICT White Paper, and make recommendations with respect to new or amended legislation arising from the White Paper.

The implementation of the ICT Policy Review recommendations would effectively result in the establishment of an ICT Development Fund responsible in the main for identifying, awarding and managing projects thus focusing on the main priority of service and access delivery to the nation.

The exact impact of the ICT Policy Review recommendations on the institutional arrangements of the USAF, however, remained uncertain as the policy processes alluded to above were yet to be finalised as at the end of the financial year under review.

BROADBAND ENVIRONMENT IN SOUTH AFRICA

“Broadband networks offer perhaps the greatest opportunity we have ever had to make rapid and solid advances in global social and economic development across all sectors, including healthcare, education, new job opportunities, transportation, agriculture, trade and government services. In the twenty-first century, broadband networks therefore need to be considered as basic critical infrastructure, like roads, railways, water and power networks,” says Mr Houlin Zhao, ITU Secretary-General.

The Minister of Telecommunications and Postal Services, Dr Siyabonga Cwele, announced the following eight district municipalities as areas of focus over the next three years for the first phase of broadband rollout under the auspices of the South Africa Connect Policy in his budget vote speech for 2014/15.

Table 2: Priority Districts for Broadband Rollout

MUNICIPALITY NAME
Dr Kenneth Kaunda (NW)
Gert Sibande (MP)
OR Tambo (EC)
Pixley ka Seme (NC)
Thabo Mofutsanyane (FS)
Umgungundlovu (KZN)
Umkhanyakazi (KZN)
Vhembe (LP)

In his 2016/17 Budget Vote Speech, delivered on 10 May 2016, the Minister further indicated that Phase 1 of the planned government broadband rollout in the eight districts reflected in Table 2 above is almost ready for implementation.

The Minister also acknowledged investment in modern Information and Communication Technologies as one of the crosscutting measures to ignite growth, create jobs and cushion the poor, highlighting the importance of access to fast, reliable and affordable internet as an enabler of socio-economic development.

The activities to be implemented through the Universal Service and Access Fund will be planned around these priority municipalities in order to align to the South Africa Connect policy objectives and implementation plans.

INTEGRATED BROADBAND MODEL

The Accounting Authority of USAF approved the National Strategy for Universal Service and Access in response to the National Development Plan, Strategic Integrated Project (SIP) 15 and South Africa Connect, 2013 as an integrated broadband model. The model is the most cost-effective and sustainable broadband programme as it encourages both public and private sector participation on the rollout of broadband in under-served areas.

The Integrated Broadband Model has been successfully implemented in Msinga Local Municipality (KwaZulu-Natal); Emalahleni Local Municipality (Eastern Cape), Joe Morolong Municipality (Northern Cape), Ratlou (North West Province), Mutale Local Municipality (Limpopo) and Chief Albert Luthuli Local Municipality (Mpumalanga).

The broadband revolution is to address the digital divide and USAF continues to have a significant role to play in addressing universal broadband access in under-served areas. In 2015/16 USAF was utilised to incentivise the private sector to expand its service delivery to Mutale Local Municipality (Limpopo) and Chief Albert Luthuli Local Municipality (Mpumalanga) for purposes of bringing accessible broadband and higher ICT penetration closer to the communities in these under-served areas.

In the 2016/17 financial year, USAF's focus will remain on the eight District Municipalities announced by the Minister of Telecommunications and Postal Services as the first phase of implementing the National Health Insurance Pilot Phase. Broadband infrastructure and services to be rolled out in 2016/17 are to be deployed in the under-served local municipalities of Mhlonto and King Sabata Dalindyebo which form part of the OR Tambo District in the Eastern Cape.

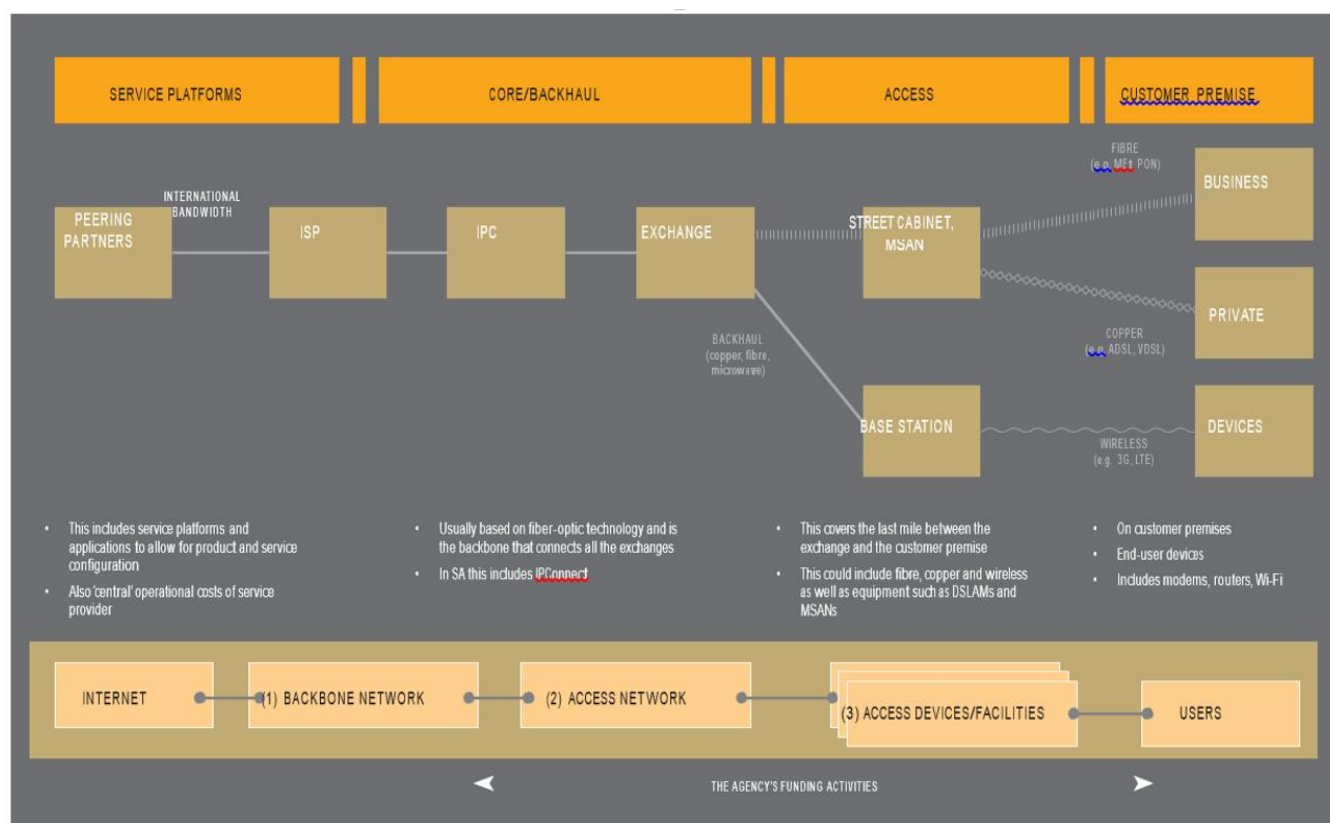


Figure 3: Integrated Broadband Model

USAF Financial Resources

Over the five-year period of 2011/12 to 2015/16, USAF received total funding totalling R1,9 billion which was appropriated by Parliament through the Department of Communications and later the Department of Telecommunications and Postal Services. The USAF budget allocation was for the delivery of projects pertaining directly to the expansion of ICT services and access in under-serviced areas of South Africa. Figure 6 displays the USAF budget allocations over a five-year period.

The smallest budget of R233.5 million over the five-year period was allocated during the 2015/16 financial year, constituting 12% of the total five-year allocation. The 2014/15 budget of R841 million was the largest, at 44% of the R1,9 billion allocation. The large increase in USAF's budget during 2014/15 was due to an additional R551 million allocation from National Treasury for Set-Top Box subsidies, antennas and installation costs. USAF realised a surplus of R271 million in the financial year under review which was mainly due to the delay in the BDM project launch. This surplus is mainly committed for BDM devices such as set-top boxes and antennas already procured to the value of R169 million and the remainder of the surplus is mainly attributable to interest revenue realised during the financial year.

The USAF cash reserves as at the end of 2015/16 amounted to R1,8 billion with these funds mainly being committed towards the roll out of the BDM project.

Table 3 depicts the USAF financial performance for the 2015/16 financial period.

Total project expenditure was R60,35 million for 2015/2016 as reflected on the Statement of Financial Performance included in Part E: Financial Information, however R14,1 million of this amount related to prior year broadband rollovers, which translates to R46,25 million or 20% spending against the annual USAF allocation of R233,5 million.

It must be noted that the reported R60,35 million project expenditure for 2015/16 excludes R169 million in spending related to the BDM inventory in accordance with Standards of "Generally Recognised Accounting Practice" - GRAP12. The Set-Top Box devices in inventory will be recognised as an expense at carrying amount, when they are distributed (installation to beneficiaries) as per paragraph 44 of GRAP12.

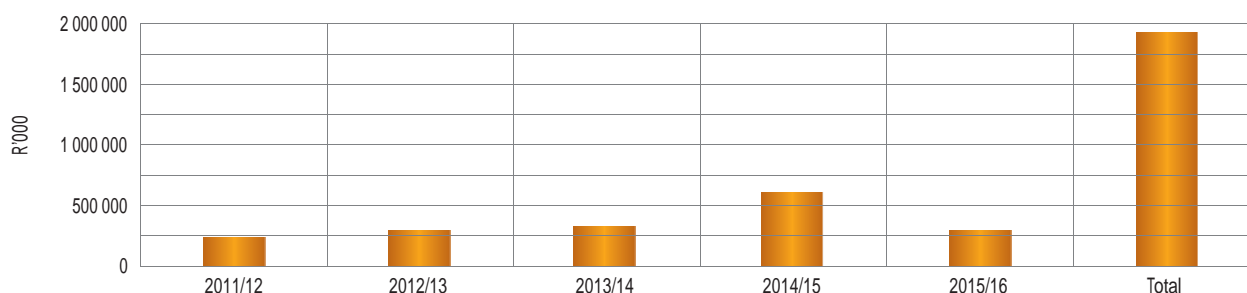


Figure 6: USAF's Five-Year Budget: 2011/12 to 2015/16

Table 3: USAF Financial Performance

USAF BUDGET FOR 2015/16			
PROJECT ALLOCATIONS	ANNUAL ALLOCATION R	ANNUAL SPENDING R	UNSPENT ALLOCATION R
Broadband Infrastructure Subsidisation	30 937 000	26 558 342	4 378 658
ICT Rapid Deployment and Connectivity	17 862 000	14 258 265	3 603 735
Broadcasting Digital Migration (BDM)	181 160 000	172 693 128	8 466 872
Audit and Bank Charges	870 000	1 079 866	-209 866
USAF Project Costs	2 711 000	1 641 749	1 069 251
Total Annual Budget/Spending - 2015/16	233 540 000	216 231 350	17 308 650
Rollover 2014/15 - Broadband Infrastructure Subsidisation	18 290 000	14 142 300	4 147 700
BDM Tender facilitation	-	676 168	-
TOTAL INCLUDING PRIOR YEAR ROLLOVERS	251 830 000	231 049 818	21 456 350

USAF cash reserves were at R1,8 billion as at the end of the year and 88% of this was held in relation to the BDM project with commitments totalling R1,32 billion having been made through the placement of Set-Top Box (STB) orders and related accessories in the second quarter of 2015/2016. A further sum of R900 million is, however, required for installation costs related to the STBs and the remaining reserves will thus be inadequate to cover this amount.

- The placement of orders for 1.5million set-top boxes and antennas in the second quarter of the financial year marked a historical advancement in the course of the Broadcasting Digital Migration Project and served as a trigger for spending on this project which encountered numerous delays over the years due to policy and legal challenges.

SUMMARY OF USAF PERFORMANCE

USAF was utilised to successfully complete and launch broadband networks in the under-serviced local municipal areas of Chief Albert Luthuli (Mpumalanga) and Mutale (Limpopo) and to facilitate the connectivity of three schools for learners with special needs to ICT services amongst a total of six schools connected, resulting in a 67% overall achievement against the planned USAF annual targets.

The Broadcasting Digital Migration (BDM) project was officially launched towards the end of the third quarter of the financial year and the USAF target related to this project required 4.3% (i.e. 223 600) of the targeted 5,2 million households to be subsidised for connection to digital broadcast migration.

This annual target was not achieved as 1 613 (i.e. 0.03%) of the targeted 5.2 million households were subsidised / funded for connection to digital broadcast in 2015 / 2016. Challenges encountered with the BDM project implementation included low uptake levels of set-top boxes by needy households and a door-to-door registration process commenced in May 2016 to address this.

Awareness programmes relating to the Broadcasting Digital Migration project were, however, solely dependent on the Department of Communications.

USAF Strategic Outcome-Oriented Goals

The strategic goals pursued through USAF during the 2015/16 financial year with the aim of effecting changes for the benefit of the Fund's beneficiaries and key stakeholders are outlined below:

USAF STRATEGIC GOAL	CURRENT UNDER-SERVED AREAS CONNECTED THROUGH AFFORDABLE, AVAILABLE, SUSTAINABLE AND QUALITATIVE BROADBAND
Strategic Objective	To facilitate the rollout of broadband infrastructure in 195 identified under-served municipal areas by 2020
Key Performance Indicators	<ul style="list-style-type: none"> Uptake and usage of a number of sustainable broadband networks initiated, from the list of 195 identified under-served local municipalities as per ICASA declaration of unserved and under-served areas
USAF STRATEGIC GOAL	INNOVATIVE OFFERINGS THAT RESPOND TO THE NEEDS OF EDUCATION, PRIMARY HEALTH CARE AND GOVERNMENT INSTITUTIONS IN UNDER-SERVED AREAS PROVIDED. ICT PLATFORMS PROVIDED TO PEOPLE WITH DISABILITIES.
Strategic Objective	To facilitate the connectivity of schools including schools for persons with disabilities by 2018/2019
Key Performance Indicators	<ul style="list-style-type: none"> Increased percentage of schools of persons with disabilities (PWD) having ICT connectivity
USAF STRATEGIC GOAL	DIGITAL ACCESS TO TV PROVIDED TO 5.2 MILLION NEEDY HOUSEHOLDS
Strategic Objective	To ensure that 100% of targeted needy households are subsidised to access digital broadcasting signals by 2015
Key Performance Indicators	<ul style="list-style-type: none"> Percentage of 5,2 million needy households subsidised / funded for connection to digital broadcast

USAF: Annual Performance Report

STRATEGIC OBJECTIVE	PERFORMANCE INDICATOR	2015/2016 ANNUAL TARGET	ACTUAL ACHIEVEMENT	MEANS OF VERIFICATION	VARIATION FROM PLANNED TARGET	PLANNED MITIGATION OF NON-PERFORMANCE
1. BROADBAND						
To facilitate the rollout of broadband infrastructure in 195 identified under-served municipal areas by 2020	Uptake and usage of a number of sustainable broadband networks initiated, from the list of 195 identified under-served local municipalities as per ICASA declaration of unserved and under-served areas	Two under-served local municipalities broadband projects initiated and completed: Chief Albert Luthuli Local Municipality and Vhembe Local Municipality	Achieved Broadband projects initiated and completed in Chief Albert Luthuli Local Municipality (Gert Sibande District) and Mutale Local Municipality (Vhembe District)	A close out report on Broadband rollout in Chief Albert Luthuli Local Municipality and Mutale Local Municipality	None	Not applicable
2. SCHOOL CONNECTIVITY						
To facilitate the connectivity of schools including schools for persons with disabilities by 2018 / 2019	Increased percentage of schools of persons with disabilities (PWD) having ICT connectivity	Three schools for PWDs in under-served municipalities connected to ICT services	Achieved Broadband services launched with the following six schools connected to access networks: Schools for PWDs: (1) Phumulani Special School, Chief Albert Luthuli - Mpumalanga; (2) Fhulufhelo Special School, Mutale — Limpopo; (3) Tsolo Special School, Mhlontlo - Eastern Cape Additional schools connected: (4) Makgatho L. Mandela Primary — Eastern Cape (5) Mphemba High School - KwaZulu-Natal (KZN) (6) Mdhlangathe High School - KZN	Schools 'connectivity close out report Sign-off letters for the schools	None	Not applicable
3. BROADCASTING DIGITAL MIGRATION (BDM)						
To ensure that 100% of targeted needy households are subsidised to access digital broadcasting signals by 2015	Percentage of 5.2 million needy households subsidised / funded for connection to digital broadcast	4,3% of targeted 5,2 million households subsidised / funded for connection to digital broadcast	Not achieved 0,03% of targeted 5.2 million households were subsidised / funded for connection to digital broadcast in 2015 / 2016	Progress report on number of households supplied with set-top boxes through a subsidy or 100% funding	4,27% of the targeted households were not subsidised / funded for connection to digital broadcast This target was not achieved due to the slow uptake of the set-top boxes by needy households and inadequate awareness programmes. These activities are solely dependent on the Department of Communications	Awareness programmes relating to the Broadcasting Digital Migration project are solely dependent on the Department of Communications The following will take place as part of the fast tracking the slow uptake of the set-top boxes: <ul style="list-style-type: none">- The Square Kilometre Array (SKA) area is being prioritised- A door-to-door registration process commenced on 3 May 2016

Summary of USAF Performance including Broadcasting Digital Migration (BDM)

The below graphs depict the Fund's achieved annual targets against the planned annual targets in the 2015/16 approved Annual Performance Plan. Two of the three planned targets were achieved being 67% of the total planned target, and one of the three planned targets was not achieved, being 33% of the planned USAF targets for the financial year under review.

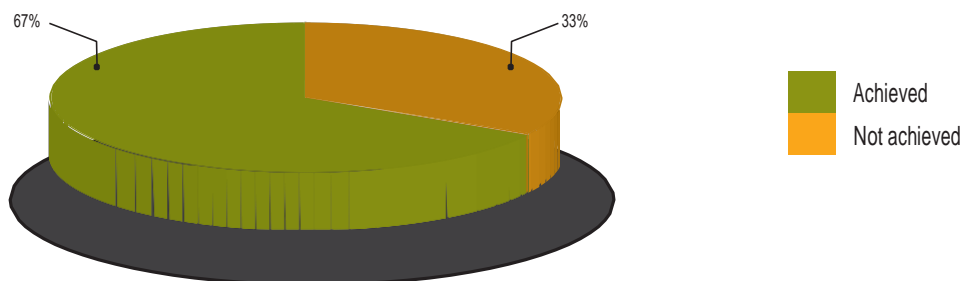


Figure 11: USAF 2015/16 Annual performance including BDM

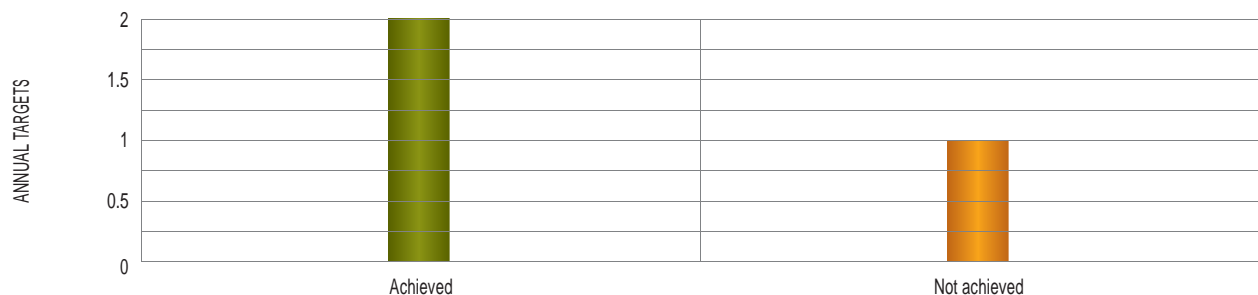


Figure 12: USAF 2015/16 Annual performance including BDM

Summary of USAF Performance excluding BDM

The below graphs depict the Fund's achieved annual targets against the planned annual targets in the 2015/16 approved Annual Performance Plan. Both the two planned targets were achieved being 100% of the total planned targets for the year – with the exclusion of the Broadcasting Digital Migration project.

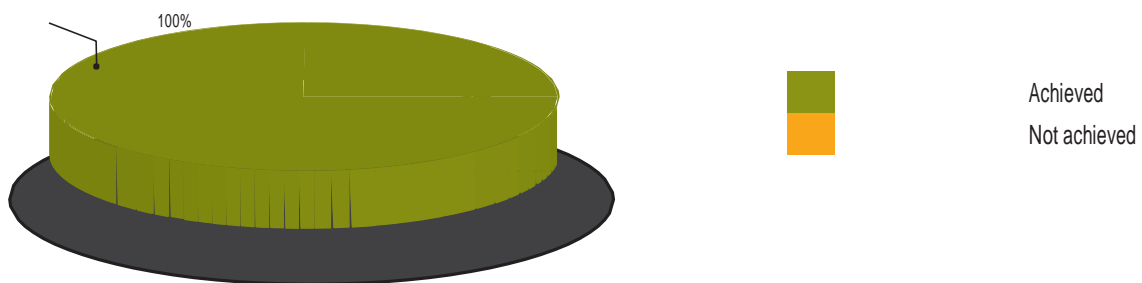


Figure13: USAASA 2015/16 Annual performance excluding BDM

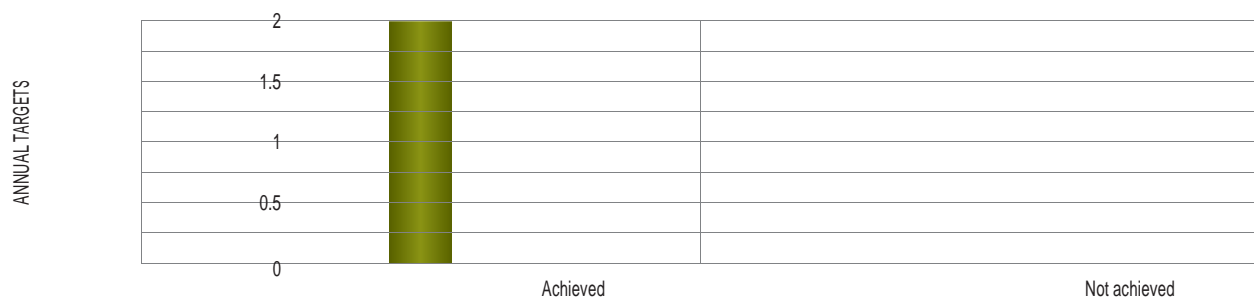


Figure 14: USAASA 2015/16 Annual performance excluding BDM

GOVERNANCE

Governance

THE BOARD OF DIRECTORS

The Board of USAF is the Accounting Authority in terms of section 49 of the Public Finance Management Act (PFMA) and as such is required to put the following in place, inter alia:

- Exercise the duty of utmost care to ensure reasonable protection of the assets and records of USAF;
- Act with fidelity, honesty, integrity and in the best interests of the public entity in managing the financial affairs of the Agency and the Fund;
- Prevent any prejudice to the financial interests of the state;
- Maintain effective, efficient and transparent systems of financial and risk management and internal control;
- Maintain an appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost-effective;
- Maintain a system for properly evaluating all major capital projects prior to a final decision on the project;
- Take effective steps to prevent irregular expenditure, fruitless and wasteful expenditure, losses resulting from criminal conduct, and expenditure not complying with the operational policies of the Agency; and
- Manage available working capital efficiently and economically.

The Board actively played its role in providing effective leadership based on the principles of honesty, professionalism, good governance and ethical business practices and also exercised its oversight responsibility over financial and performance management and reporting while ensuring compliance with all relevant legal prescripts and policy imperatives.

All Board Committees and the Board are guided by the principles of the King III Report on Corporate Governance and the Companies Act which are embedded in the approved Board Charter.

PORTFOLIO COMMITTEES

The Board is directly accountable to the Parliamentary Portfolio Committee on Telecommunications and Postal Services and from time to time the Board is required to provide updates on the state of the Agency's financial and non-financial performance to this committee. The Agency, however, has a dual-reporting responsibility to the Portfolio Committee on Communications which plays an oversight role on the rollout of set-top boxes by the Agency.

The nature of USAF projects has also attracted the attention of the Select Committee on Communications and Public Enterprises, resulting in a number of engagements with this committee wherein the Agency was provided a platform to outline the provincial footprint of the projects implemented through USAF.

Portfolio Committee engagements for the 2015/16 financial year are outlined in the table below:

EXECUTIVE AUTHORITY

The Minister of Telecommunications and Postal Services is the Executive Authority of both the Agency and the Fund which requires the Agency to provide organisational reports on the activities and financial affairs of USAF to the Department on a quarterly basis as per the requirements of section 65 of the PFMA. All USAF quarterly reports were submitted timeously in accordance with requirements of the National Treasury Framework for Managing Programme Performance Information to the ICT Enterprise Development and SOC Oversight Branch of the Department of Telecommunications and Postal Services.

The Executive Authority conducted bi-laterals with the Board with the aim of deliberating on the following key issues:

- Supporting USAF project delivery;
- Cumulative reporting;
- Compliance with internal controls;
- Compliance to PFMA and other regulatory frameworks.

THE BOARD AS THE ACCOUNTING AUTHORITY

The USAF Board is the Accounting Authority in terms of the Public Finance Management Act. It is the responsibility of the Board to provide strategic direction, leadership and stability and to ensure good corporate governance.

The Board remains committed to applying the principles of integrity, fairness, transparency and accountability as set out in the King report on Corporate Governance Practices and Conduct Act, 2009 (King III). USAF is legally bound to comply with all laws, rules and regulations applicable to it. The Board Audit and Risk Committee ensures that USAASA and USAF has the necessary checks and balances in place to ensure that there is compliance with pertinent laws and regulations. The Board places strong emphasis on achieving the highest standards of reporting.

The board has organised itself into the following subcommittees which meet every quarter:

- Operations Committees (formerly known as the Business Development Services Committee)
- Board Audit and Risk Committee (BARC)

Within the powers conferred upon the Board by legislation and in particular as stipulated in the Electronic Communications Act (ECA) and the PFMA, the Board has determined its main functions and responsibilities as adding significant value to the Fund.

The Board further accepts that it is ultimately accountable and responsible for the performance and the affairs of the Fund.

The role of the Board requires the respective individual members to maintain the highest standards of ethics, integrity and values, and represent the interest of the Fund and the country. These responsibilities are set out in the approved Board Charter which is reviewed as and when the Board deems fit.

THE USAF BOARD CHARTER

USAF's Board Charter has been aligned to the Corporate Governance Protocol for Public Entities accepted by Cabinet in 2003 and King III. The Charter describes the key responsibilities assumed by the USAF Board and defines the Board's authority.

The Board Charter outlines the following:

- Composition of the Board;
- Duties, roles and responsibilities of the Board as derived from the Electronic Communications Act;
- The Charter further defines Board procedures and clarifies the establishment of the Board Committees that assist the Board in the execution of its duties;
- The Charter also outlines matters exclusively reserved for the Board such as the remuneration of Board members, conduct during meetings, questions of quorum, Board capacity building and development and Board committee evaluations.

COMPOSITION OF THE USAF BOARD

NAME	POSITION	DATE APPOINTED	EXPIRY OF TERM	QUALIFICATIONS	AREA OF EXPERTISE	BOARD DIRECTORSHIPS	OTHER COMMITTEES
Mr Mawethu Cawe	Acting Chairperson: Board of Directors	01 September 2015	N/A	<ul style="list-style-type: none"> University of Fort Hare: Bachelor of Arts (BA) in Communications University of The Witwatersrand: Certificate in Industrial Relations (CPIR), University of South Africa (UNISA): Advanced Diploma in Labour Law University of The Witwatersrand: Post Graduate Diploma (Human Resources) University of Witwatersrand: Masters in Management University of The Witwatersrand: Certificate in Executive Coaching and Mentoring, 2009 	<ul style="list-style-type: none"> Human Resources Management Labour relations Leadership Strategy 	Amawethu Farm (Director) Amawethu Investment (Director)	Social & Ethics Committee Operations Committee
Adv. Lungelwa Shandu	Member: Board of Directors	01 September 2015	N/A	<ul style="list-style-type: none"> University of Durban Westville: Post Graduate Qualification - Bachelor of Laws (LLB) Graduate Qualification - Baccalaureus Procuratoris (B Proc) Kettering Foundation, Dayton - Ohio, USA Certificate - Deliberative Democracy Voice Clinic Certificate - Voice training for public speaking CCMA - Certificate - Substantive Law, Conciliation, Jurisdictional Ruling, Managing Dismissals and Arbitration 1&2 	<ul style="list-style-type: none"> Legal Labour Relations Business Alignment with Government Policy & Regulations Contracts Leadership Governance 	Firearms Appeal Board – Ministry of Police	Human Resources & Remuneration Committee Social & Ethics Committee
Mr Malose Kekana	Member: Board of Directors	01 September 2015	N/A	<ul style="list-style-type: none"> University of Witwatersrand: B Com Accounting University of South Africa: B Com Honours (one course outstanding) University of Pennsylvania: Wharton Business School Executive Development Programme (Finance) Morgan State University: Executive Management Programme South African Futures Exchange (SAFEX) Markets Exams – Completed level 1 and 2 of SAFEX Exams on Financial Markets (futures and options trading) Aspen Institute: Colorado, USA - Executive Leadership Programme 	<ul style="list-style-type: none"> Corporate Finance Strategy Leadership Governance 	Ithala (Pty) Ltd (Chairman) Tri-Star through Ba-Akhi Construction (Non-executive Director) Belelani Investment Managers (Director) Belelani Capital (Director) Belelani Group (Director)	Human Resources & Remuneration Committee Social & Ethics Committee (Chairperson)

NAME	POSITION	DATE APPOINTED	EXPIRY OF TERM	QUALIFICATIONS	AREA OF EXPERTISE	BOARD DIRECTORSHIPS	OTHER COMMITTEES
Mr Nqabekaya Nqandela	Member: Board of Directors	01 September 2015	N/A	<ul style="list-style-type: none"> Cape Peninsula University: National Diploma: Electrical Engineering Milpark Business School: Master in Business Administration (MBA) University of Witwatersrand: Certificate in Convergence and New Media in the information Society University of Witwatersrand: Certificate in Telecommunication Policy, Regulation and Management University of Pretoria: Programme in Project Management 	<ul style="list-style-type: none"> ICT Policy and Regulation Strategic planning 	North-West University (Member of Council) Eastcape Midlands College (Member of Council) Amazotsho Investment Holding (Executive Chairman) Schloss Consulting (Director) Castillo Consulting (Director)	Human Resources & Remuneration Committee (Chairperson) Operations Committee
Ms Tshogofatso Maloka	Member: Board of Directors	01 September 2015	N/A	<ul style="list-style-type: none"> University of Witwatersrand: B Com Accounting University of Natal: B Com Honours CA (SA) 	<ul style="list-style-type: none"> Finance and Accounting Auditing Risk Management Governance 	Bothale 304 Services (Pty) Ltd (Director) Ponagatso ya Bothale (Director) Tshoganyetso (Director)	Board Audit & Risk Committee (Alternate Member) Operations Committee
Ms Pumla Radebe	Chairperson: Board of Directors	01 September 2012	03 December 2015 (resigned)	<ul style="list-style-type: none"> Bachelor of Arts in Social Science – University of Fort Hare (1976) Certificate in Municipal Management – Rand Afrikaans University (1996) UJ – Diploma in Policy Development and Management Regenesys School of Public Management (2003) CTO certificate on ICT Regulation: Understanding the Big Picture of ICTs Admitted as a Chartered Director (SA) 	<ul style="list-style-type: none"> Corporate Governance 	Bungane Development Consultants Calgro M3 Holdings Khusele Investments Khusele Telecoms Institute of Directors of Southern Africa (IoDSA)	
Ms Seadimo Chaba	Member: Board of Directors	01 September 2012	31 August 2015	<ul style="list-style-type: none"> BA degree in Economics and Industrial Psychology – Wits Postgraduate Diploma in Human Resources Management – Wits Senior Executive Programmes at Wits and Harvard Business School Diploma in Diagnostic Radiography from Nairobi Medical College 	<ul style="list-style-type: none"> Human Resources Strategy 	Seadimo Chaba Consulting Hitachi Power Africa (Pty) Ltd Safrican Insurance Pinnacle Technology Holdings Amispan (Pty) Ltd Makotulo Investments (Pty) Ltd Kgosi Neighbourhood Foundation State Information Technology Agency (SITA)	Chairperson: Human Resources & Remunerations Committee Member: Social & Ethics Committee

NAME	POSITION	DATE APPOINTED	EXPIRY OF TERM	QUALIFICATIONS	AREA OF EXPERTISE	BOARD DIRECTORSHIPS	OTHER COMMITTEES
Mr Sam Ledwaba	Member: Board of Directors	01 September 2012	31 August 2015	<ul style="list-style-type: none"> B Juris – University of Zululand LLB – University of Zululand (Trade Marks & Domain names on the Internet) 	<ul style="list-style-type: none"> Legal Procurement Compliance 	Ledwaba Sam Attorneys	Chairperson: Business Development Committee Alternate Member: Human Resources & Remunerations Committee
Mr Kenosi Moroka	Member: Board of Directors	01 September 2012	31 August 2015	<ul style="list-style-type: none"> B Juris LLB Degree University of the North (Turfloop) 	<ul style="list-style-type: none"> Labour Law Commercial Law Constitutional Law Forensic Investigation Insurance 	Moroka Attorneys Attorneys Fidelity Fund (AFF) The Law Society of the Free State Free State Social Housing Company Airports Company of South Africa (ACSA)	Chairperson: Social & Ethics Committee Member: Human Resources & Remunerations Committee
Ms Zandile Mdhladhla	Member: Board of Directors	01 September 2012	31 August 2015	<ul style="list-style-type: none"> Bachelor of Arts – University of Zululand Higher Education Diploma (Postgraduate) – University of Pretoria Advanced Diploma in Adult Education University of Natal BA Higher Education Diploma in Adult Education Human Resources Management Certificate Marketing Certificate Financial Management Certificate Organisational Behaviour Certificate CTO certificate on ICT Regulation: Understanding the Big Picture of ICTs 	<ul style="list-style-type: none"> Policy Development and Implementation Human Resources Management Financial Management Logistical Management Internal and External Liaison 	Ikhwezi Lokusa Women's Investment Mawavune Women's Investments Moral Regeneration Movement Independent Development Trust (IDT)	Business Development Committee Social & Ethics Committee Human Resources & Remunerations Committee
Ms Agnes Macdonald	Member	1 May 2013	31 August 2015	<ul style="list-style-type: none"> Professional Customer Relations Skills Certificate Credit Management Certificate Professional Customer Relations Proficio Credit Management Certificate 	<ul style="list-style-type: none"> Events management Fund raising Micro-lending 	Lwati V Trading Mpumalanga Department of Human Settlements Rental Housing Tribunal	Business Development Committee Alternate Member: Social & Ethics Committee

BOARD MEMBERS

NAME	POSITION	COMMENTS	TOTAL REMUNERATION R'000
Mr Mawethu Cawe	Acting Chairperson: Board of Directors	Appointed 01 September 2015	127
Mr Ngabekaya Nqandela	Member: Board of Directors	Appointed 01 September 2015	86
Mr Malose Kekana	Member: Board of Directors	Appointed 01 September 2015	44
Ms Lungelwa Shandu	Member: Board of Directors	Appointed 01 September 2015	72
Ms Tshogofatso Maloka	Member: Board of Directors	Appointed 01 September 2015	81
Ms Pumla Radebe	Chairperson: Board of Directors	Resigned December 2015	317
Ms Seadimo Chaba	Member: Board of Directors	Term ended 31 August 2015	45
Mr Sam Ledwaba	Member: Board of Directors	Term ended 31 August 2015	85
Ms Agnes MacDonald	Member: Board of Directors	Term ended 31 August 2015	98
Ms Zandile Mdhlahla	Member: Board of Directors	Term ended 31 August 2015	108
Mr Kenosi Moroka	Member: Board of Directors	Term ended 31 August 2015	38

MEETING ATTENDANCE BY THE BOARD

BOARD MEMBERS	28/05/15	06/08/15	24/08/15	17/09/15	16/10/15	16/11/15	27/11/15	03/12/15	28/01/16	18/02/16	15/03/16	18/03/16
Mrs P Radebe	✓	✓	✓	✓	✓	✓	✓	N/A	N/A	N/A	N/A	N/A
Ms A MacDonald	✓	✓	✓	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Mr S Ledwaba	✓	✓	✓	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Ms S Chaba	✓	✗	✓	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Mr K Moroka	✓	✗	✓	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Ms Z Mdhlahla	✓	✓	✓	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Mr M Cawe	N/A	N/A	N/A	✓	✓	✓	✓	✓	✓	✓	✓	✓
Ms L Shandu	N/A	N/A	N/A	✓	✗	✓	✓	✓	✓	✗	✓	✓
Ms T Maloka	N/A	N/A	N/A	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mr M Kekana	N/A	N/A	N/A	✓	✓	✗	✗	✓	✓	✓	✓	✓
Mr N Nqandela	N/A	N/A	N/A	✓	✓	✓	✓	✓	✓	✓	✓	✓

USAF COMMITTEES

COMMITTEE	NO. OF MEETINGS HELD	NO. OF MEMBERS	NAMES OF MEMBERS
Operations Committee	7	5	Mr M Cawe Ms T Maloka Ms L Shandu Mr N. Ngandela Mr M Kekana Ms P Radebe* Mr S Ledwaba** Ms A Macdonald** Ms Z Mdhladhla**

* Resigned 03 December 2015

**Term ended 31 August 2015

BOARD AUDIT AND RISK COMMITTEE (BARC)

The Board Audit and Risk Committee (BARC) which is chaired by Mr Linda Nene, comprises of three independent non-executive members plus one Board member serving as an alternate member of this committee.

The Chairperson and members of the Board Audit and Risk Committee were appointed on contract for three years and remunerated in accordance with the daily tariffs approved by the Minister of the Department of Telecommunications and Postal Services and the Board. The tenure of the current USAASA Board Audit and Risk Committee came to end in November 2015 and it was subsequently extended by a period of six months with effect from 1 March 2016 while recruitment processes for new BARC members were initiated.

The Board Audit and Risk Committee reviewed and evaluated the manner in which the Fund was administered and carried out its responsibilities with regard to the following, inter alia:

- Financial management and reporting practices; internal audit activity; external audit processes; internal financial controls; management of risks; and compliance with laws, regulations and ethics.

APPROVAL OF POLICIES / STRATEGIES

In the financial year under review, the BARC recommended the following policies and strategies to the Board for approval:

- Delegation of Authority for USAF: established to define the limits of authority designated to specified positions of responsibility within USAASA and to establish the USAF expenditure thresholds and obligations that may be approved by Executives, the CEO and the Board of Directors.
- Performance Monitoring and Evaluation Framework: which is an essential supporting structure for the effective implementation of the Performance Monitoring and Evaluation Policy that will assist in evaluating the Fund's performance and identifying factors contributing to its quarterly and annual performance outcomes.

- The Auditor-General's Audit Strategy for USAF established to provide the Agency's management and those charged with governance with an overview of the planned scope, timing and cost of the 2015/16 USAF external audit.
- The Internal Audit Three-Year Rolling Strategic Plan: established to direct Internal Audit Activity's audit planning, in relation to the risk-based audit methodology applied by the Fund.

PERFORMANCE MANAGEMENT

The Board Audit and Risk Committee reviewed reports from internal audit and the Auditor-General in respect of performance of management and made appropriate recommendations to management and the Board. The Board Audit and Risk Committee activities for the 2015/16 financial included:

- Reviewing the quarterly reports submitted to it by internal audit.
- Reviewing USAF's performance management systems, focusing on economy, efficiency, effectiveness and impact in so far as the key performance indicators and performance targets set by the Board are concerned.

OPERATIONS COMMITTEE

The Operations Committee is chaired by Mr Mawethu Cawe and comprises a total of three independent non-executive members.

The overall responsibilities of the Committee include the following:

- Promoting and guiding research activities within a framework of best practice and intelligence regarding trends and new developments in universal service and access both within South Africa and internationally.
- Review and management of USAF projects, processes and systems in line with the Agency's vision and mission and the mandate as per the Act as well as the requirements.
- Supporting the implementation of the USAF Fund Manual to effectively manage the fund.

REMUNERATION OF BOARD AUDIT AND RISK COMMITTEE MEMBERS

The remuneration of BARC members in the 2015/16 financial year is reflected in the table below:

NAME	POSITION	TOTAL REMUNERATION R'000	COMMENTS
Mr Linda Nene	Chairperson	79	Term ended on 30 November 2015 Re-appointed on a six months term with effect from 1 March 2016
Ms Fortunate Mdanda	Member	18	Term ended on 30 November 2015 Re-appointed on a six months term with effect from 1 March 2016
Mr Mulalo M Mudau	Member	14	Resigned on 20 May 2015
Mr Thulani D Ntuli	Member	26	Term ended on 30 November 2015 Re-appointed on a six months term with effect from 1 March 2016



Report of the Board Audit and Risk Committee (BARC)

Linda Nene

We are pleased to present USAF's Board Audit and Risk Committee Report for the financial year ended 31 March 2016.

AUDIT COMMITTEE RESPONSIBILITY

The Board Audit and Risk Committee has complied with its responsibilities arising from Section 51 (1) (a) (ii) of the Public Finance Management Act and Treasury Regulation 27.1, and has adopted appropriate formal terms of reference as its Board Audit and Risk Committee Charter. All the committee's affairs during the financial year under review were regulated in compliance with this charter and the BARC has discharged its responsibilities as contained therein.

The Board Audit and Risk Committee monitored the integrity of the USAF Annual Financial Statements and Performance Information included in this annual report, reviewing significant financial and non-financial reporting issues contained herein.

THE EFFECTIVENESS OF INTERNAL CONTROL

In the financial period under review, the Board Audit and Risk Committee reviewed and evaluated the manner in which the Fund carried out its responsibilities with regard to the following:

- USAF financial management and reporting practices;
- Internal audit activity;
- External audit processes;
- Internal financial controls and the process for management of risks including fraud;
- Compliance with laws, regulations and ethics; and
- Combined assurance.

APPROVED POLICIES / STRATEGIES

In the financial year under review, the Committee recommended one policy and one framework to the Board for approval to strengthen and improve the internal control environment. These are listed below:

- Amendment to the Delegations of Authority for USAF; and
- Performance Monitoring and Evaluation Framework.

The Committee also recommended two strategies to the Board for approval:

- The Auditor-General's Audit Strategy for USAF; and
- The Internal Audit Three-Year Rolling Strategic Plan.

MANAGEMENT OF RISKS

The Board Audit and Risk Committee understands the major risk areas of USAF and has monitored the control processes and the adequacy of systems of internal control in reviewing internal and external audit reports. In the financial year under review the BARC:

- was continually aware of the current areas of greatest financial risk and was ensuring that management was effectively managing the risks and regularly reviewing the fraud prevention plan;
- ensured that effective systems of accounting and internal control were established and maintained to manage financial risks;
- satisfied itself as regards the integrity and prudence of management control systems, including the review of policies and/or practices; and
- ensured that the CEO and the Board were aware of matters that might have a significant impact on the financial state of affairs of the organisation.

The following internal audit work was completed during the year under review:

- Broadband Project – Mutale Local Municipality in Limpopo Province; and the main area of concern was lack of internet connectivity on Broadband projects

FINANCIAL REPORTING

The Board Audit and Risk Committee monitored the integrity of the financial statements of the Fund, including its annual report and any other formal announcement relating to its financial performance, reviewing significant financial reporting issues and judgements which they contain.

The BARC also reviewed summary financial statements, significant financial returns to regulators and any financial information contained in such documents.

COMPLIANCE WITH LAWS, REGULATIONS AND ETHICS

The Board Audit and Risk Committee ensured that the management of USAASA, as administrators of USAF, had the necessary checks and balances in place to ensure compliance with pertinent laws and regulations, that it is conducting its affairs ethically, and that it is maintaining effective controls against possible conflicts of interest and fraud. The specific steps involved in carrying out this responsibility include the following:

- Reviewing policy documents incorporating:
 - compliance with laws, regulations and ethics; and
 - policies and rules regarding conflicts of interest.
- Monitoring compliance with laws, regulations and policies;
- Reviewing the Internal Audit's written reports regarding the scope of reviews of compliance, any significant findings and the resolution thereof, and the follow-up on findings and recommendations;
- Monitoring developments and changes in the law relating to the responsibilities and liabilities of management and also monitoring and reviewing the extent to which management is meeting its obligations; and
- Monitoring developments and changes in the various rules, regulations, and laws which relate generally to the organisation's operations and also monitoring and reviewing the extent to which the organisation is complying with such rules, regulations and laws.

IN-YEAR MANAGEMENT: MONTHLY/QUARTERLY REPORTING

The BARC has consistently reviewed the USAF financial and non-financial management and reporting practices in the financial year under review and ensured monthly and quarterly reporting has been done in accordance with requirements of the PFMA.

INTEGRATED REPORTING

The Committee, in its oversight role, reviewed the Fund's value-add on the mandate of the Agency. The Fund continues to provide Broadband Infrastructure in various under-served communities and ICT equipment to various schools and clinics, however there is still insufficient monitoring of usage thereof.

COMBINED ASSURANCE

King III requires that the Committee should ensure that a combined assurance model is applied to provide a coordinated approach to all assurance activities. This repositioned risk-based approach to assurance provision is performed to address strategy, operational, financial and sustainability issues in the quest to deliver value to the Fund.

EXPERTISE AND EXPERIENCE OF THE FINANCE FUNCTION

Based on the Committee's assessment of capacity constraints within the Agency, a team was set up by the Committee to assist with the regulatory audit and preparation of the USAF Annual Financial Statements. The Committee is pleased to report that by the required date of 31 May 2016, the USAF Annual Financial Statements were prepared and submitted to the Auditor-General.

ETHICS AND COMPLIANCE

Ensuring that a robust ethics and compliance programme is introduced to keep abreast of new vulnerabilities to fraud and misconduct that could negatively impact on USAF's project delivery, will remain on the radar for the new financial year.

In the period under review, there were no reports of suspected/ alleged unethical conduct by the employees of the Agency from the Department of Telecommunications and Postal Services' hotline and the Public Service hotline, save for the investigation initiated by the DoC.

FRAUD AND FORENSIC

In the period under review, an investigation was conducted by the Special Investigation Unit, as a proclamation by the Honourable President of the Republic of South Africa, prompted by the open letter from one of the political parties. This matter was subsequently withdrawn.

EVALUATION OF FINANCIAL STATEMENTS

We have reviewed the Annual Financial Statements prepared for USAF and recommended the same for submission to the Board, Executive Authority, National Treasury and the Auditor-General.

AUDITOR'S REPORT

The Committee is responsible for overseeing the external audit process and confirms that the external auditors are independent of the Agency and conducted its audit without influence from the Agency. The Committee Chairperson met with the external auditors independently of management.

We have reviewed the entity's implementation plan for audit issues raised by the Auditor-General in the prior year and we are satisfied with the progress made by management towards ensuring the AG matters are adequately resolved.

The Board Audit and Risk Committee concurs and accepts the conclusions of the Auditor-General on the 2015/16 Annual Financial Statements and is of the opinion that the audited USAF financial statements be accepted and read together with the report of the Auditor-General.

CONCLUSION

Having considered, analysed, reviewed and debated information provided by management, internal audit and external audit, the Committee confirms that:

- The internal controls of the Fund were in all material respects effective throughout the year under review;
- These controls safeguarded the Fund's assets;
- Proper accounting records were maintained;
- Resources were utilised efficiently; and
- The skills, independence, audit plan, reporting and overall performance of the external auditors were acceptable.

Following our review of the financial statements for the year ended 31 March 2016, we are of the opinion that they in all material respects comply with the relevant provisions of the PFMA and the International Reporting Standards, Generally Recognised Accounting Practices and fairly present the results of the operations, cash flow and financial position of the Fund.

The Committee is satisfied that it has complied with its legal, regulatory and other responsibilities, in all material respects.



Linda Nene

Chairperson: Board Audit and Risk Committee

BOARD AUDIT AND RISK COMMITTEE (BARC) MEMBERSHIP

NAME	QUALIFICATIONS	DESIGNATION	APPOINTMENT DATE	TERMINATION DATE
Mr Linda Nene	University of Cape Town: B Commerce (Accounting) Monash University: Post Graduate Diploma in Management (specialising in Corporate Governance) The Institute of Internal Auditors: - CCSA (Certification in Control Self-Assessment) - GIA (SA) (General Internal Auditor-SA) - FIIRSA (Fellow of the Institute of Internal Auditors SA) - CRMA (Certification in Risk Management Assurance) Compliance Institute of South Africa (CISA): - CCP (Certified Compliance Professional of the Compliance Institute of South Africa) - CPrac (SA)- (Compliance Practitioner) Southern Business School: Risk Management Strategies in the Public Sector Institute for International Research: Management Development Programme	Independent Audit Committee Chairperson	01 December 2012	Term ended 30 November 2015 and was re-appointed on 1 March 2016
Ms Fortunate Mdanda	Bachelor of Accounting Science Honours: Bachelor of Commerce Auditing MBA - UNISA	Independent Audit Committee Member	01 December 2012	Term ended 30 November 2015 and was re-appointed on 1 March 2016
Mr Thulani Ntuli	B Juris Degree: University of North West Financial Management: University of Pretoria Business Continuity Certificate (certified Business Continuity Practitioner) Programme and Project Management Certificate Strategic and Business Planning Certificate Anti-Corruption Certificate	Independent Audit Committee Member	01 December 2012	Term ended 30 November 2015 and was re-appointed on 1 March 2016
Mr Martin Mudau	BCom Accounting BCom Accounting (Honours) CA(SA)	Independent Audit Committee Member	01 February 2014	20 May 2015

BOARD AUDIT AND RISK COMMITTEE MEETING ATTENDANCE

COMMITTEE MEMBERS	17/04/15	15/05/15	27/05/15	24/07/15	31/07/15	18/11/15	11/03/16	29/03/16
Mr L Nene	✗	✓	✓	✓	✓	✓	✓	✓
Mr TN Ntuli	✓	✓	✗	✓	✓	✓	✓	✓
Ms F Mdanda	✓	✓	✗	✓	✓	✗	✓	✗
*Mr MM Mudau	✓	✗	✓	N/A	N/A	N/A	N/A	N/A
**Ms T Maloka	N/A	N/A	N/A	N/A	N/A	✓	✗	✓

* Resigned 20 May 2015

** Appointed 01 September 2015



RISK MANAGEMENT

Risk Management provides a comprehensive view of the Agency's risks both from strategic and operational perspectives and it is a process that supports the reduction of uncertainty and promotes the exploration of opportunity.

In the financial year under review, USAF underwent a shift from an approach where there was no alignment between risk management and the business model to one where Performance Risk Management is at the core. Risk management in relation to the Fund is gradually moving from the back-benches to the front line so that it can deliver the value it is intended to, thereby accentuating and recognising that the USAF strategy, risk, performance and sustainability have become inseparable.

The Fund's risk management activities are guided by the following, amongst others: Public Sector Risk Management Framework, King III Report on Corporate Governance, International Standards on Risk Management (ISO 31000), and the South African National Standards (SANS) for Risk Management.

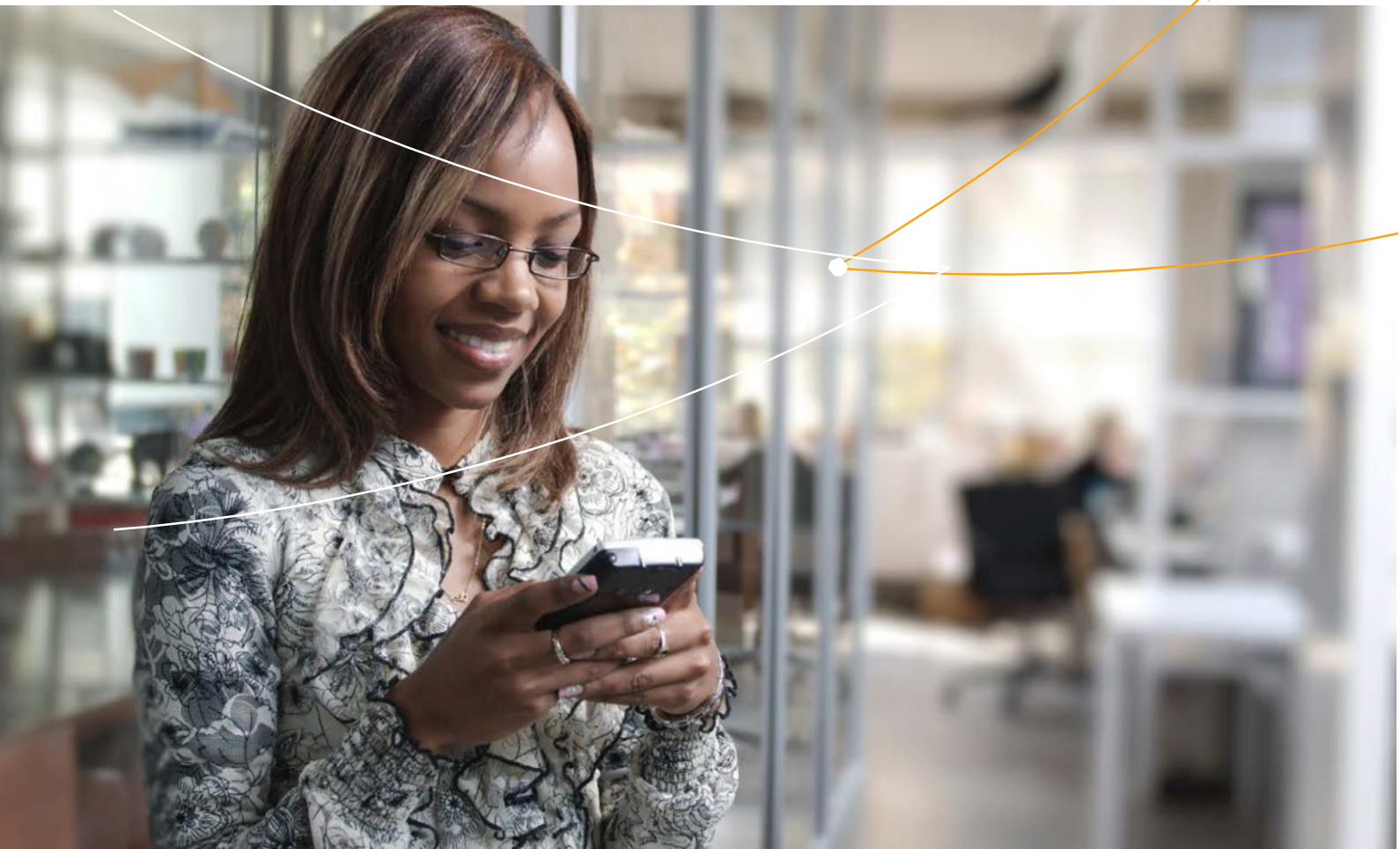
The current environment, with specific reference to the Broadcasting Digital Migration project, presents USAF with unique risks brought about by the involvement of multiple external stakeholders in the project such as the Department of Communications, Sentech and the South African Post Office. This has in some ways led to uncoordinated approaches to the management of project risks by the different roleplayers. However, in the pursuit of prudent and effective risk management, USAASA has consistently held internal risk management workshops on a quarterly basis with a view to ensuring adherence to the risk management framework, enhance performance and drive USAF's value creation.

Formalised operational risk management activities were carried out on a monthly basis in line with the Risk management framework and a process of monitoring and review was undertaken on a regular basis. Both strategic and operational risks are seeing gradual maturity, specifically focusing on ensuring that risk management is embedded onto business processes.

A key challenge in the year ahead will be the funding risk that the Fund is exposed to as the number of school connectivity projects has been declining year on year due to a lack of adequate funding to fund connectivity while undertaking new projects. The Agency has sought to optimise the financial resources while ensuring that the Department of Telecommunications and Postal Services, as well as the National Treasury are aware of this challenge.

The Board Audit and Risk Committee (BARC) advises the entity on risk management and independently monitors the effectiveness of the USAF's risk management system through a quarterly risk management review process.

HUMAN RESOURCES MANAGEMENT



Human Resources Management

The Fund does not have personnel. All personnel managing projects financed by the Fund are resident in USAASA, the administrator of the fund.

FINANCIAL INFORMATION





Report of the Acting Chief Financial Officer

Mokgobo Sephiri

“The USAF 2015/16 budget allocation of R233,5 million was for the delivery of projects pertaining directly to Broadcasting Digital Migration, the rollout of broadband infrastructure and services in under-served areas in South Africa, and ICT rapid deployment and connectivity.”

We are pleased with the continued commitment from the Department of Telecommunications and Postal Services in ensuring USAF received the total budget allocations of R233,5 million for the 2015/16 financial year. This has enabled USAF to bring information and communications technology (ICT) services closer to the under-served communities of the Mutale and Chief Albert Luthuli Local Municipalities and enhanced the quality of education and health services available to these communities by deploying broadband connectivity to educational institutions and primary health care facilities in these areas.

USAASA remains conscious of its responsibility to ensure that the Agency is able to spend the Fund's allocations through effective procurement processes that are in compliance with Public Financial Management Act (PFMA), and other relevant Legislative prescripts.

The USAF 2015/16 budget allocation of R233,5 million was for the delivery of projects pertaining directly to Broadcasting Digital Migration, the rollout of broadband infrastructure and services in under-served areas in South Africa, and ICT rapid deployment and connectivity.

USAF has realised a surplus for the year of R271 million which was mainly tied up in the BDM devices already acquired to the value of R169 million.

USAF cash reserves totalled R1,8 billion as at the end of the year and over 70% of this amount was held in relation to the BDM project commitments totalling R1,32 billion which were made through the placement of Set-Top Box (STB) orders and related accessories in the second quarter of 2015/16

A word of thanks goes to the USAF Board of Directors and the CEO for their sterling leadership, encouragement and dedication to the success of the Fund. It is through this leadership that USAF obtained an unqualified AG audit opinion for the year under review.

I would also like to thank the Auditor-General team which has worked tirelessly with us under extreme pressure and stringent timelines, for their guidance and support towards the successful conclusion of the 2015/16 USAF external audit processes.



Mokgobo Sephiri
Acting Chief Financial Officer

Statement of Responsibility: Annual Financial Statements

The Directors are legally bound to ensure that full and proper records of USAF's financial affairs are kept and for the preparation and integrity of the annual financial statements. The external auditors are engaged to conduct an audit and express an independent opinion on the financial statements.

The USAF annual financial statements have been prepared in terms of Generally Recognised Accounting Practice and are in line with USAF's accounting policies and supported by reasonable and prudent judgements and estimates.

The Directors acknowledge that they are ultimately responsible for the systems of internal financial control and that they place reliance on the Board Audit and Risk Committee to oversee Management's implementation of sound internal control systems, procedures, policies, and approval frameworks to maintain a strong control environment. The Directors are not

aware of any material breakdown in the functioning of these controls, procedures and systems during the year under review.

The Directors are of the opinion, based on the information and explanations given by Management and Internal Audit Activity, that the system of the internal control provides reasonable assurance and that the financial records may be relied upon in preparing for the annual financial statements.

The Directors have every reason to believe that the annual financial statements, which were prepared on a going concern basis, fairly present the financial results of the Fund and its position at the end of the financial year and that the Fund will be a going concern for the year ahead.

The annual financial statements of USAF for the year ended 31 March 2016, as set out on pages 53 - 65 were approved by the Board of Directors on 28 July 2016 and signed on their behalf by:



Mawethu Cawe
Acting Chairperson of the Board



Lumko Mtimde
Chief Executive Officer

Report of the Auditor-General to Parliament on Universal Service and Access Fund

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited financial statements of the Universal Service and Access Fund (USAF) set out on pages 108 to 125, which comprise of statement of financial position as at 31 March 2016, the statement of financial performance, statement of changes in net assets, statement of cash flows and Statement of comparison of budget and actual amounts for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting Authority's responsibility for the financial statements

2. Accounting Authority is responsible for the preparation and fair presentation of these financial statements in accordance with Generally Recognised Accounting Practice (GRAP) and the requirements of the Public Finance Management Act (PFMA) (1 of 1999), and for such internal control as the Accounting Authority determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control

relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion the financial statements present fairly, in all material respects, the financial position of the USAF as at 31 March 2016 and its financial performance and cash flows for the year then ended, in accordance with the GRAP and the requirements of the PFMA.

Emphasis of matters

7. I draw my attention to matters below. My opinion is not modified in respect of these matters.

Significant uncertainties

8. With reference to note 12 and 19 to the financial statements, USAF represented by USAASA was a respondent in the e.tv (PTY) LTD vs the Minister of Communications case, the judgement was unfavourable to Minister which have an impact on the inventory balance disclosed in note 20. With regard to note 12 the Minister has a lodged a petition to the Constitutional Court the outcome cannot be determined, and no provision for any possible liability has been made in the financial statements.

Restatement of corresponding figures

9. As disclosed in note 17 to the financial statements, the corresponding figures for the year ended 31 March 2015 have been restated as a result of problems experienced with projects completion stage.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

10. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives of selected objectives presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

11. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information of the following selected objectives presented in the annual performance report of the USAF for the year ended 31 March 2016:
- Objective 1: To facilitate the rollout of broadband infrastructure in 195 identified under-served municipal areas by 2020 on page 25
 - Objective 2: To facilitate the connectivity of schools including schools for Persons with disabilities by 2018 / 2019 on page 25
 - Objective 2: To ensure that 100% of targeted needy households are subsidised to access digital broadcasting signal by 2015 on page 25
12. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned objectives. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's Framework for managing programme performance information (FMPPi).

13. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
14. I did not identify any material findings on the usefulness and reliability of the reported performance information for the objectives selected as per paragraph 11 above.

Additional matter

15. Although I identified no material findings on the usefulness and reliability of the reported performance information for the selected objectives, I draw attention to the following matters:

Achievement of planned targets

16. Refer to the annual performance report on page(s) 25 to 27 for information on the achievement of the planned targets for the year.

Unaudited supplementary information

17. The supplementary information set out on pages 19 to 24 does not form part of the annual performance report and is presented as additional information. I have not audited these schedules and, accordingly, I do not report on them.

Compliance with legislation

18. I performed procedures to obtain evidence that the USAF had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Financial statements, performance and annual reports

19. The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework as required by section 55(1) (b) of the Public Finance Management Act. Material misstatements of current assets, current liabilities and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected resulting in the financial statements receiving unqualified audit opinion.

Expenditure management

20. Effective steps were not taken to prevent irregular expenditure, amounting to R188 779 000 as disclosed in note 15 of the AFS, as required by section 51(1)(b)(ii) of the Public Finance Management Act and Treasury Regulation 9.1.1.

Procurement and contract management

21. Goods and services of a transaction value above R500 000 were procured without inviting competitive bids, as required by Treasury Regulations 16A6.1.
22. Thresholds for local content on designated sectors procurement were not properly applied in accordance with the requirements of Preferential Procurement Regulation 9.
23. Contracts were awarded to bidders based on points given for criteria that differed from those stipulated in the original invitation for bidding, in contravention of Treasury Regulations 16A6.3(a) and the Preferential Procurement Regulations.
24. Contracts were awarded to bidders that did not score the highest points in the evaluation process, as required by section 2(1)(f) of Preferential Procurement Policy Framework Act and Preferential Procurement Regulations.
25. Contracts were extended or modified without the approval of a properly delegated official as required by Treasury Regulation 8.1 and 8.2.

Internal control

26. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in findings on compliance with legislation included in this report.

Leadership

27. There were delays in signing a memorandum of agreement with South Africa Post Office resulting in material misstatements in the inventory counts.
28. The Accounting Authority did not exercise the oversight role to ensure that all applicable laws and regulations are complied with in the procurement of goods and service.

Financial and performance management

29. There are no controls implemented by USAF to monitor receiving and distributions of Set-top boxes at South African Post Office warehouses.
30. There was inadequate application of laws and regulations which resulted in non-compliance.

Auditor General

Pretoria
31 July 2016



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

AUDITED USAF ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2016

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Statement of

FINANCIAL PERFORMANCE

as at 31 March 2016

	NOTE(S)	2016 R'000	2015 R'000
Revenue Other			
income Finance		12	55
income		98 440	50 942
Transfers and subsidies received	21	233 540	840 988
Total revenue		331 992	891 985
Expenditure			
Project expenses	2	(60 354)	(69 421)
Audit Fees	3	(1 077)	(702)
Administrative expenses	5	(3)	(3)
Total expenditure		(61 434)	(70 126)
Surplus before taxation		270 558	821 859
Taxation		-	-
Surplus for the year		270 558	821 859

Statement of

FINANCIAL POSITION

as at 31 March 2016

	NOTE(S)	2016 R'000	2015 R'000
Assets			
Current assets			
Receivables	6	1	-
Inventories - DTT/ DTH	20	169 616	-
Other receivables	8	135	-
Cash and cash equivalents	7	1 798 672	1 597 745
		1 968 424	1 597 745
Non-current assets		-	-
Current assets		1 968 424	1 597 745
Non-current assets held for sale (and) (assets of disposal groups)		-	-
Total assets		1 968 424	1 597 745
Liabilities			
Current liabilities			
Inter-entity loans	8	-	26
Payables from exchange transactions	9	170 137	19 128
Bank overdraft	7	76	-
		170 213	19 154
Non-current liabilities		-	-
Current liabilities		170 213	19 154
Liabilities of disposal groups		-	-
Total liabilities		170 213	19 154
Assets		1 968 424	1 597 745
Liabilities		(170 213)	(19 154)
Net assets		1 798 211	1 578 591
Net assets			
Accumulated surplus		1 798 211	1 578 591

Statement of CHANGES IN NET ASSETS

for the year ended 31 March 2016

	ACCUMULATED SURPLUS R'000	TOTAL NET ASSETS R'000
Opening balance as previously reported	756 715	756 715
Adjustments		
Prior year adjustments	21	21
Balance at 01 April 2014 as restated	756 736	756 736
Changes in net assets		
Surplus for the period	821 859	821 859
Total changes	821 859	821 859
Adjustments		
Correction of errors	2 880	2 880
Balance at 01 April 2015 as restated	1 578 595	1 578 595
Changes in net assets		
Surplus for the period	270 558	270 558
Transfer of income surplus to National Revenue Fund	(50 942)	(50 942)
Total changes	219 616	219 616
Balance at 31 March 2016	1 798 211	1 798 211

CASH FLOW STATEMENT

for the year ended 31 March 2016

	NOTE(S)	2016 R'000	2015 R'000
Cash flows from operating activities			
Receipts			
Cash receipts from Government		233 540	840 988
Payments			
Cash paid to suppliers		(130 968)	(57 845)
Total receipts		233 540	840 988
Total payments		(130 968)	(57 845)
Net cash flows from operating activities	10	102 572	783 143
Cash flows from investing activities			
Interest Income		98 440	50 942
Cash flows from financing activities			
Repayment of inter-entity loan		(161)	26
Net cash from financing activities		(161)	26
Net increase/(decrease) in cash and cash equivalents		200 851	834 111
Cash at the beginning of the period		1 597 745	763 634
Net increase in cash and cash equivalents	7	1 798 596	1 597 745

Statement of Comparison of Budget and Actual Amounts

for the year ended 31 March 2016

	APPROVED BUDGET R'000	ADJUSTMENTS R'000	FINAL BUDGET R'000	ACTUAL AMOUNTS ON COMPARABLE BASIS R'000	DIFFERENCE BETWEEN FINAL BUDGET AND ACTUAL R'000	REFERENCE
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Other income	-	-	-	12	12	
Interest received - investment	-	-	-	98 440	98 440	
Total revenue from exchange transactions	-	-	-	98 452	98 452	
Revenue from non-exchange transactions						
Transfer revenue						
Government grants and subsidies	233 540	-	233 540	233 540	-	
Total revenue from exchange transactions	-	-	-	98 452	98 452	
Total revenue from non- exchange transactions	233 540	-	233 540	233 540	-	
Total revenue	233 540	-	233 540	331 992	98 452	
Expenditure						
Project expenses	(232 670)	-	(232 670)	(60 354)	172 316	Significant part of the unspent funds relates to the subsidisation of set-top boxes
Audit fees	(866)	-	(866)	(1 077)	(211)	Overspending is due to the extended audit scope on DTT project
Administrative expenses	(4)	-	(4)	(3)	1	
Total expenditure	(233 540)	-	(233 540)	(61 434)	172 106	
Surplus before taxation	-	-	-	270 558	270 558	
Deficit before taxation	-	-	-	270 558	270 558	
Taxation	-	-	-	-	-	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	-	-	-	270 588	270 558	

USAF Accounting Policies

1. STATEMENT OF COMPLIANCE

The audited annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 91(1) of the Public Finance Management Act (Act 1 of 1999).

These audited annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these audited annual financial statements, are disclosed below.

1.1 Significant judgements

In preparing the financial statements, the executive management is required to make estimates and assumptions that affect the amounts represented in the financial statements and related disclosures. Use of available information and the application of judgement are inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the financial statements. Significant judgements include:

Loans and receivables

The entity assesses its loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Fair value estimation

The carrying value less impairment provision of trade receivables and payables is assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current

market interest rate that is available to the entity for similar financial instruments.

Impairment testing

The entity reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable.

The recoverable amounts, or recoverable service amounts, of individual assets have been determined based on the higher of fair value less cost to sell and value in use. These calculations require the use of estimates and assumptions. Some of the key considerations that were made in arriving at such estimates were the maintenance plans on certain assets, subsequent disbursements, the duration of the lease on property, technological changes in the market, the current conditions of assets, current market values, as well as past experience with all asset categories.

It is reasonably possible that assumptions may change which may impact our estimations, however, a material adjustment to the carrying values of tangible assets due to revised assumptions is not foreseen.

Effective interest rate

The entity used the prime interest rate to discount future cash flows.

Provision for impairment of financial instruments

An impairment loss on debtors is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

1.2 Revenue from non-exchange transactions

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

Revenue received via the National Revenue Fund forms part of the Department of Telecommunications and Postal Services budget vote.

USAF Accounting Policies (continued)

1.3 Revenue from exchange transactions

Revenue is measured at the fair value of the consideration received or receivable and represents the amounts receivable for goods and services provided in the normal course of business, net of trade discounts and volume rebates.

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the entity, and
- the amount of the revenue can be measured reliably.

An exchange transaction is defined as one in which the entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Interest income is recognised, in surplus or deficit, on a time proportion basis, taking into account the principal amount and the effective interest rate over the period to maturity.

Tender levies are recognised as revenue when payment from bidders has been received.

1.4 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

Details of fruitless and wasteful expenditure are provided in note 14.

1.5 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is:

“expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

- this Act; or
- the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- any provincial legislation providing for procurement procedures in that provincial government”.

Details of irregular expenditure are provided in note 15.

1.6 Investment policy

Accumulated funds not committed in the short-term are held in interest-bearing instruments.

1.7 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use of sale.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.8 Statement of materiality and significance

Materiality over the period under review was based on 5% of the appropriate budget for a given year. Quantitative and qualitative materiality are determined by the “USAASA and USAF: Materiality and Significance Framework” which has been prepared in terms of the stipulations of Treasury Regulation 28.3.1.

1.9 Tax

Current tax assets and liabilities

The USAF is not required to make provision for SA Normal Taxation in the financial statements, since it is exempted in terms of Section 10(1) cA (i) of the Income Tax Act, No. 58 of 1962, as amended. The USAF is defined as a public authority in terms of the VAT Act, No. 89 of 1991, as amended and is not required to register for VAT (Value Added Tax). The USAF is also exempt from paying Skills Development Levies in terms of Section 4 (d) of the Skills Development Levies Act, No. 74 of 2002.

1.10 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

1.10 Financial instruments (continued)

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

Classification

The entity has the following types of financial assets (classes and categories) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
- Universal Service and Access Agency of South Africa	- Financial asset measured at amortised cost.

The entity has the following types of financial liabilities (classes and categories) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
- Trade and other payables	- Financial liability measured at amortised cost
- Loans from Shareholders	- Financial liability measured at amortised cost

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity measures a financial asset and financial liability initially at its fair value (if subsequently measured at fair value).

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an entity calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

USAF Accounting Policies (continued)

1.10 Financial instruments (continued)

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The entity assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly or through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly or by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Derecognition

Financial assets

The entity derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity:
 - derecognises the asset; and
 - recognises separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Presentation

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position

1.10 Financial instruments (continued)

when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

1.11 Contingent liabilities and contingent assets

A contingent asset is a possible asset that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

A contingent liability is:

- a possible obligation that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
- present obligation that arises from past events but is not recognised because:
 - it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; or
 - the amount of the obligation cannot be measured with sufficient reliability.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 12.

1.12 Inventories - DTT/DTH

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for:

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the entity incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the entity.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.13 Share capital / contributed capital

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

1.14 Budget information

Budget information is disclosed in terms of GRAP 24 - Budget information which requires that entities, in their general purpose financial reporting, provide information on whether resources were obtained and used in accordance with their legally adopted budgets.

The approved budget is prepared on an accruals basis and covers the period from 01/04/2015 to 31/03/2016.

USAF Accounting Policies (continued)

1.14 Budget information (continued)

The financial statements and the budget are on the same basis of accounting, therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of Comparison of Budget and Actual Amount.

Comparative information is not required.

1.15 Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions or if the related party entity and another entity are subject to common control. Related parties include:

- Entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the reporting entity.

A related party transaction is a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged. Related party transactions exclude transactions with any other entity that is a related party solely because of its economic dependence on the reporting entity or the government of which it forms part.

Where the entity has had related party transactions during the periods covered by the financial statements, disclosure is made of the nature of the related party relationship as well as information about those transactions and outstanding balances, including commitments necessary for users to understand the potential effect of the relationship on the financial statements.

The entity operates in an economic sector currently dominated by entities, directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South

Africa, only entities within the national sphere of government are considered to be related parties.

Management is those persons responsible for planning, directing and controlling the activities of the entity, including those charged with the governance of the entity in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by that management in their dealings with the entity.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

Related party transactions and outstanding balances or commitments owing between the reporting entity and related parties are disclosed in note 13 to the financial statements.

1.16 Events after the reporting date

Events after the reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Such events are of two types:

- (a) those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- (b) those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The details of the events after the reporting date are provided in note 19.

Notes to the Annual Financial Statements

2. PROJECT EXPENSES

	2016 R'000	2015 R'000
Access centre handover programme	-	3 257
Broadband infrastructure	41 720	33 953
ICT Rapid deployment programme	1 241	9 037
Digital Terrestrial Television	4 267	9 664
Subsidies: Connectivity Programmes	13 126	13 510
	60 354	69 421

3. AUDITORS' FEES

Statutory audit	1 077	702
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4. REVENUE

Other income	12	55
Interest on cash and bank deposits	98 440	50 942
Department of Telecommunications and Postal Services	233 540	840 988
	331 992	891 985

The amount included in revenue arising from exchanges of goods or services are as follows:

Other income	12	55
Interest on cash and bank deposits	98 440	50 942
	98 452	50 997

The amount included in revenue arising from non-exchange transactions is as follows:

Department of Telecommunications and Postal Services	233 540	840 988
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5. ADMINISTRATIVE EXPENSES

Bank charges	3	3
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6. RECEIVABLES

Other receivables	1	-
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Notes to the Annual Financial Statements (continued)

7. CASH AND CASH EQUIVALENTS

	2016 R'000	2015 R'000
Cash and balances with banks	-	2
Short-term deposits	1 798 672	1 597 743
Bank overdraft	(76)	-
	1 798 596	1 597 745
Current assets	1 798 672	1 597 745
Current liabilities	(76)	-
	1 798 596	1 597 745

Significant portion of the bank balance relates to the BDM project which was only launched in December 2015. Cash and cash equivalents are unencumbered.

8. LOANS TO (FROM) OTHER ENTITIES

Amount receivable/(payable) - USAASA	135	(26)
Current assets	135	-
Current liabilities	-	(26)
	135	(26)

9. PAYABLES FROM EXCHANGE TRANSACTIONS

Trade creditors	29 430	67
Other payables	50 942	-
Accruals	89 765	19 061
	170 137	19 128

Trade payables and accruals were previously reported together under trade creditors. The balances are reported separately in the current financial year. Comparative figures are corrected accordingly.

10. CASH GENERATED FROM/(USED IN) OPERATIONS

Surplus/(deficit) before taxation	270 558	821 859
Adjustments for:		
Interest income	(98 440)	(50 942)
Changes in working capital:		
Inventories - DTT/DTH	(169 616)	-
Receivables	(1)	1 598
Payables from exchange transactions	100 071	10 628
	102 572	783 143

Notes to the Annual Financial Statements (continued)

11. RISK MANAGEMENT

R'000

R'000

Liquidity risk

Liquidity risk is the risk that the Agency will be unable to meet a financial commitment. This risk is minimised through the holding of cash balances and sufficient borrowing facilities. In addition, detailed cash flow forecast are regularly prepared and future commitments and credit balances are reviewed on an ongoing basis.

The exposure of the Funds' financial liabilities to liquidity risk are as follows:

Less than one year

-

-

Interest rate risk

The carrying amount of the Fund's financial assets at year-end that are subject to interest rate risk is disclosed in note 7. The size of the Fund's position does not expose it to significant interest rate risk. Any risk is managed through the term structure utilised when placing deposits.

The Fund is sensitive to movements in interest rates which is the primary interest rate to which the Fund is exposed. Management has performed a sensitivity analysis and found that if the interest rate increased or decreased by 50 basis points, the impact on surpluses or deficits would be negligible for both the current and prior financial year.

Credit risk

Potential concentrations of credit risk consist primarily of cash deposits and cash equivalents. Credit risk arises from the risk that a counter-party may default or not meet its obligations in sufficient time. The Fund minimises credit risk by depositing cash with major banks with high quality credit standing.

12. CONTINGENCIES

There was a Supreme Court of Appeal (SCA) Judgement issued on 31 May 2016 on a court case between e.tv (Pty) Ltd and the Department of Communications (DoC) as disclosed in the note of event after reporting date (Note 19). The judgement nullified the policy used by USAF to procure the Digital Terrestrial Television devices in the 2015/16 financial year. The SCA judgement has implications on the R1,33 billion currently allocated for the BDM project, risking wasteful expenditure. The technical opinion received by management is that, contrary to the Affidavit signed between the DoC and manufacturers, an upgrade of software at approximately US \$ 6.00 per unit will save the potential wasteful expenditure and will ensure compliance with the SCA judgement and completion of the project. However, the Minister of Communications has lodged a petition to the Constitution Court, which is likely to further delay the project and increase the risk.

The Fund sustained a surplus at the end of 2015/16 of R32 676 441.08. In compliance with Treasury Regulation 6.4 a request has been made to the National Treasury through the Department of Telecommunication and Postal Services to retain the surplus and to roll it over to 2016/17. Funds were mostly unspent due to delays with implementation of the Broadcasting Digital Migration project.

12. CONTINGENCIES (CONTINUED)

Funds were unspent as follows:

	R'000	R'000
Broadband infrastructure	7 107	18 290
Handover project	-	853
Rapid deployment and connectivity programme	5 136	932
STB subsidies	20 433	1 481 000
Balance at 31 March	32 676	1 501 075

13. RELATED PARTY TRANSACTIONS AND BALANCES

Relationships

Department of Telecommunications and Postal Services (Administrative arm of shareholder)

Universal Service and Access Agency of South Africa (Fund administrator)

Sentech (Entity controlled by the same shareholder)

Transactions

Name of Entity	Transaction Type		
Department of Telecommunications and Postal Services	Revenue appropriation	233 540	840 988
Sentech	Project expenses	-	6 513
Sentech	Repayment of the 2014/15 Liabilities	1 310	-
		234 850	847 501
Balances			
Universal Service and Access Agency		135	(26)
Sentech		(786)	(2 096)
		(651)	(2 122)

14. FRUITLESS AND WASTEFUL EXPENDITURE

Reconciliation of fruitless and wasteful expenditure

Fruitless and wasteful expenditure - current year	-	-
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Analysis of fruitless and wasteful expenditure

Incident	Management response		
1. Interest charges due to overdraft balance	USAF incurred interest charges of R205,83 on the overdraft balance at 31 March 2016 due challenges of changing bank signatories.	-	-

Notes to the
Annual Financial Statements (continued)

15. IRREGULAR EXPENDITURE

Reconciliation of irregular expenditure

Irregular expenditure - current year

Analysis of irregular expenditure

Incident

Management response / Comments

1. Bidding processes were not complied with

Bidding processes not complied with in relation to the Broadcasting Digital Migration tender. Investigations will be conducted and corrective actions taken.

171 796

-

2. Non-compliance with legislation - unapproved scope variation

Scope variation above legislated 15% limit without National Treasury approval. Investigations will be conducted and corrective actions taken.

9 418

-

4. Non-compliance with legislation

Highest scoring bidder not appointed. Investigations will be conducted and corrective actions taken.

6 860

-

5. Bidding processes were not complied with

Bidding processes not complied. Investigations will be conducted and corrective actions taken.

705

-

188 779

-

16. INVESTMENT REVENUE

Interest revenue

Interest on cash and bank deposits

98 440

50 942

98 440

50 942

17. PRIOR PERIOD ERRORS

During 2014/15, the entity experienced problems with regards to verification of the percentage of projects completed. This led to error in the following areas presented:

The correction of the error(s) results in adjustments as follows::

Statement of financial position

Decrease in payables

-

2 880

Increase in accumulated surplus

-

(2 880)

Statement of financial performance

Decrease in project expenses

-

2 880

Increase in surplus from operations

-

(2 880)

18. OTHER REVENUE

	2016 R'000	2015 R'000
Other income	12	55

19. EVENTS AFTER THE REPORTING DATE

There was a Supreme Court of Appeal (SCA) Judgement issued on 31 May 2016 on a court case between e.tv (Pty) Ltd and Department of Communications. This Judgement resulted in an event after reporting date and it nullified the policy used by USAF to procure the Digital Terrestrial Television devices in the 2015/16 financial year. The total amount of commitments/purchase orders issued is about R845 million.

20. INVENTORIES - DTT/ DTH

Inventories - DTT	169 616	-
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18. TRANSFERS AND SUBSIDIES RECEIVED

Operating grants		
Department of Telecommunications and Postal Services	233 540	840 988

Notes to the
Annual Financial Statements (continued)

Notes

Notes



USaf
The Universal Service and Access Fund