



Enabling the National Development Plan



The Universal Service and Access Fund

Connecting South Africa

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# **PART A:**

## **General Information**



## Public Entity's General Information

Registered Name	Universal Service & Access Agency of South Africa
<b>Registration Number (if applicable)</b>	Not Applicable
<b>Chairperson of the Board</b>	Mrs. Pumla F. Radebe CD (SA)
<b>Chief Executive Officer</b>	Mr. Zami T. Nkosi
<b>Physical Address</b>	Building 1 Thornhill Office Park 94 Bekker Road Vorna Valley Midrand 1630
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<b>Email Address</b>	<a href="mailto:koekie@usaasa.org.za">koekie@usaasa.org.za</a>
<b>Bankers</b>	Nedbank South Africa
<b>External Auditors</b>	Auditor General of South Africa
<b>Company / Board Secretary</b>	Mrs. Koekie Mbeki

## List of Abbreviations / Acronyms

<b>AGSA</b>	Auditor General of South Africa
<b>BARC</b>	Board Audit and Risk Committee
<b>EXCO</b>	Executive Council
<b>BBBEE</b>	Broad Based Black Economic Empowerment
<b>CEO</b>	Chief Executive Officer
<b>CFO</b>	Chief Financial Officer
<b>PFMA</b>	Public Finance Management Act
<b>TR</b>	Treasury Regulations
<b>MTEF</b>	Medium Term Expenditure Framework
<b>SMME</b>	Small Medium and Micro Enterprises
<b>SCM</b>	Supply Chain Management
<b>USAF</b>	Universal Service and Access Fund
<b>USAASA</b>	Universal Service and Access Agency of South Africa
<b>BDM</b>	Broadcasting Digital Migration
<b>DTT</b>	Digital Terrestrial Television
<b>ECA</b>	Electronic Communications Act (2005)
<b>ICASA</b>	Independent Communications Authority of South Africa
<b>ICT</b>	Information Communications Technology
<b>NDP</b>	National Development Plan
<b>PICC</b>	Presidential Infrastructure Coordinating Commission
<b>SIP 15</b>	Strategic Integrated Project (15) - Expanding Access to Communication Technology
<b>WSIS</b>	World Summit on the Information Society
<b>SA Connect</b>	South Africa Connect: Creating Opportunities, Ensuring Inclusion South Africa Broadband Policy (2013)
<b>NGP</b>	New Growth Plan

## Strategic Overview

### USAASA Vision

Universal Access and Service to ICT for All

### USAASA Mission

- To facilitate the roll out of adequate Information and Communication Technology (ICT) infrastructure to enable universal access to under-serviced areas in South Africa.
- To facilitate ICT service to under-serviced 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.

### USAASA Values

- **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; 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.

### Strategic Outcome Orientated Goals

- Innovative ICT offerings that respond to the needs of education, primary health care and government institutions in under-serviced areas provided.
- ICT platforms provided to People with Disabilities, SMME's and Co-operatives.
- Current under serviced areas connected through affordable, available, sustainable and qualitative broadband.
- Digital access provided to needy households.
- USAASA established as a centre of universal access and services market information, knowledge and expertise.



## Legislative and other Mandates

### Constitutional Mandate

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 USAASA's mandate to provide access and service that will ensure freedom of expression for the people of South Africa. USAASA is to apply and utilise USAF to uphold this constitutional mandate.

### 16. Freedom of expression

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.

The right to free expression has been interpreted also 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 human 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 is constrained.

### Legislative Mandate

The Universal Service and Access Fund's (USAF) policy framework and mandate is informed by the Electronic Communications Act, 2005 (Act No. 36 of 2005 as amended by Act No. 1 of 2014)(ECA), Chapter 14 titled Universal Service and Access Agency of South Africa, gazetted by

Government in 18th of April 2006. In summary the Act mandates USAF to:

- (a) Promote the goal of universal access and universal services;
- (b) Manage the Universal Service and Access Fund in accordance to provisions of ECA.
- (c) Submit annual reports in its operations, budget and expenses to the Minister;
- (d) Utilise the Fund exclusively for the payment of certain subsidies;

In executing its role, USAF is also guided, amongst others, by:

- Electronic Communications Act, 2005 (Act No. 36 of 2005 as amended by Act No. 1 of 2014)
- The Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996)
- The Public Finance Management Act, 1999 (Act No.1 of 1999)
- National Environmental Management Act, 1998 (Act No. 107 of 1998)

The other key legislative prescripts that impact on the work of USAASA includes:

- Independent Communications Authority of South Africa Act (No. 13 of 2000)
- Broadcasting Act (Act No. 4 of 1999)

The application of funds in USAF must be exclusively utilised for the payment of subsidies for universal access and service projects. Through a competitive bidding process USAASA is to incentivise the electronic communications network service licensees to construct, operate and maintain electronic communications networks in

## Legislative and other Mandates continued

Under-served areas through the award of project grants paid out of USAF. USAASA must keep and maintain the accounts of USAF separate from the organisational accounts. And further the accounts of USAF must be audited by the Auditor General.

This has necessitated USAASA to also have a separate strategic plan and annual performance plan for USAF.

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

### Other Legislative Mandate

### New Growth Path Strategies

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

### Policy Mandate

An overview of the principle policies and priorities of Government that impact on the USAASA's strategic priorities and delivery are outlined in Figure 1.

Figure 1: South Africa's Planning Horizon in the Context of the NPD

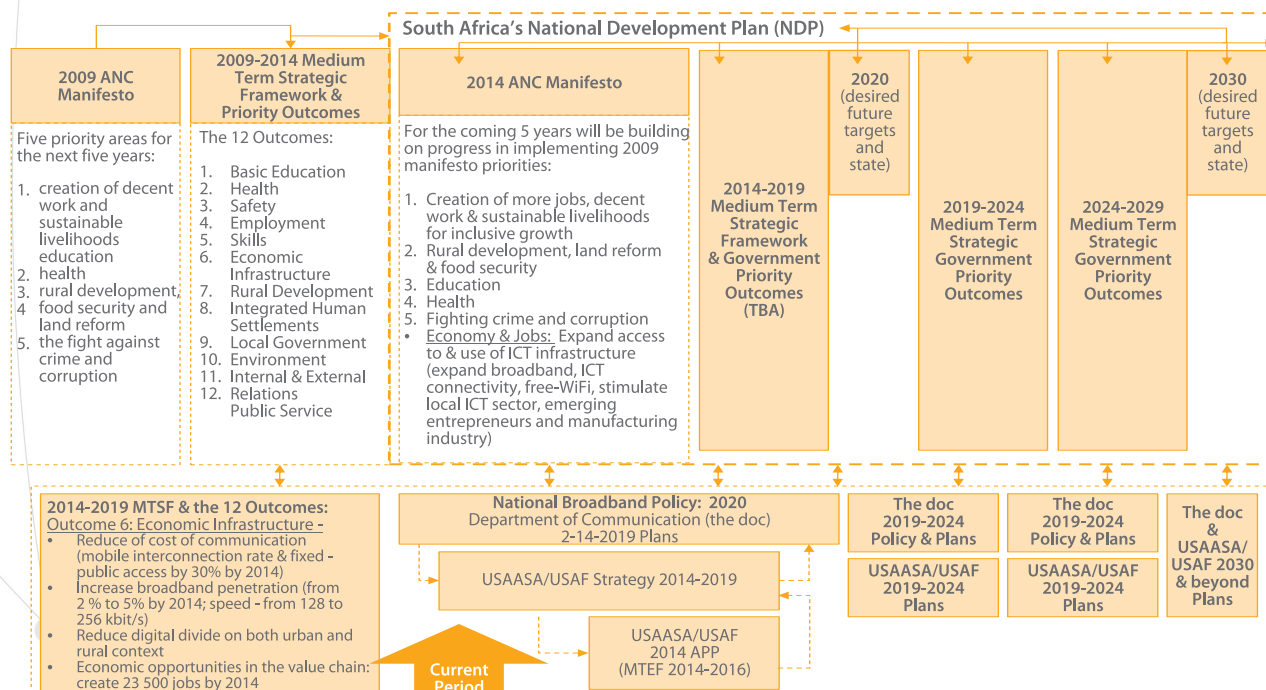


Figure 2 also contextualises the current period from 2014 to 2030, in which the NDP vision is a critical policy instruments that drive South Africa's Government Policy agenda. This type of planning has fundamental effect on how USAF to plans and aligns itself to the Government Policy agendas as is further described in this section.

## SIP-15: Expanding Access to Communication Technology

AIM: 100% access to digital ICT's to all South Africans by 2020 as a driver of new economic opportunities and digital equity. And its Interim Implementing Agencies, includes: Sentech, Broadband Infraco, Telkom, SANRAL, Eskom, Transnet, USAASA and private sector.

### South Africa Connect: Creating Opportunities, Ensuring - Broadband Policy 2013

The Department of Telecommunications and Postal Services of South Africa in terms of the Electronic Communications Act, 2005 (Act No.36 of 2005), published the policy South Africa Connect: Creating Opportunities, Ensuring inclusion: South Africa's Broadband Policy gazetted by government on the on 6 December 2013.

The South Africa's Broadband Policy or National Broadband Policy outlines four key strategies that have a direct impact on the strategies and operations of USF and these are:

- Broadband must reach a critical mass of South Africa;
- Access to broadband must be affordable;
- Demand-side skills must be developed so broadband services can be used effectively; and
- Supply-side skills must be developed so that the economic and innovative potential of broadband can be exploited.

### The Medium-Term Strategic Framework

The Medium-Term Strategic Framework (MTSF) expresses the envisaged various strategic priorities to realise the electoral mandate.

The key priority areas are as follows:

- 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. USAF is directly impacted by the first priority related to economic growth and job creation through industrialisation and infrastructure expansion.

The MTSF's strategies indicates that job creation will be a priority of infrastructure programmes and that more than 250,000 jobs will be sustained through the construction, operation and maintenance of infrastructure and manufacture of local components. Focus will be placed on catalytic projects in energy, transport, ICT and water.

USAF directly operates in the ICT space, and it is further indicated in the priorities that there is a need to rapidly expand access to and use of ICT infrastructure as follows:

- Invest in a comprehensive plan to expand broadband access throughout the country and substantially reduce the cost of communication;
- Connect all schools, public health and other government facilities through broadband by 2020, and at least 90% of communities should have substantial and superfast broadband capacity by 2020.
- Support and develop free-WiFi areas in cities, towns and rural areas.
- Local electronics sector and emerging entrepreneurs will be stimulated as part of the efforts to support the manufacturing industry.



## Legislative and other Mandates continued

### The National Development Plan

The National Development Plan (NDP) aims to eradicate poverty, increase employment and reduce inequality by 2030. The NDP encompasses other critical policy instruments, which are also driving Governments' policy agenda and these are:

- The New Growth Path, which focus on economic development;
- The National Infrastructure Plan, which guides the roll-out of infrastructure and includes
- Presidential Infrastructure Coordinating
- Commission (PICC) launched Strategic
- Integration Project (SIP-15);
- Industrial Policy Action Plan, which supports the re-industrialisation of the economy.

NDP goals that have an influence to the strategies of USAF include:

- Implementation of an Integrated e-strategy for the country
- 100% broadband penetration by 2020 (>2mbs)
- By 2030 deployment for full range of government, educational, and informational services

### Under serviced Legislative Mandate

The Independent Communications Authority of South Africa in terms of Section 88(2) of ECA published the Under-Serviced Definition Regulations gazetted by government on the 10th of September 2012.

This gazetted Government Notice state – Under serviced Area is any area with a local or district municipality in which:

- No electronic communication network has been constructed; or
- An electronic communication network has been constructed, but coverage of the inhabited parts of the area, fall below the national average; or
- An electronic communications network has been constructed, but over which no or, limited electronic communications services or broadcasting services are being provided.

The notice outlines 252 360 under serviced areas as Local Municipalities based on ICT penetration (i.e. their respective Internet, Computer, Telephone and Cellphone percentages)

The list of the identified under serviced areas and others are the targeted area in which USAASA strives to close the access gaps by pursuing the goal of universal access and service.

# Organisational Structure

Below is a high-level depiction of the Agency’s organisational structure for the year under review.

## USAASA Board of Directors



Chairperson  
Pumla Radebe



Zandile Mhlahdla



Kenosi Moroka



Agnes MacDonald



Sam Ledwaba



Seadimo Chaba

## Board Audit & Risk Committee



Linda Nene



Fortunate Mdanda



Thulani Ntuli



Mulalo M. Mudau



Chief Executive Officer & Board Member  
Zami Nkosi



Company Secretary  
Koekie Mbeki



Chief Financial Officer  
Zane Mheyamwa



Chief Audit Executive  
Jimmy Mashiane



Executive Manager & Performance Manager (acting)  
Siphon Mngqibisa



Executive Manager Operations  
Makhotso Moiloa



Executive Manager Corporate Services (acting)  
Moloti Nkune



Risk Manager  
Lavhe Netshidzivhani

## Foreword by the Chairperson

“

**I am proud that the USAF will be procuring locally assembled set-top-boxes which will be quality checked as per its partnership with the Dti and SABS.**

”

**Mrs. Pumla Radebe**

It is my pleasure to present the USAF (“the Fund”) 2014 / 2015 Annual Report. Similar to the term of the USAASA Board, the USAF Board is also reaching the end of its term.

In 2012 when the Board of USAF was appointed, it established a vision; a dream for the impact of the Fund. It was a vision wherein a grandmother caretaking her grandchildren can feel the benefits of broadband connectivity in her personal and community life; wherein she can benefit from an integrated health and education system. That grandmother is personified as MamKhize in the organization.

She is and has functioned as the benchmark against which the usage of the Fund is measured. She is and has been the inspiration behind the infrastructure that the Fund has deployed. It was a vision of what we as a Board and management believe is possible for the country, and have placed the onus of achieving that dream on USAASA, as the managers of the Fund.

The Fund for the period under review was constrained by the Broadcasting Digital Migration (BDM) project. Not including the BDM project, the performance is at 67%; with the BDM project performance at 50%. That said, USAASA spearheaded most of the movement on the project starting with the publication of the Qualifying Criteria and culminating in the publication of tenders for the manufacturing of set-top-boxes, antennae and related accessories.

Of particular importance is the adherence to localisation conditions designed to protect our local industries and jobs. I am proud that the USAF will be procuring locally assembled set-top-boxes which will be quality checked as per its partnership with the Dti and SABS.

Further to this, the Board has put considerable effort into ensuring that corporate governance structures are in place as required by the amended founding legislation, Electronic Communications Act, 2005 which puts emphasis on corporate governance.

These provide re-assurance to our stakeholders that USAASA operates efficiently and transparently as required by Public Finance Management Act, 1999 – always with the main aim of Universal Service and Access at core of everything we do. Our operations are underpinned with strong value system that promotes integrity, caring, professionalism, commitment and transparency.





Of the Board's three year term, two (2) years resulted in unqualified Audit Reports of USAASA. All the facets which are used by the Auditor General to measure the internal environment namely leadership, financial performance, management and governance all reflected an upward trend.

The Board has been working as a collective and provided good guidance and leadership to the management team.

The USAF has been steadily re-directed towards delivering fully on its mandate for 2014/2015. The USAF Board has set out the trajectory for the coming years in the Strategic and Annual Performance Plan 2015 -2020.

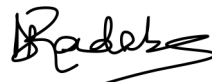
As with USAASA, USAF Board Committees are functional and accordingly, the Audit and Risk Committee fulfilled its responsibilities for this and prior financial years. Again, my sincere appreciation goes to Mr. Linda Nene, the Chairperson of USAASA/USAF Board Audit & Risk Committee who has led with distinction. USAASA has been stable over the two (2) year period in adhering to the principles of good governance and we pay tribute to the leadership of Board members who have been providing oversight to this strategic Public entity of government.

With the current Board's term coming to a close, I believe that I speak for the entire Board when I say: it was a road less travelled but certainly a road worth travelling. Through the National Strategy on Universal Service and Access, the organization's advocacy positioning has improved vastly with it increasingly receiving speaking invitations to various platforms outside of the country.

To date, USAASA and USAF have engaged in Rwanda, Namibia, Tanzania and London. It is my sincere belief this Board has set the stage and can only hope for the ball not be dropped into the future.

My sincere appreciation goes to the Minister of Telecommunications - Honourable Dr Siyabonga Cwele, the Deputy Minister of Telecommunications and Postal Services - Honourable Prof. Hlengiwe Mkhize and Chairperson of the Portfolio on Telecommunications and Postal Services - Honourable Ms. Mmamoloko Kubayi, for the political guidance and advice during the period under review.

My fellow Board members need to be commended for their resilience during difficult times, whilst focusing on achieving the set deliverables. The CEO and his staff need to be congratulated for maintaining the high standards of performance as expected of an Agency that has to deliver to the most vulnerable.



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**Mrs Pumla Radebe CD (SA)**  
**Chairperson of the Board of USAASA**

18 August 2015

## Chief Executive Officer's Overview

“ Through USAF, USAASA has a critical role to play in deployment of the economic infrastructure which is essential in activating the aspirations of the National Development Plan which guides the operational activities of USAF. ”

**Mr. Zami Nkosi**

USAASA is generally regarded as a gap filler for areas which are declared to be under serviced by the Independent Communications Authority of South Africa (ICASA). Through USAF, USAASA has a critical role to play in deployment of the economic infrastructure which is essential in activating the aspirations of the National Development Plan which guides the operational activities of USAF.

Having partnered with MTN in the 2013/14 year to upgrade and extend the network in Msinga (KZN) and Emalahleni (EC) Local Municipalities, this year financial year under review, we have resolved on the same for Joe Morolong (NC) and Ratlou (NW) Local Municipalities. These two network upgrades and extensions were completed through a project subsidy to iBurst. It is perhaps worth noting that this implementation was refreshing in that it was a combination of fibre and wireless deployments yielding speeds of no less than 10Mbps.

As a result of efficient project modelling, the Agency was able to deploy well beyond expectation; an additional nine (9) schools and an additional twenty (21) clinics over and above what was planned and budgeted for. We wish to go on record as appreciating the interest of the sector in these under serviced areas and further note that more than words, this is indeed an indication that there is an interest to partner with government for the good of all South Africans.

The organisation consequently reaped the fruit of screwed planning and dedication of our hard working staff by recording several highlights in the period under review, notably the following:

### Broadband sites

The two designated broadband sites of Ratlou Local Municipality and Joe Morolong Local Municipality were completed under year review and the full network switch on happened in the 1st quarter of this current financial 2015/2016.

Perhaps most exciting is the time in which the international equipment orders, the upgrades and network extensions took place: four (4) months.

This is indeed a feat given the often 1, 2 and sometimes 3 years that it takes private deployments as consequence of delays in site and environmental approvals. It is for this reason that this issue is raised in the National Development Plan (NDP) and is a key focus of the Presidential Infrastructure Coordinating Commission (PICC) under the “Rapid Deployment.” USAASA - learning from Msinga (KZN) and Emalahleni (EC) deployments - in these two deployments has achieved as envisaged by the National Development Plan as well as the Infrastructure Development Act, 2014 (Act No. 23 of 2014)



Of the sixty-eight (68) sites spread between Ratlou and Joe Morolong Local Municipalities, sixty (60) are complete greenfields (new) while the rest are shared. That effectively means that 89% of the deployed network sites are in fact new. Using the Broadband Infracore POP in Warrenton for the Northern Cape and the POP in Mafikeng, the operator successfully pulled fibre into each municipality effectively bringing competition to area covered by complacent operators.

The nett result is that USAASA through USAF has through its incentive to one operator, assisted in the development of the market in the designated area, but also incentivised the assigned operator to maximise that infrastructure to cover other areas neighbouring the two local municipalities. A total of 8 schools and 18 clinics in Ratlou and 10 schools and 27 schools in Joe Morolong were connected. This is the precise purpose of the subsidy: to stimulate the market in a particular area to the benefit of communities and government services in those and other markets beyond.

### Connectivity of Schools: 15

The connectivity of schools is a key long term project as defined in the Electronic Communications Act (2005). It has taken greater prominence and been expanded to all registered educational institutions in terms of the Amendments of 2014. In the financial year under review, the intention was to complete the deployment of the fifteen (15) designated schools; however, owing to streamlined procurement processes and improved price negotiations, the entire designation was complete at the close of the third quarter leaving the division to enable additional sixty-nine (69) sites for connectivity in support of the Broadband project.

### Broadcasting Digital Migration: Applications Processing

While there was no achievement on this target as no orders were placed or processed in the quarter under review, considerable work was undertaken in preparation for the eventual implementation of the project. The public consultation on the qualifying criteria was consolidated and submitted to the Board and the Ministers of Telecommunications and Postal Services, and, Communications. The content of this submission was what informed Cabinet's decision to fund qualifying TV-owning households at 100% as opposed to the initial 70%. Further to this, USAASA undertook procurement to resource itself for an intensive project deployment from human resourcing to systems resourcing and planning capacity.

USAF has improved significantly with regards to compliance and there were no issues raised by the Auditor General with regards to supply chain matters which is a key performance indicator. This shows that the controls and safeguards which have been built into the organisation are working effectively. All the facets which are used by the Auditor General to measure the internal control environment namely leadership, financial performance and management and governance all showed an upward trend. USAF will continue to focus on the key drivers of the internal control environment and ensure that compliance continues to be at the façade of all the USAF's activities. The introduction of the combined assurance has resulted in all the stakeholders working together to ensure that the environment yields this kind of improvement.



## Chief Executive Officer's Overview continued

I however remain concerned about the lack of funding for USAASA and USAF. It is a matter that has been raised in prior quarters and years and has reached a detrimental stage. If the underfunding persists, the USAF will not be able to finance any new project sites.

I would like to take this opportunity to thank the Chairperson of Board, Mrs. Pumla Radebe for leadership and direction afforded during the period under review.

I also wish to extend my deepest and sincere gratitude to the USAASA team for their continued commitment and dedication to public at large. I have no doubt this unwavering team will continue to rise to any challenge in the future.



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**Zami Nkosi (Mr.)**  
**Chief Executive Officer of USAASA**

18 August 2015





## PART B:

# Performance Information

## Statement of Responsibility for Performance Information

Statement of Responsibility for Performance Information for the year ended 31 March 2015

The Chief Executive Officer is responsible for the preparation of the Public Entity's performance information and for the judgements made in this information.

The Chief Executive Officer is responsible for establishing, and implementing a system of internal control designed to provide reasonable assurance as to the integrity and reliability of performance information.

In my opinion, the performance information fairly reflects the actual achievements against planned objectives, indicators and targets as per the Strategic and Annual

Performance Plan of the Public Entity for the financial year ended 31 March 2015.

The USAF performance information for the year ended 31 March 2015 has been examined by the external auditors and their report is represented on page 52.

The performance information of the entity set out on page 29 to page 32 were approved by the Board.



**Zami Nkosi (Mr.)**

**Chief Executive Officer of USAF**

18 August 2015

## Auditor-General's Report: Pre-Determined Objectives

The AGSA currently performs the necessary audit procedures on the performance information to provide reasonable assurance in the form of an audit conclusion. The audit conclusion on the performance against predetermined objectives is included in the report to management, with material findings being reported

under the Predetermined Objectives heading in the Report on other legal and regulatory requirements section of the auditor's report.

Refer to page 53 of the Report of the Auditors Report, published as Part E: Financial Information.

## Situational Analysis

USAF is one of the few funds that are operational in Sub-Sahara Africa. The features of the fund that relates to – (1) financing the fund through contribution by private operator percentage of their turnover; (2) incentivising the private operators through a subsidy scheme to provide ICT services in otherwise uneconomic regions; and (3) a special independent agency responsible for fund management and administration is one of the best model for promoting the achievement of universal access and service goals.

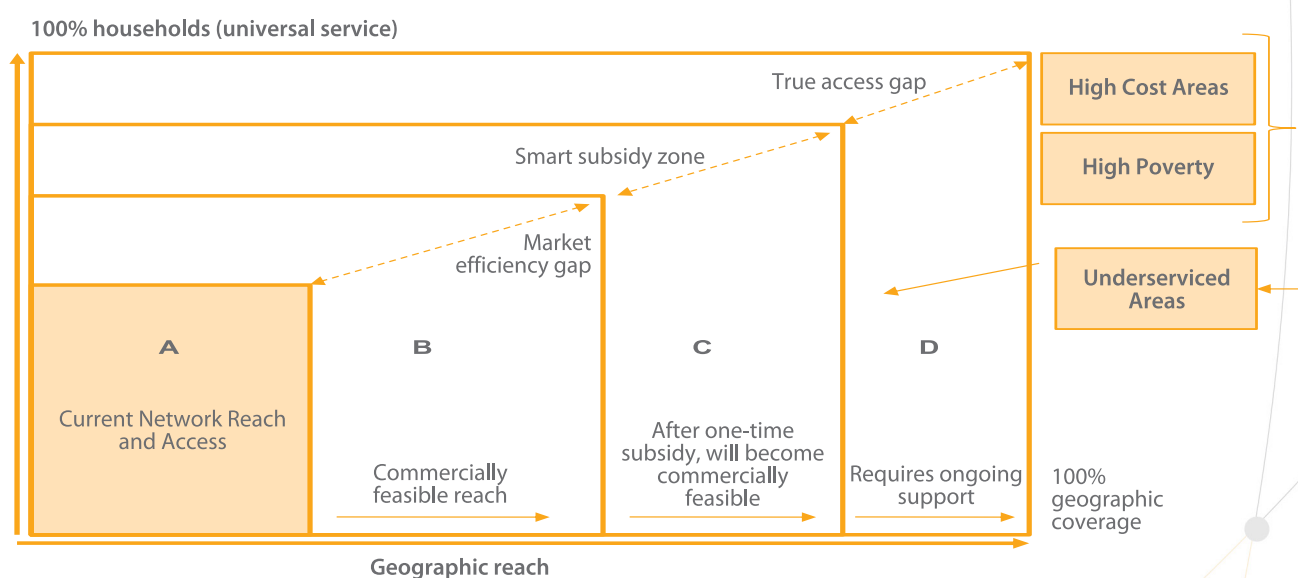
The situational analysis provides an overview of the performance environment for USAF in relation to closing the access gap and the implication for the fund internal environment to address the need to accelerate broadband roll out and connectivity for under serviced communities and households in South Africa.

### Fund Performance Environment

#### Closing the Access Gap

A key environmental factor for USAF is for the fund to be utilised to close the access gap. Figure 1 provides a theoretical framework for guiding strategic decisions for closing the access gap.

Figure 1: Access Gap Framework



## Situational Analysis continued

The framework has two dimensions aligned to the goal of universal access and service achieving 100% geographic coverage and 100% household ICT penetration. According to the framework ICT access and service has four market segments, including:

A.

Current Network Reach and Access that is already serviced, such as urban centres that have full coverage and high penetration of ICT broadband and connectivity.

B.

It's a market efficiency gap, is feasible for the network operators to reach this market and their profitability is dependent on operators competitiveness.

C.

The level of ICT penetration at such geographic areas is lower and there is a critical households mass to sustain ICT services. However the cost of establishment is higher and posed hindrance for operators to venture into such territories. Such geographic areas have potential to grow and require operators to be provided once support. These are mainly the under serviced areas.

D.

The true gap, has the lowest ICT penetration levels, the cost of providing ICT broadband and service are very high and the level of poverty and unemployment at such areas are also very high. These are the areas that require on-going Government support and subsidy for the operators to provide ICT services. These are mainly un-served areas.

### Universal Access and Universal Service Criteria

Table 1 provides an over of the objectives of universal access and universal service. These objectives inform the design and development of a typical USAF project.

Table 1: Universal Access and Universal Service Objectives

Universal Access	Universal Service
Universal access entails availability of affordable, good quality and efficient telecommunications services including good quality access to the internet.	Universal service entails the provision of affordable and equitable telecommunications services to every individual or household on demand, The main objective is to:  Achieve higher ICT penetration in both urban and rural areas.

### Universal Access and Universal Service Objectives:

- Provide ICT services in un-served and under serviced areas where operators are reluctant to operate, due to the uncertainty of recovering their investment. These services have to meet the following parameters:
  - **Affordability:** given that access to ICT services is classified as a human right, prices set up under universal services programmes must be at such a level that a large part of the population can afford them.
  - **Accessibility:** this refers to the geographic distribution of ICT services points of the presence which should be as close as possible to users, including people with disability
  - **Availability:** users should have access to ICT services at any time
  - **Sustainability:** the ICT points of presence build in line with a universal service/access objective should be managed and maintained so that their sustainability is ensured. This requires the adoption of a process of periodic reviews and adjustment mechanisms.
  - **Quality of service:** services provided under universal service/access programmes should have the same quality as those provided in more serviced zones.



- Reduce the digital divide between urban and rural areas and ensuring a more balanced distribution of ICT services to all the population.
- Promote the development of local ICT-based businesses and contribution to the expansion of ICT networks coverage.
- Stimulate the development of local private business communities by providing suitable communication tools to facilitate interaction and exchange of goods and services with remote business communities
- Promote the use of ICT applications in social, cultural and economic oriented programmes to improve the standard of life on local communities particularly in rural areas:
  - **E-health:** Experience has show that ICTY applications can improve health care delivery, i.e. by facilitating remote consultation, diagnosis and treatment. ICT applications can also make possible the assistance/training of high-qualified physicians from major cities to rural health workers. In disease prevention or epidemic situation, ICT tools have proven their efficiency, the more common example being the dissemination of health messages by broadcasting media.
  - **E-Education and e-Learning:** ICT tools may improve the accessibility and quality of education, general/ICT literacy and life-long-learning by providing for remote access to up-to-date training methods and programmes. ICT can contribute effectively to reducing the geographical gap between urban and rural areas in education sector.
  - **E-Governance:** ICT can contribute to fostering empowerment and participation and making government processes more efficient and transparent by encouraging communication and information-sharing among people and organisations, and within government.
  - **E-Commerce:** e-Commerce can facilitate trade in goods and services including banking, procurement and marketing. Improving efficiency and accessibility to markets by rural people in their day to day economic and social activities like agriculture/animal husbandry, crafts, natural resources, self-employment, financial transactions and etc.

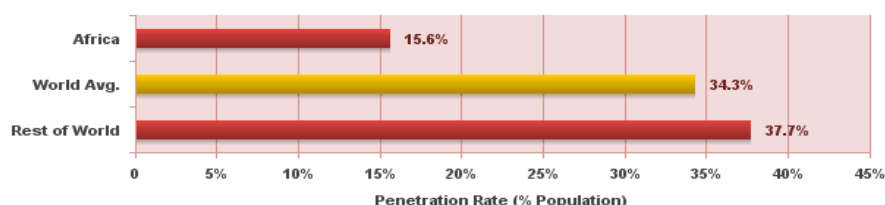
Source: TRASA, 2002 and ARICEA, 2004<sup>1</sup>

## Broadband in Africa

According to Internet World Stats , the growth of in Africa's Internet and Broadband sector has accelerated in recent years due to improvements in infrastructure, the arrival of wireless access technologies and lower tariffs. Broadband is rapidly replacing dial-up as the preferred access method.

The Internet World Stats further indicates Africa as lacking behind the world average and the rest of the world. Figure 2 shows that internet penetration in Africa is at 15.6%.

Figure 2: Internet Penetration in Africa, 2012 Quarter 02



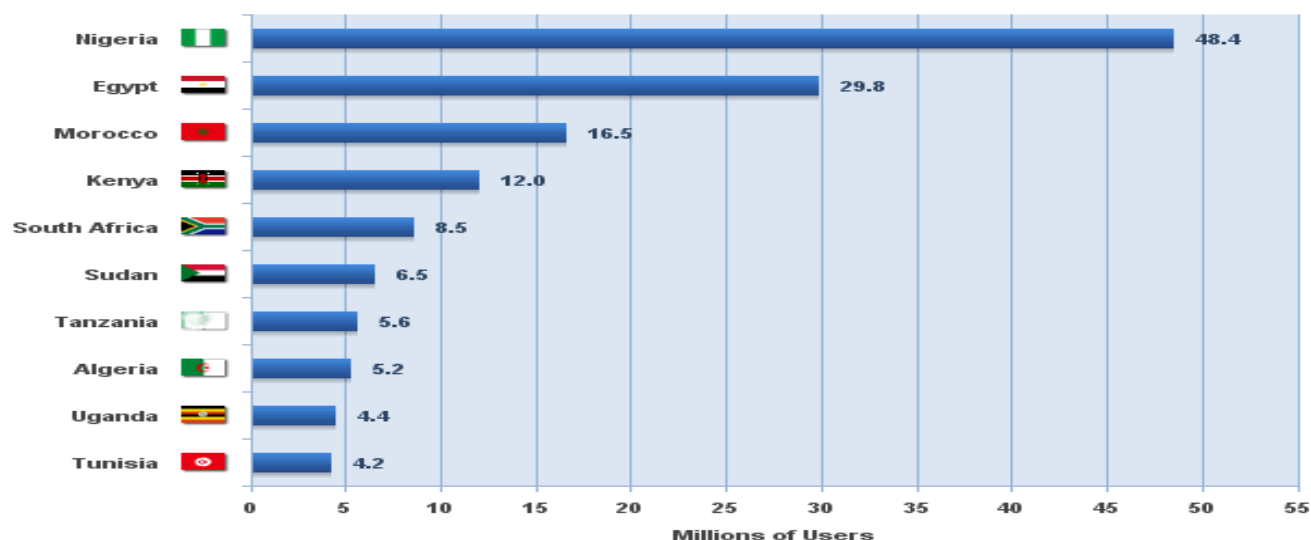
Source: Internet World Stats - [www.internetworldstats.com/stats1.htm](http://www.internetworldstats.com/stats1.htm)  
167,335,676 estimated Internet users in Africa for June 30, 2012  
Copyright © 2012, Miniwatts Marketing Group

<sup>1</sup> Association of Regulators of Information and Communications of Eastern and Southern Africa (ARICEA); (2004); Common Market For Eastern and Southern Africa (COMESA): Policy Guidelines on Universal Service/Access; August 2004; Available: [http://www.itu.int/ITU-D/projects/ITU\\_EC\\_ACP/hipssa/docs/118\\_Policy\\_Guidelines\\_Universal\\_Service.pdf](http://www.itu.int/ITU-D/projects/ITU_EC_ACP/hipssa/docs/118_Policy_Guidelines_Universal_Service.pdf); Accessed 10 December 2012

<sup>2</sup> Internet World Stats: Usage and Population Statistics; Available: <http://www.internetworldstats.com/stats1.htm>; ; Accessed 10 December 2012

## Situational Analysis continued

Figure 3: Africa Top 10 Internet Countries, 2012 Quarter 02



Source: Internet World Stats - [www.internetworldstats.com/stats1.htm](http://www.internetworldstats.com/stats1.htm)  
167,335,676 Internet Users in Africa estimated for June 30, 2012  
Copyright © 2012, Miniwatts Marketing Group

### Broadband in South Africa

The State of Broadband 2013 report indicates that South Africa's broadband performance is poor, i.e. fixed broadband penetration and internet penetration rate poor when compared to other nations. The South Africa's broadband and internet penetration performance indicators:

- South Africa ranked at number 111 out of 183 countries on fixed broadband penetration – 2.2%
- South Africa ranked at number 62 out of 170 countries on mobile broadband penetration – 26%
- South Africa ranked at number 44 out of 128 countries on the percentage of households with internet – 25.5%
- South Africa ranked at number 92 out of 192 countries on the percentage of individuals using the Internet – 41%.

In Africa, figure 3 shows that South Africa is in the top 5 of the 10 top internet users' countries. Nigeria is leading at 48.4%.

There is a dire need for South Africa to improve its broadband penetration in global ranking including in the Continent. Given that the state of broadband in South Africa needs accelerated development. The broadband and broadcast infrastructure is the backbone of the ICT sector, is capital-intensive in nature and requires huge capital investments for development. The industry players in South Africa's broadband infrastructure backbone include Telkom, Infraco Broadband Limited (wholly owned by the state), MTN, Neotel, Vodacom (co-building) and Dark Fibre Africa.

## National Broadband Policy

The Department of Telecommunications and Postal Services in terms of the ECA, published the policy South Africa Connect: Creating Opportunities, Ensuring inclusion: South Africa's

Broadband Policy gazetted by government on the on 6 December 2013. The policy provides direction with regards to broadband targets for the country as indicated in table 2. The set targets are consistent with NDP 2020 targets for broadband penetration.

Table 2: National Broadband Policy Targets (Penetration measures)

Target	Baseline	By 2015	By 2020
Broadband access in Mbps user experience	33.7% Internet Access	50% at 5Mbps	100% at 5Mbps 50% at 100Mbps
Schools		100% at 10Mbps	100% at 100Mbps
Health Facilities		100% at 10Mbps	100% at 100Mbps
Government		50% at 5Mbps	100% at 10Mbps

## Fund Environment and Alignment

### Fund Performance

USAF has not been substantially utilised for universal access and service projects thus the low level of ICT penetration at South Africa's under serviced areas. For example the budget allocation for USAF for the financial year 2013/14 was not adequate to initiate all of the planned universal access and service projects. For this financial period, a total budget allocation was approximately R272 million.

There is a need to scale up the efforts for securing required budget to fund the projects for the under serviced areas for the achievement of the National Broadband Policy targets.

## Fund Management and Administration

USAASA is currently operating below its full potential and capacity as there are vacancies at key staff positions. Within USAASA the Operations division is responsible for the application of USAF.

The division position for Executive Manager was vacant and filled in third quarter of the financial year under review. The division main system of operation is Ms Project and there are technical skills gaps in areas such as telecoms engineering, project management and software application development. The Finance department of USAASA is also key division providing support for the application of USAF. The implications of the National Broadband Policy targets on USAF requires USAASA to enhance its organisational capacity in order contribute to the 2020 vision for broadband and ICT penetration.

## Situational Analysis continued

### Key policy developments and legislative changes

During the year under review, both policy and legislative changes were undertaken by the Department of Telecommunications & Postal Services.

The Minister of Telecommunications and Postal services established a 22-member ICT Policy Review panel, who were nominated following a call for public nomination. The NDP recognises that the ongoing development of quality communications infrastructure, services, content and applications, is key to the rapid economic, social and cultural development of the country. Therefore proposed policy framework should ensure universal access to quality communications services, technologies, infrastructure and content is enjoyed by all South Africa.

In March 2014, the ICT Review panel made the following recommendations which have a direct bearing on USAASA legislative mandate:

- The policy maker (currently DTPS) must undertake a regular market gap analysis in consultation with the regulator (Independent Communications Authority of South Africa). The DTPS as a policy maker must ensure that the requisite information is provided to the regulator to enable the regular declaration of under serviced areas.
- The responsibilities for developing all Universal Access and Services related definitions must be consolidated and government as the policy maker take responsibility for this. These definitions should be regularly reviewed by government and policy should determine the periods between such reviews.
- The regulator will be responsible for implementing policy in line with the definitions and will conduct regular reviews to determine which areas/ communities continue to be under-served.
- Addressing the ongoing historical legacy of the apartheid digital divide, and ensuring universal, affordable access to and effective adoption and utilisation of ICT infrastructure and services, remain central policy and regulatory objectives, requiring specific intervention. The recognition of the possibility of a new information divide is also crucial and the need therefore to mitigate against this.
- Ensure accessibility for all sectors of the population in respect of services, devices and infrastructure, so that all can equally enjoy and benefit from communications.
- The USAF must evolve into an ICT Development Fund (ICT-DF) providing support for both infrastructure and demand stimulation projects in line with proposed extended definitions for Universal Access and Service. It should be funded through levies, donor funding and new incremental state funding.
- USAASA should be dissolved and its current responsibilities reallocated as relevant to the new ICT-DF, ICASA (regulatory functions) and to the DTPS (policy-making functions)

Lastly, the Electronic Communications Amendment, 2014 (Act No.1 of 2014) came into force on 21 May 2014.

- The objects of the Amendment Act are to provide for the terms of appointment and the duties of the Chief Executive Officer and further to improve the governance provisions of USAASA.

The Amendment Act introduces the following:

- Enable the Minister to issue policy directives to USAASA
- Empower the Minister to access information held by ICASA or USAASA or any other person where this information is required by the Minister for the performance of his or her functions
- Empowers ICASA to designate particular licensees to which universal service and universal access obligations may be imposed and this can only be done after consultation with USAASA
- A provision is made to make clear that USAASA can pay a charge on behalf of a school and will such instance be entitled to the 50% discount.
- The distinction between public and independent schools and between public and private colleges falls away and the scope of application for USAF for USAF subsidies has been increased to include provision to independent schools, private colleges and primary health care facilities.
- USAASA is subjected to Public Finance Management Act and to improve its governance
- Amendments also seek to ensure there is consistency in provisions relating to universal access, universal service and needy person.
- Also 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.





## Strategic Outcome Orientated Goals

The strategic outcomes are the goals pursued by USAASA that aim to effect changes for the benefit of the organisation's beneficiaries and key Stakeholders including government.

1	Strategic Outcome Oriented Goal 1	Accessible Broadband Infrastructure
	Goal Statement	Current under serviced areas connected through affordable, available, sustainable and qualitative broadband.
	Key Performance Indicators	<ol style="list-style-type: none"> <li>1) Percentage availability of broadband for public access in under serviced areas</li> <li>2) Percentage of population covered by a mobile cellular telephone network in under serviced areas</li> <li>3) Percentage availability of broadband for households private use in under serviced areas (e.g. WiFi availability)</li> </ol>
	Strategic Objective	To facilitate the rollout of broadband infrastructure in 250 identified under-serviced areas by 2020.
	Programme	1: Broadband
2	Strategic Outcome Oriented Goal 2	Under serviced Areas Connectivity
	Goal Statement	Innovative ICT offerings that respond to the needs of education, primary health care and government institutions in under-serviced areas provided.
	Key Performance Indicators	<ol style="list-style-type: none"> <li>4) Percentage up take of ICT services in schools,</li> <li>5) Percentage up take of ICT services in primary health care facilities</li> <li>6) Percentage up take of ICT services in government institutions</li> </ol>
	Strategic Objective	<ol style="list-style-type: none"> <li>7) Percentage availability of ICT service for public through public access centres</li> <li>• To facilitate 100% connectivity of schools including schools for People with Disability by 2018/ 2019</li> <li>• To facilitate 100% connectivity of cost-effective public access centres; primary health care facilities and government institutions in under serviced areas by 2020.</li> </ol>
	Programme	2: Schools & Other Government Institution Connectivity
3	Strategic Outcome Oriented Goal 3	ICT connectivity for People with Disabilities, SMME's and Co-operatives
	Goal Statement	ICT platforms provided to People with Disabilities, SMME's and Co-operatives.
	Key Performance Indicators	<ol style="list-style-type: none"> <li>8) Percentage accessibility and affordability of ICT services for People with Disabilities at school</li> </ol>
	Strategic Objective	<ul style="list-style-type: none"> <li>• To facilitate 100% connectivity of schools for People with Disability by 2018/ 2019 in support of Broadband Policy (2014) "SA Connect" and the National Development Plan.</li> </ul>

4	Strategic Outcome Oriented Goal 4	Digital Broadcast Connectivity (DTT)
	Goal Statement	Digital access provided to needy households
	Key Performance Indicators	9) Percentage accessibility of digital broadcast services by targeted needy households 10) Percentage of local enterprises empowered to install Set Top Boxes (S.T.B) for targeted needy households
	Strategic Objective	To ensure that 100% of targeted needy households' are subsidised to access digital broadcast by 2015 (dependent on digital switch over date) Note: the achievement of the objective is dependent on funds available until 2017, finalisation of specifications and appointment of service providers by the Department of Communication.
	Programme	4: Special Project (DTT)

## Strategic Priorities

Operations is a core function of USAASA responsible for the management of universal access and service projects funded through USAF. In line with the National Development Plan, SIP 15, National Broadband Policy and other key government priorities, USAF is to be used to fund the roll out broadband, ICT connectivity and DTT through the provision of subsidies for government to close all access gaps by 2020. The three strategic thrusts for Operations are:

- Accessible Broadband Infrastructure in un-served and under serviced areas
- Un-served and under serviced areas connectivity
- Digital Broadcast Connectivity

The balanced scorecard (BSC) is outlined under the USAASA strategy covering the four perspectives of the BSC. Whereas USAF activities mainly contribute to Stakeholder Perspective as outlined below:

Key priorities for Operations are:

- Facilitate the roll out broadband infrastructure and DTT subsidy
- Facilitate connectivity to mainstream schools, schools for people with disabilities, government institutions and public access facilities
- Research on cost of broadband for under serviced areas
- Improve Operations delivery capacity

## Strategic Outcome Orientated Goals continued

STRATEGIC THEME (BSC) STAKEHOLDER PERSPECTIVE: Grow the organisation to deliver for the benefit of stakeholders and beneficiaries

Programmes	Strategic Objectives
1. Programme One: Broadband	<ul style="list-style-type: none"> <li>To facilitate the rollout of broadband infra structure in 195 identified under-serviced municipal areas by 2020 in line with the Broadband Policy (2014) "SA Connect".</li> <li>To facilitate 100% connectivity of mainstream schools by 2018/ 2019 in support of Broadband Policy (2014) "SA Connect" and the National Development Plan.</li> </ul>
2. Programme Two: Schools & Other Government Institution Connectivity	<ul style="list-style-type: none"> <li>To facilitate 100% connectivity of cost-effective public access centres; primary health care facilities and government institutions in under-serviced areas by 2020 in support of Broadband Policy (2014) "SA Connect" and the National Development Plan.</li> </ul>
3. Programme Three: Schools for People with Disabilities Connectivity	<ul style="list-style-type: none"> <li>To facilitate 100% connectivity of schools for People with Disability by 2018/ 2019 in support of Broadband Policy (2014) "SA Connect" and the National Development Plan.</li> </ul>
4. Programme Four: Special Project (DTT)	<ul style="list-style-type: none"> <li>To ensure that 100% of targeted needy households' are subsidised to access digital broadcasting signal by 2015. (dependent on digital switch over date).</li> </ul>



## Performance Information by Programme

### Strategic Objects

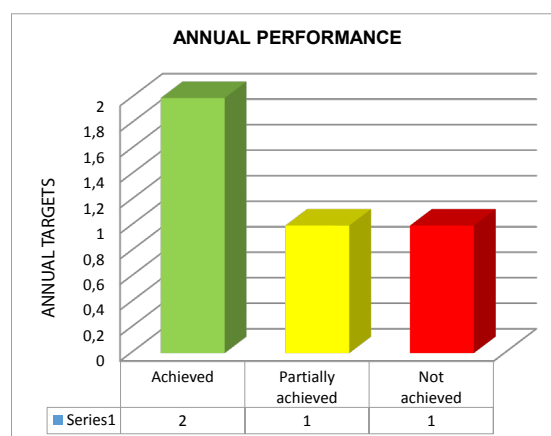
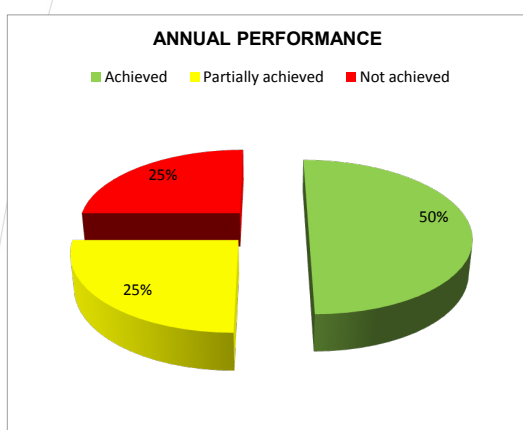
	Strategic Objective	Performance Indicator	Annual Target 2014/2015	Actual Achievement 2014/2015	Means of verification	Variation from planned target 2014/2015	Planned Mitigation of Non-Performance
1	To facilitate the rollout of broadband infrastructure in 195 identified under-served municipal areas by 2020.	Number of sustainable broadband networks with uptake and usage initiated from the list of 195 identified under-served local municipalities as per ICASA declaration of unserved and under-served areas	2 under-served local municipality broadband projects initiated & completed	Partially Achieved. Procurement of the electronic communications equipment from manufacturers.	The business case, The appointment letter and, The Project progress report.	The delay on the whole project was as a consequence of delays in the Environmental Impact Analysis on the Joe Morolong	Commissioning of sites and application of environmental impact certificates are being lodged with relevant authorities and deployment of networks will be done once the processes are approved
2	To facilitate the connectivity of schools including schools for People with Disability by 2018/2019.	Increased percentage of schools for People with Disability (PWD) having ICT connectivity	5 schools for people with disability connected to ICT services	Achieved. 5 schools for person with disabilities installed & connected to ICT services. Q3 completion.	School installation site verifications.  Close-out report	None	None
3	To facilitate the connectivity of schools including schools for People with Disability by 2018/2019.	Increased public Schools ICT connectivity	10 Public Schools in any under serviced municipal areas connected to internet	Achieved [Exceeded]. 10 public schools in under serviced areas installed & connected to the internet. Q3 completion.	School installation site verifications.  Close-out report.	None	None
4	To ensure that 100% of targeted needy households are subsidised to access digital broadcasting signal by 2015.	Percentage of 5.2 million needy households subsidised/ funded for connection to digital broadcast	40% of targeted 5.2 million households subsidised/ funded for connection to digital broadcast	Not Achieved	None	This was due to delays in policy determination by the Department of Communications. No qualifying households subsidised for connection to digital broadcast	Having completed to the procurement process, the DTH population will be covered first allowing for borderline signal mitigation.

## Performance Information by Programme continued

### Summary of USAF Performance including DTT

The below graphs depict the Fund's achieved annual targets against the planned annual targets in the 2014/15 approved Annual Performance Plan. 2 of the 4 planned targets were

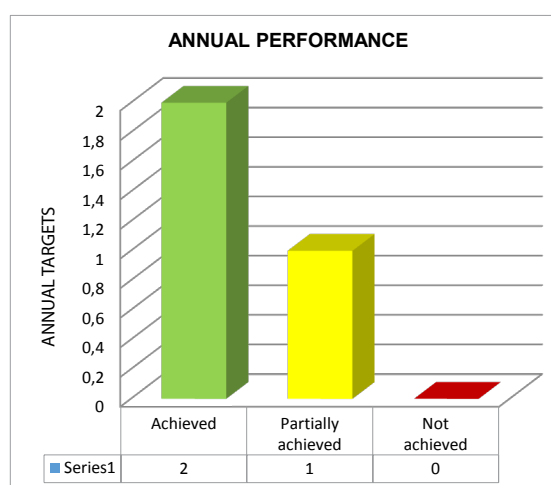
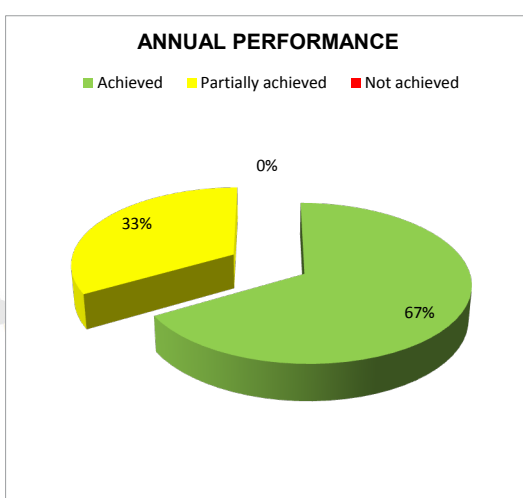
achieved being 50% of the total planned target, 1 of the 4 planned targets was partially achieved, being 25% and 1 of the 4 planned targets was not achieved, being 25% of the planned targets.



### Summary of USAF Performance including DTT

The below graphs depict the Fund's achieved annual targets against the planned annual targets in the 2014/15 approved Annual Performance Plan. 2 of the 4 planned targets were achieved being 50% of the total planned target, 1 of the 4

planned targets was partially achieved, being 25% and 1 of the 4 planned targets was not achieved, being 25% of the planned targets.





## Linking Performance with Budgets

Sub-Programme Name	2014 / 2015			2013 / 2014		
	Budget	Actual Expenditure	Over/Under Expenditure	Budget	Actual Expenditure	Over/Under Expenditure
	'000	'000	'000	'000	'000	'000
<b>DTT Subsidy</b>	<b>791 000</b>	<b>9 664</b>	<b>781 336</b>	<b>240 000</b>	<b>Nil</b>	<b>240 000</b>
Broadband	32 250	36 833	-4 583	21 575	9 823	11 752
<b>Connectivity</b>	<b>6 000</b>	<b>13 511</b>	<b>-7 511</b>			
Municipal School Tablets ICT Rapid Deployment	11 738	9 741	1 997	15 018	58 077	-43 059
Fund Manual National Strategy on Universal service and Access to ICT	Nil	Nil	Nil	Nil	3 557	-3 557
Access centre Hand over Programme	Nil	3 257	-3 257	Nil	2 985	-2 985

## Summary of Financial Information

### Revenue Collection

USAASA	2015	2014
Transfer from Government	840 988	285 046
Interest Received from call deposits	50 942	23 940
Refunds, recoveries & tender levies	55	194
<b>Total</b>	<b>891 985</b>	<b>309 180</b>

The Agency is a schedule 3A entity, therefore the entity does not generate its own revenue. Therefore all funding comes from the National Revenue Fund through the DTPS. The entity therefore does not have any revenue collection plans save for collection as per Electronic

Communications Amendments Act, 2014 (Act No. 1 of 2014) effected in the new financial year.

The reflected under collection in USAF is due to finance income, as a result of interest on call deposits. This cannot not be estimated accurately as it depends on funding that could not be utilised during the previous financial year which remains in call deposits.

### Capital Investment, Maintenance and Asset Management Plan

Neither USAF nor USAASA have projects that are classified under infrastructure projects over the MTEF. USAF offers subsidises and funding to communities and ECNS Licensees to build ICT infrastructure and hence the infrastructure is not owned by the USAF.

On the back of successful deployments in the prior financial year, the popularity of the USAASA deployment model and the conceptual models piloted at Msinga (KwaZulu-Natal) and Emalahleni (Eastern Cape) Local Municipalities and schools around the country have generated enormous goodwill for the Fund.

## Performance Information by Programme continued

In the year under review, USAF funded broadband integrated infrastructure which was rolled out by iBurst. The contract covered two areas: Ratlou (North West Province) and Joe Morolong (Northern Cape) Local Municipalities extension of the backhaul infrastructure, provision of connection equipment in schools and primary health care centres.

The Fund also funded the deployment of ICT infrastructure as well as connectivity in schools. The deployment of infrastructure to 33 schools and 45 clinics were completed, and the connectivity to the internet continues for a period of two years after the initial setup. The infrastructure is meant to ensure access to ICT services by the under privileged, therefore the infrastructure is not owned by the Fund hence there are no maintenance plans.

### Strategy to Overcome Areas of Under Performance

USAF's under performance is largely due to dependencies on the Department of Communications as the responsible Executive Authority for oversight of broadcasting related matters in the country.

The Fund's performance has been adversely affected by the limited progress on Digital Terrestrial Television Project which is resident at the Department of Communications.

With USAASA and USAF allocated nothing but the funding role in the project, the organization therefore depends on all players in the value chain to complete their parts so as to effect the ordering of set-top-boxes from manufacturers.

USAASA is unable to disburse funds through USAF for procurement of Set-Top- Boxes for poor television owning households as the amended policy on Digital Broadcasting Migration is sub-judice. Until such time that there is clarity on policy and USAASA cannot place order for procurements of Set-Top-Boxes.

The integrated broadband programme was completed at the close of quarter 1 of this current financial year (2015/2016). The delay was partly to the new published Environmental Impact Assessment regulations, Gazette No. 38282 dated 4 December 2014 by the Ministry of Environmental Affairs which suspended the actual deployment of the infrastructure. Under performance can only be mitigated when USAASA is capacitated with technical resources capable of executing the broadband mandate.

### Changes to Planned Targets

The entity did not make any changes save for the inclusion of performance indicator descriptors upon the recommendation and assessment of the Auditor-General.





# PART C:

## Governance

## Introduction

The financial year 2014/2015 was a very busy year from a strategy development and project implementation points of view. The Board actively played its role in providing effective leadership based on the principles of honesty, professionalism, good governance and ethical business practices. The Board also exercised its oversight responsibility over financial and performance management and reporting as well as ensuring compliance with all relevant legal prescripts and policy imperatives.

The establishment of policies, governance frameworks, systems and procedures for effective and regular monitoring of organisational performance is a clear indication that the Board has always been on top of issues affecting the Agency. Stakeholder engagement has also been one of the areas of focus of the Board.

The Agency has successfully implemented and concluded various important projects. Among those were the broadband roll-out projects in Ratlou (Northern Cape Province) and Joe Morolong (Northwest Province) Local Municipalities; the schools connectivity projects in various schools across the country.

We have also implemented the organisational design project, although not fully completed as at the end of the financial year but a lot has been achieved in ensuring that there is alignment and skills match between the available resources and skills and those required or relevant to the core mandate of the Agency. This will assist in ensuring that the Agency is properly capacitated.

The Board continued to provide the much needed strategic direction and leadership. The Board and its Committees together with management worked tirelessly in setting up systems and procedures for the implementation of the Digital Migration Project.

The governance function is led by the Board of USAASA, for operational and administrative matters, and USAF for project management and monitoring. The Agency has been able to set up partnership relationships with various entities in an attempt to profile the role of the Agency and address some of the negative perceptions and/or media coverage of the Agency.

To mention just a few, the Agency partnered with the South African Broadcasting Corporation (SABC) to market the work of the Agency. Other partnerships relate to Provincial Departments of Education and various Local Municipalities.



## Portfolio Committees

The Board appeared before the Parliament Portfolio Committee on Telecommunications and Postal Services to present as per activities listed hereunder:

DATE	MEETING / ACTIVITY
08 July 2014	USAASA Strategic Plan APPs Presentation
16 July 2014	Minister's Budget Vote Speech
12 September 2014	Portfolio Committee Briefing on Schools Connectivity with Portfolio Committee on Basic Education
19 September 2014	Portfolio Committee Briefing on DTT with Portfolio Committee on Communication
14 November 2014	Portfolio Committee Briefing on Broadband
10 March 2015	Joint Portfolio Committee Briefing on DTT
17 March 2015	Portfolio Committee Quarter 3

## Executive Authority

The Executive Authority that USAF reports to is the Ministry of Telecommunications and Postal Services. USAASA on behalf of USAF submits quarterly reports to the Executive Authority as per legislated requirement. During the year under review, all the Agency's quarterly reports were submitted timeously and followed up with presentations to the Shareholder Unit of the Department. Discussions revolved around the following:

Discussions revolved around the following:

a) Board level governance frameworks

- b) Technical human capacitation of the Agency
- c) Systems capacitation of the Agency (incl. automation and integration into Departmental reporting systems)
- d) Cumulative reporting
- e) Compliance with internal controls
- f) Compliance to PFMA and other regulatory frame works



# The Board

## Introduction

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

The Board subscribes to the principles contained in the Code of Good practice and Code of Good Conduct contained in the King Code on Corporate Governance Report (King III) and is committed to applying the principles of the PFMA and other related regulations. The Board places strong emphasis on achieving the highest standards of reporting.

Within the powers conferred upon the Board by legislation and in particular as stipulated in ECA, PFMA and the Companies Act, 2008 (Act No. 71 of 2008), the Board has determined its main functions and responsibilities as adding significant value to the Agency

The Board further accepts that it is ultimately accountable and responsible for the performance and the affairs of the Agency, and to this, the Board will:

- a) Represent the Agency before the Minister/s and Parliament of the Republic of South Africa
- b) Provide strategic direction to the Agency
- c) Review, approve and monitor strategic plans for the Agency, monitor fundamental financial business strategies and approved and monitor major actions such as organisational development
- d) Appoints the Chief Executive Officer, Executive Management, Company Secretary, Risk Manager and Chief Audit Executive.
- e) Identify and regularly monitor key risk areas and key performance indicators of the Agency.
- f) Ensure that the Agency communicates with the Shareholder and the relevant stakeholders transparently and promptly.

- g) Ensure the Agency complies with relevant laws, regulations and the code of business practice.
- h) Regularly access the processes and procedures to ensure effectiveness of internal systems and controls and accept responsibility for the entire process of risk management.
- i) Assess the performance of the Board and its committees on an annual basis and the performance of the Chief Executive Officer on a quarterly basis.

The role of the individual Board members requires them to maintain highest standards of ethics, integrity, values and represent the interest of the Agency and the Country.

These responsibilities are set out in the approved Board Charter which is reviewed as and when the Board deems fit.

## USAF Board Charter

The USAF Board Charter is one of the governance practices required by ECA, PFMA and the Companies Act, 2008 (Act No. 71 of 2008) and Corporate Governance Report (King III). The Charter describes the key responsibilities assumed by the Board of USAASA & USAF and defines the Board's authority.

Specifically articulated in the Board Charter are the following:

- Composition of the Board
- Its duties, roles and responsibilities as derived from the ECA.
- The Charter further defines Board procedures and clarifies the establishment of the Board Committees that assist the Board in the execution of its duties.
- Further highlighted by the Charter are matters exclusively reserved for the Board (i.e. remuneration of Board Members, conduct during meetings, questions of quorum, Board capacity building and development and Board and its Committee evaluation).

## Composition of the USAF Board

Name	Designation (in terms of the Public Entity Board Structure)	Date appointed	Date resigned	Qualifications	Area of Expertise	Board Directorships (List the entities)	Other Committees (e.g. Audit committee)	No. of Board Meetings attended
Pumla Radebe	Board Member & Board Chairperson	01-09-2012	N/A	Bachelor of Arts in Social Science – University of Fort Hare (1976) Certificate in Municipal Management – Rand Afrikaanse 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)	Corporate Governance	Bungane Development Consultants Calgro M3 Holdings Khuselo Investments Khuselo Telecoms Institute of Directors of Southern Africa (IoDSA)	N/A	6
Seadimo Chaba	Board Member & Chairperson: Human Resources & Remunerations Committee	01-09-2012	N/A	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.	HR & Strategy	Seadimo Chaba Consulting Hitachi Power Africa (Pty) Ltd Safrian Insurance Pinnacle Technology Holdings Amispan (Pty) Ltd Makotulo Investments (Pty) Ltd Kgosi Neighbourhood Foundation State Information Technology Agency (SITA)	Human Resources & Remunerations Committee Social & Ethics Committee	4
Sam Ledwaba	Board Member & Chairperson: Business Development Committee	01-09-2012	N/A	B Juris – University of Zululand LLB – University of Zululand (Trade Marks & Domain names on the Internet)	Legal Procurement and Compliance	Ledwaba Sam Attorneys	Business Development Committee, HR & Remuneration Committee (Alternate)	6
Kenosi Moroka	Chairperson: Social & Ethics Committee	01-09-2012	N/A	B Juris LLB Degree University of the North (Turfloop).	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)	Human Resources & Remunerations Committee Social & Ethics Committee	4

## The Board continued

### Composition of the USAF Board (continued)

Name	Designation (in terms of the Public Entity Board Structure)	Date appointed	Date resigned	Qualifications	Area of Expertise	Board Directorships (List the entities)	Other Committees (e.g. Audit committee)	No. of Board Meetings attended
Zandile Mdhladla	Board Member	01-11-2012	N/A	BA Higher Education Diploma 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 Bachelor of Arts – University of Zululand Higher Education Diploma (Postgraduate) – University of Pretoria Advanced University Diploma in Adult Education – University of Natal CTO Certificate on ICT Regulation - CTO	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	4
Agnes. Macdonald	Board Member	01-05-2013	N/A	Professional Customer Relations skills certificate Credit Management Certificate Professional Customer Relations Officer – Proficio Credit Management Certificate – Damelin Management School	Events managements, Fund raising Micro-lending	Lwati V Trading Mpumalanga Department of Human Settlements- Rental Housing Tribunal	Business Development Committee Social & Ethics Committee (Alternate)	5

### The Independent Board Audit & Risk Committee: USAF

Name	Qualifications	Internal or External	If internal, position in the public entity	Date appointed	Date Resigned	No. of Meetings attended
Linda C. Nene	Bachelor of Commerce (Accounting) - University of Cape Town Post Graduate Diploma In Management – Corporate Governance - Monash University Risk Management Strategies in the Public Sector - (NQF Level 5) - Southern Business School Certified Compliance Professional - CCPA (SA) - Compliance Institute of South Africa Fellow of the Institute of Internal Auditors SA –FIIA (SA) - The Institute of Internal Auditors Certification in Risk Management Assurance (CRMA) - The Institute of Internal Auditors Compliance Practitioner – CPrac (SA) - Compliance Institute of South Africa General Internal Auditor – GIA (SA) - The Institute of Internal Auditors Certification in Control Assessment – CCSA (SA) - The Institute of Internal Auditors	External, Independent Chairperson	N/A	01 December 2012	N/A	7

### The Independent Board Audit & Risk Committee: USAF (continued)

Name	Qualifications	Internal or External	If internal, position in the public entity	Date appointed	Date Resigned	No. of Meetings attended
Fortunate N. Mdanda	Bachelor of Accounting Science Honors in Bachelor of Commerce - Auditing MBA - UNISA	External, Independent Member	N/A	01 December 2012	N/A	6
Thulani D. Ntuli	B Juris Certificate in Financial Management Certificate of the Business Continuity Institute Certificate in strategic planning and management (NQF Level 8) Certificate in Anti-Corruption (NQF Level 5)	External, Independent Member	N/A	01 December 2012	N/A	7
Martin M. Mudau	BComm Accounting BComm Accounting (Honours) CA(SA)	External, Independent Member	N/A	01 February 2014	N/A	7

### Committees

Committee	No. of meetings held	No. of members	Name of members
Business Development Committee	4	3	Sam Ledwaba Zandile Mdhlahla Agnes Macdonald
Human Resources & Remunerations Committee	4	3	Seadimo Chaba Zandile Mdhlahla Kenosi Moroka Sam Ledwaba (Alternate)
Board Audit & Risk Management Committee	7	4	Linda Nene Fortunate Mdanda Thulani Ntuli Mulalo M. Mudau
Social & Ethics Committee	2	3	Kenosi Moroka Seadimo Chaba Zandile Mdhlahla Agnes Macdonald (Alternate)

## The Board continued

### Remuneration of Board Members

Whilst Board members of USAASA and USAF are the same, the meetings are held concurrently as means to manage the impact on the Board budget.

Name	Remuneration R'000	Other allowance	Comments	Total R'000
Pumla F. Radebe	359	N/A	Appointed 01 September 2012	359
Seadimo H. Chaba	127	N/A	Appointed 01 September 2012	127
Sam Ledwaba	156	N/A	Appointed 01 September 2012	156
Kenosi M. Moroka	57	N/A	Appointed 01 September 2012	57
Zandile Mdhladhla	151	N/A	Appointed 01 November 2012	151
Victoria A. MacDonald	96	N/A	Appointed 01 May 2013	96
Independent Board Audit and Risk Management Committee				
Linda C. Nene	54	N/A	Appointed 01 December 2012	54
Fortunate N. Mdanda	27	N/A	Appointed 01 December 2012	27
Thulani D. Ntuli	36	N/A	Appointed 01 December 2012	36
Martin Mudau	40	N/A	Appointed 01 February 2014	40

## Report of Board Audit and Risk Management Committee

We are pleased to present our report for the financial year ended 31 March 2015. The members of the Board Audit and Risk Management Committee (BARC) were appointed in December 2012 on a three year two terms, subject to reappointment by the Shareholder at the Annual General Meeting. The Committee assumed oversight responsibility of the Public Entity (USAASA) when it confronted critical challenges ranging from IT Governance to regulatory non-compliance to prescripts, policies and procedures. The Committee consists of four independent non-executive directors, elected by the shareholder at each Annual General Meeting (AGM): L Nene (Chairperson), T Ntuli, F Mdanda and M Mudau.

The Board appointed the Chairperson of the Committee, an independent non-executive director. The Chief Executive Officer, Chief Financial Officer, Chief Audit Executive, Risk Manager and External Auditors are permanent invitees to the Committee meetings.

### Audit Committee Responsibility

The Board Audit and Risk Management Committee reports that it has complied with its responsibilities arising from Section 38(1), 76(4) (d) and Section 77 of the Public Finance Management Act and Treasury Regulations 3.1.13.

The Committee also reports that it has adopted appropriate formal terms of reference as its Audit Committee Charter, has regulated its affairs in compliance with this Charter and furthermore has discharged all its responsibilities as contained therein.

The Committee performed the following duties during the year in accordance with section S94 (7) of the Companies Act 71 of 2008:



- nominated the external auditor for appointment by the shareholder;
- determined the fees to be paid to the auditors and the auditor's terms of engagement;
- determined the nature and extent of any non-audited services;
- pre-approved any proposed agreement with the auditor for the provision of non-audit services to the company;
- prepared a report, to be included in the annual financial statements for the financial year;
- made submissions to the Board on matters concerning the company's accounting policies, financial control, records and reporting; and
- performed other oversight functions determined by the Board.

### The Effectiveness of Internal Controls

The Committee is responsible for overseeing the Internal Audit Activity, preserving its independence and ensuring that it has the necessary resources and authority to enable it to fulfil its duties. The Chief Audit Executive reports functionally to the Committee and has quarterly meetings with the Chairperson of the Committee independently of management.

The Committee annually reviews and approves internal audit coverage plan and monitors the performance of the internal audit function on a quarterly basis. The Committee has reviewed the written assessment performed by Internal Audit on the design, implementation and effectiveness of internal financial controls and risk management of the company.

Our review of the findings of the work from Internal Audit Activity, which was based on risk assessments conducted in the public entity revealed certain weaknesses, which were then communicated to the CEO and the Executive Management of the Public Entity.

A significant improvement with regards to compliance to prescripts, general internal control environment and governance has been recorded during the period under review. This has also been corroborated by the Auditor General's key controls review conducted over the period.

The following internal audit projects, as approved and contained in the annual internal audit plan, were completed during the year under review:

- Quarterly audits on SCM: Below Threshold;
- Quarterly audits on SCM: Above Threshold;
- Quarterly audits on Financial Management;
- Quarterly Financial Statements;
- Quarterly audits on Performance Information;
- USAF Projects;
- Information Technology;
- Follow-up audits, including matters raised by the Auditor-General in the management letter; and
- A number of ad hoc assignments requested by Management and Board Audit and Risk Committee.

### Approved Policies / Strategies

In the financial year under review, the Committee recommended eleven (11) policies to the Board for final approval to strengthen and improve the internal control environment. These included:

- Revenue Policy;
- Supply Chain Management Policy;
- Cash and Bank Policy;
- Materiality Framework;
- Related Party Policy;
- Accounting Policy;
- Assets Policy;
- Delegation of Authority Policy;
- Risk Management Framework;
- Risk Management Strategy; and
- Risk Management Implementation Plan.

## Report of Board Audit and Risk Management Committee continued

### Compliance to Laws, Rules, Codes and Standards

The non-compliance register aimed at identifying control weaknesses in relation to compliance with laws, regulation and standards remains one of the tools utilized by the Committee to detect areas requiring intervention from an assurance perspective. The register identifies transgressors and ensures that consequence management is applied to perpetual and repetitive transgressors. This detailed non-compliance register is reviewed at every Committee meeting as an agenda item on the finance reports. Since the implementation of the revised, now detailed non-compliance register, non-compliance to prescripts has improved tremendously. An assertion supported by the internal audit reports presented to the Committee on SCM below and above threshold, Financial Management audits and audits on Interim Financial statements.

### In-Year Monthly / Quarterly Reporting

The Committee performed the following duties on reporting:

- Reported formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.
- Made recommendations to the Board deemed appropriate on any area within its remit where action or improvement is required.
- Compiled reports of its activities which were included in the Agency's annual report.

The Public Entity has submitted monthly and quarterly reports to the Executive Authority as required by legislation. These reports have been reviewed by the Committee during the year.

### Integrated Reporting

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

### Risk Management

The development of the top ten (10) Corporate Strategic Risk profile was as a result of the divisional risk assessment workshops held, which produced the individual Divisional Risk profiles for USAASA. In addition to the workshops held, the Risk Management Committee chaired by the CEO made iterations and reviewed same to ensure alignment with the Corporate Strategic Risks, more specifically the top ten (10) risks facing the organisation.

USAASA is committed to pursuing high standards of Corporate Governance and Acceptable Risk Management Knowledge, Concepts and Practices and constantly seeks to apply the Public Sector Risk Management Framework and King III Report on Corporate Governance. Other works of reference include, but are not limited to; International Standards on Risk Management (ISO 31000), South African National Standards (SANS) for Risk Management, etc.

USAASA's operations derived from its mandate and strategy expose it to strategic risks, operational risks, financial risks and regulatory risks. The Board Audit and Risk Committee (BARC) have reviewed and approved the policies for managing each of these risks.

Importantly, a Risk Manager was appointed during the year due to the entity becoming aware of the importance of risk management for the success of both business of the entity and projects.

A summary of the main risk management activities carried out during the year ended 31 March 2015 includes:

- Risk management policies, including the methodology were developed and approved by the Board Audit and Risk Committee and the Board of Directors.
- The risk management plan was developed and approved by the relevant committees.
- Strategic risk assessments were performed bi-annually with the members of the Executive team.
- Operational risk assessments were performed quarterly for each division within USAASA with divisional heads and key personnel.
- Combined assurance map was developed with participation from first, second and third lines of defence.
- Project risk assessments were performed regularly throughout the year.

The risk profile report was compiled on a quarterly basis for presentation to the Risk management committee, Board Audit and Risk Committee and the Board of Directors. In the past year we saw a gradual progress in the risk maturity level, management of risk and strategy and management of performance and risks.

### Combined Assurance

King III requires that the audit 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 strategic, operational, and financial and sustainability issues in the quest to deliver value to the organisation.

Recognizing the limited resources available to the internal audit activity and the need for greater assurance required by the BARC and the Board, the Committee initiated a combined assurance process, which is now the responsibility of the newly appointed Risk Manager.

The Combined Assurance Model was presented and approved by the Committee.

As at year-end, two progress reports on the implementation of Combined Assurance served before the Committee. These reports indicated assurance coverage and integration efforts from various assurance providers within USAASA, including Internal Audit and Auditor General. In the next financial year, these reports will reflect the assurance coverage from USAASA's shareholder (DTPS), Performance and Monitoring, Legal Services and others.

### Evaluation of Financial Statements

We have reviewed the Annual Financial Statements prepared by the Public Entity as required by the PFMA, National Treasury Regulations and King III report on corporate governance. The internal audit work on the Annual Financial Statements conducted quarterly during the year under review has resulted in improved correctness, completeness and validity of financial reporting.

### Expertise and experience of the finance function

The Committee has reviewed the expertise, competence and experience of the USAASA Finance function. Based on the self-assessment performed, the Committee is satisfied that the Chief Financial Officer and the finance management team have the appropriate expertise and experience.

## Report of Board Audit and Risk Management Committee continued

### Information Technology Governance

The key threats that the Public Entity had to deal with in the previous financial year, which included the lack of an ERP system, the Disaster Recovery Plan and the off-site backup solution for the Public Entity has all been implemented. The IT control environment has therefore improved from the previous year's assessment and report. Consequently, the IT Governance risk exposures are within tolerable limits. It should however be reported that the current mitigations are not designed to eliminate risks completely however to manage the risk within accepted tolerance levels, therefore Internal Audit will continue to review mitigations introduced by management.

### Ethics and Compliance

Ensuring that a robust ethics and compliance program is introduced by USAASA to keep abreast of new vulnerabilities to fraud and misconduct will remain on the radar for the new financial year.

There were no reports of suspected /alleged unethical conducts by employees of the Agency received from the Department of Telecommunications and Postal Services hotline and the Public Service hotline, except for the other investigation currently dealt by the Special Investigation Unit and the Office of the Public Protector.

### Fraud and Forensics

In the period under review an investigation that is conducted by Special Investigation Unit, as a proclamation by the Honourable President of the Republic of South Africa, prompted by an open letter from one of the political parties, has not yet been concluded.

### External Auditors' 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 Public Entity's implementation plan for audit issues raised in the prior year and are satisfied that the matters have been adequately resolved, except for in the following areas:

- Performance information reporting;
- Subsequent event matters;
- Organization design to address USAASA's mandate;
- Alignment of APP and USAASA Strategy; and Compliance to "SMART" criteria.

The Board Audit and Risk Management Committee concurs and accepts the conclusions of the external auditor on the Annual Financial Statements and is of the opinion that the audited Annual 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 confirmed that:

- The internal controls of the Agency were effective in all material aspects throughout the year under review;
- These controls safeguarded the Agency'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 2015, we are of the opinion that they comply with the relevant provisions of the PFMA and International Financial Reporting Standards and fairly present the results of the operations, cash flow and financial position of USAASA.

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

We hereby recommend the Annual report to the Board for approval.

On behalf of the Board Audit and Risk Management Committee.



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**Mr. Linda Nene**

**Chairperson of USAASA/USAF Board Audit & Risk Committee**

18 August 2015







## PART D:

# Human Resource Management



## Introduction

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

## Human Resource Oversight Statistics

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





## PART E:

# Financial Information

## Statement of Responsibility

The Accounting Authority is responsible for the preparation of the Public Entity's annual financial statements and for the judgments made in this information.

The Accounting Authority is responsible for establishing, and implementing a system of internal control designed to provide reasonable assurance as to the integrity and reliability of the annual financial statements.

In my opinion, the financial statements fairly reflect the operations of the Public Entity for the financial year ended 31 March 2015.

The external auditors are engaged to express an independent opinion on the USAF AFS of the Public Entity.

The USAF Annual Financial Statements for the year ended 31 March 2015 have been audited by the external auditors and their report is presented on page 52.

The Annual Financial Statements of the public entity set out on page 54 to page 71 have been approved.



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**Zami Nkosi (Mr.)**  
**Chief Executive Officer**  
**USAF**

18 August 2015



## Report of the Chief Executive Officer

The Universal Service and Access Agency of South Africa (USAASA) continues to execute on its mandate and drive the social-economic transformation of the country. The Agency's activities are aligned to the major drivers of the country namely the National Development Plan as well as the South Africa connect policy.

In the 2014/15 financial year the Agency continued its monomaniac focus on the implementation of the roll out of broadband network infrastructure, connection of public schools, primary health care institutions as well as government institutions. The Agency in the current year also rolled out facilities for people living with disabilities however, the impact of this was only minimal due to the limited financial resources. The Agency has shown by its deployment results that it is capable of rolling out large scale infrastructure in the under serviced areas and has the necessary internal capacity to perform this on wide scale. The Agency during the year under review managed to complete a clean procurement process for the equipment of the Broadcasting Digital Migration programme and anticipates taking delivery of the equipment in the 2015/16 financial year. This is a major milestone in the process which had dragged for a long period and showed the decisive nature of the leadership in the Agency as well as the drive to execute national priorities.

Our philosophy is that governance is the cornerstone of all the matters which are done by the Agency. In the current year the Agency had significant improvement in the governance of the Agency with the control environment on the upward trajectory. There were no non compliances with regards to supply chain matters and this shows the commitment and the amount of work which has been put in the organisation.

This is also reflected in the management letter of the Auditor General. The leadership stability which has prevailed in the organisation has been instrumental in the improvement shown in the organisation and this will be sustained.

I am grateful to the Board and its Committees, under the leadership of Mrs Pumla Radebe, who have provided direction and has supported the Agency in all its endeavours. None of this will be possible without "Team USAASA" which has worked tirelessly on this journey to ensure success. We would also like to express our sincere gratitude to our external stakeholders who have also ensured that we are a success. As they say that "results only exist outside of the organisation" these stakeholders present a dipstick which shows the impact of our work and this has been largely positive. We are grateful to our "customers", our beneficiaries, without them the Agency would not exist and the interdependent relationship we share is critical.

Going forward the Agency is still constrained by the limited financial resources at its disposal and an increase will enable us to fast track the changing of lives in the under serviced areas.



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**Zami Nkosi (Mr.)**  
**Chief Executive Officer**  
**USAF**

18 August 2015



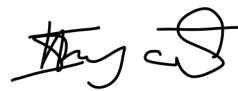
## USAF CFO's report

The Fund performed well in the current financial year showing a surplus position of R 818.979m up from a surplus of R 227.752m in the prior year. This was mainly a result of the increase in the allocation of the Broadcasting Digital Migration (BDM) funds which were increased to R791m provided for in the current year up from R240m in the prior year. The surplus position was exacerbated by the fact that most of the funds allocated for the BDM were unused in the year under review due to circumstances outside the control of the Fund. This meant that the Fund was sitting on cash balances of R 1.597bn in the year under review. The non-expenditure meant that the net asset position of the Fund increased by over R818m to R1.575bn. These significant cash resources resulted in an increase in the finance income of over R27m and a total finance income of R50.9m was received in the year under review. The Agency however, managed to spend all the funds allocated to it for other projects, a total of R72.3m was spent on these projects. This was for the roll out of network infrastructure in underserved areas, the provision of access devices as well as payment of connectivity to needy persons. The Fund managed to maintain its liquid position with a net current asset position of R 1.575bn showing a great ability of the Fund to meet its short term commitments.

The Fund improved significantly with regards to compliance and there were no issues raised by the Auditor General with regards to supply chain matters which is a key performance indicator. This shows that the controls and safeguards which have been built into the organisation are working effectively. All the facets which are used by the Auditor General to measure the internal control environment namely leadership, financial performance and management and governance all showed an upward trend. The fund will continue to focus on the key drivers of the internal control environment and ensure that compliance continues to be at the façade of all the Fund's activities. The introduction of the combined assurance has resulted in all the stakeholders working together to ensure that the environment yields this kind of improvement.

The Agency, which manages the Fund, has the necessary financial skills to enable and sustain these kind of results and I am confident that the Fund will become a benchmark of compliance and sound financial management in the public sector. It is once again satisfying that the Fund has obtained an unqualified audit report a significant movement from a qualified opinion obtained two years back. This opinion signifies that the financial

statements present fairly the financial position and performance of the Fund and is result of the hard work which has been put by the various stakeholders. A special mention to the finance team which worked tirelessly to ensure that the year-end process was a success.



**Mr. Zane Mheyamwa**  
**Chief Financial Officer**  
**USAASA and USAF Public Entities**

18 August 2015



# Report of the External Auditor

## Report of the auditor-general to Parliament on Universal Service Access Fund of South Africa (USAF)

### Report on the financial statements

#### Introduction

1. I have audited the financial statements of the Universal Service Access Fund set out on pages 54 to 71, which comprise statement of financial position as at 31 March 2015, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget information with actual information 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. The accounting authority, is responsible for the preparation and fair presentation of these financial statements in accordance with the Generally Recognised Accounting Practice (GRAP) and the requirements of the requirements of the Public Finance Management Act of South Africa, (Act No.1 of 1999) (PFMA), 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 Universal Service Access Fund as at 31 March 2015 and its financial performance and cash flows for the year then ended, in accordance with the Generally Recognised Accounting Practice (GRAP) and the requirements of the PFMA.

#### Report on other legal and regulatory requirements

7. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for 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

8. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected objectives presented in the annual performance report of the entity for the year ended 31 March 2015:
  - Objective 1: Subsidize provision of broadband backbone infrastructure in targeted underserved areas on pages 26 to 32
  - Objective 2: Subsidize provision of ICT connectivity to public schools and people with disability schools on pages 26 to 32
  - Objective 3: Subsidize the installation of set top boxes on pages 26 to 32
9. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
10. 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).



11. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
12. I did not identify any material findings on the usefulness and reliability of the reported performance information for the following objectives:
  - Objective 1: Subsidize provision of broadband backbone infrastructure in targeted underserved areas on pages 26 to 32
  - Objective 2: Subsidize provision of ICT connectivity to public schools and people with disability schools on pages 26 to 32
  - Objective 3: Subsidize the installation of set top boxes on pages 26 to 32

#### Additional matters

13. 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 matter:

#### Achievement of planned targets

14. Refer to the annual performance report on pages 29 to 32 for information on the achievement of the planned targets for the year.

#### Adjustment of material misstatements

15. I identified material misstatements in the annual performance report submitted for auditing on the reported performance information for Objective 1: Subsidize provision of broadband backbone infrastructure in targeted underserved areas and Objective 3: Subsidize the installation of set top boxes. As management subsequently corrected the misstatements, I did not identify any material findings on the usefulness and reliability of the reported performance information.

#### Unaudited supplementary schedules

16. The supplementary information set out on pages 18 to 28 and 31 to 32 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 thereon.

#### Compliance with legislation

17. I performed procedures to obtain evidence that the entity had complied with 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

18. 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 identified by the auditors in the submitted financial statement were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

#### Internal control

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

#### Financial and performance management

20. Management did not have an adequate system in place to ensure that all financial information is accurate and classified correctly.

#### Other reports

#### Investigations

21. The investigation by the Special Investigating Unit (SIU) on the open letter written to the President during the prior year was still in progress at year end.

Auditor - General

Pretoria

31 July 2015



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*

# USAF Annual Financial Statements

## Contents

Statement of Financial Position

Statement of Changes in Net Assets

Statement of Financial Performance

Cash Flow Statement

Statement of Comparison of Budget and Actual Amounts

Appropriation Statement

Accounting Policies

Notes to the Audited Annual Financial Statements

The financial statements set out on pages 55 to 71, which have been prepared in the going concern basis.

## Statement of Financial Performance

	Note(s)	2015 '000	2014 '000
<b>Revenue</b>			
Other income		55	194
Finance income		50 942	23 940
Transfers and subsidies received		840 988	285 046
<b>Total revenue</b>		<b>891 985</b>	<b>309 180</b>
<b>Expenditure</b>			
Project Expenses	2	(72 301)	(80 706)
Audit Fees	3	(702)	(720)
Administrative Expenses	5	(3)	(2)
<b>Total expenditure</b>		<b>(73 006)</b>	<b>(81 428)</b>
<b>Surplus for the year</b>		<b>818 979</b>	<b>227 752</b>

## Statement of Financial Position as at 31 March 2015

	Note(s)	2015 '000	2014 '000
<b>ASSETS</b>			
<b>Current Assets</b>			
Receivables from exchange transactions	6	-	1 598
Cash and cash equivalents	7	1 597 745	763 634
		<b>1 597 745</b>	<b>765 232</b>
<b>Total Assets</b>		<b>1 597 745</b>	<b>765 232</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Loans from related parties	8	26	-
Payables from exchange transactions	9	22 004	8 496
		<b>22 030</b>	<b>8 496</b>
<b>Total Liabilities</b>		<b>22 030</b>	<b>8 496</b>
<b>Net Assets</b>		<b>1 575 715</b>	<b>756 736</b>
<b>NET ASSETS</b>			
Accumulated surplus		1 575 715	756 736

## Statement of Changes in Net Assets

	Accumulated surplus "000	Total net assets "000
Opening balance as previously reported	498 076	498 076
Adjustments		
Prior year adjustments	30 908	30 908
<b>Balance at 01 April 2013 as restated</b>	<b>528 984</b>	<b>528 984</b>
Changes in net assets		
Surplus for the period	227 752	227 752
Total changes	227 752	227 752
Opening balance as previously reported	756 715	756 715
Adjustments		
Prior year adjustments (Refer to note 17 )	21	21
<b>Balance at 01 April 2014 as restated</b>	<b>756 736</b>	<b>756 736</b>
Changes in net assets		
Surplus for the period	818 979	818 979
Total changes	818 979	818 979
<b>Balance at 31 March 2015</b>	<b>1 575 715</b>	<b>1 575 715</b>



## Cash Flow Statement

	Note(s)	2015 R'000	2014 R'000
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Cash receipts from Government		840 988	285 046
<b>Payments</b>			
Cash paid to Suppliers		(57 845)	(51 742)
<b>Net cash flows from operating activities</b>	10	<b>783 143</b>	<b>233 304</b>
<b>Cash flows from investing activities</b>			
Interest Income		50 942	23 940
<b>Cash flows from financing activities</b>			
Transfers from Universal Service and Access Agency of South Africa		26	-
<b>Net cash from financing activities</b>		<b>26</b>	<b>-</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>834 111</b>	<b>257 244</b>
Cash at the beginning of the period		763 634	506 390
<b>Net increase in cash and cash equivalents</b>	7	<b>1 597 745</b>	<b>763 634</b>

## Statement of Comparison of Budget and Actual Amounts

### Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	'000	'000	'000	'000	'000	
<b>Statement of Financial Performance</b>						
<b>Revenue</b>						
<b>Revenue from exchange transactions</b>						
Other income	-	-	-	55	55	
Interest received - investment	-	-	-	50 942	50 942	
<b>Total revenue from exchange transactions</b>	-	-	-	50 997	50 997	
<b>Revenue from non-exchange transactions</b>						
<b>Transfer revenue</b>						
Government grants & subsidies	289 988	551 000	840 988	840 988	-	
<b>Total revenue</b>	<b>289 988</b>	<b>551 000</b>	<b>840 988</b>	<b>891 985</b>	<b>50 997</b>	
<b>Expenditure</b>						
Project expenses	(289 173)	(551 000)	(840 173)	(72 301)	767 872	Significant part of the unspent funds relates to the subsidisation of set-top boxes
Audit fees	(800)	-	(800)	(702)	98	
Administrative expenses	(15)	-	(15)	(3)	12	
<b>Total expenditure</b>	<b>(289 988)</b>	<b>(551 000)</b>	<b>(840 988)</b>	<b>(73 006)</b>	<b>767 982</b>	
<b>Surplus before taxation</b>	-	-	-	818 979	818 979	
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	-	-	-	818 979	818 979	

## 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 audited annual financial statements, the executive management is required to make estimates and assumptions that affect the amounts represented in the audited annual financial statements and related disclosures. Use of available information and the application of judgment are inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the audited annual 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 are 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

### 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 transactions 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.

## Accounting Policies continued

### 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.

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 & 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 58 of 1962 as amended. The USAF is defined as a public authority in terms of the VAT Act 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 Levy 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.

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

Class	Category
Loans and receivables	Financial asset measured at amortised cost

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

Class	Category
Loans from Shareholders	Financial liability measured at amortised cost
Trade and other Payables	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.



## Accounting Policies continued

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.

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 assess 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 :
  - derecognise the asset; and
  - recognise 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 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.

## Accounting Policies continued

### 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
- a present obligation that arises from past events but is not recognised because:
  - (i) it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; or
  - (ii) 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 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.

### 1.13 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 2014 to 2015.

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.

### 1.14 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 are 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 transaction and outstanding balances or commitments owing between the reporting entity and related parties are disclosed in note 13 to the financial statements.

### 1.15 Events after the reporting date

No events after the reporting date were identified that are relevant to the year in review.



## Notes to the Audited Annual Financial Statements

	2015 R'000	2014 R'000
<b>2. Project expenses</b>		
Access centre handover programme	3 257	2 985
Broadband infrastructure subsidization	36 833	9 823
National Strategy on Universal Service and Access to ICT	-	3 557
ICT Rapid deployment programme	9 037	58 056
Digital Terrestrial Television	9 664	-
Subsidies: Connectivity Programmes	13 510	6 285
	<b>72 301</b>	<b>80 706</b>
<b>3. Auditors' fees</b>		
Statutory audit	702	720
<b>4. Revenue</b>		
Other income	55	194
Interest on cash and bank deposits	50 942	23 940
Department of Telecommunications and Postal Services	840 988	285 046
	<b>891 985</b>	<b>309 180</b>
<b>The amount included in revenue arising from exchanges of goods or services are as follows:</b>		
Other income	55	194
Interest on cash and bank deposits	50 942	23 940
	<b>50 997</b>	<b>24 134</b>
<b>The amount included in revenue arising from non-exchange transactions is as follows:</b>		
<b>Taxation revenue</b>		
<b>Transfer revenue</b>		
Department of Telecommunications and Postal Services	840 988	285 046
<b>5. Administrative expenses</b>		
Bank charges	3	2
<b>6. Receivables from exchange transactions</b>		
Prepayments and advances	-	1 598

## Notes to the Audited Annual Financial Statements

	2015 R'000	2014 R'000
<b>7. Cash and cash equivalents</b>		
Cash and balances with banks	2	240
Short-term deposits	1 597 743	763 394
	<b>1 597 745</b>	<b>763 634</b>
Cash and cash equivalents are unencumbered.		
<b>8. Loans to (from) related parties</b>		
Amount payable to USAASA	(26)	-
<b>9. Payables from exchange transactions</b>		
Trade creditors	22 004	8 496
<b>10. Cash generated from /(used in) operations</b>		
Surplus / (deficit) before taxation	818 979	227 752
<b>Adjustments for:</b>		
Interest income	(50 942)	(23 940)
<b>Changes in working capital:</b>		
Receivables from exchange transactions	1 598	21 554
Payables from exchange transactions	13 508	7 938
	<b>783 143</b>	<b>233 304</b>

### 11. Risk management

#### Liquidity risk

Liquidity risk is the risk that the Agency will be unable to meet a financial commitment. This risk is minimized 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 utilized 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.



## Notes to the Audited Annual Financial Statements

		2015 R'000	2014 R'000
<b>Credit risk</b>			
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 minimizes credit risk by depositing cash with major banks with high quality credit standing.			
<b>12. Contingencies</b>			
The Fund sustained a surplus at the end of 2014/15 of R 1 501 075.00 In compliance with Treasury Regulation 6.4 a request has been made to the National Treasury through the Department of Communication to retain the surplus and to roll it over to 2014/15. Funds were unspent due to delays with implementation of all projects which resulted from the instability at executive level within the organization			
Funds were unspent as follows:			
Broadband infrastructure		18 290	11 751
Digital migration		-	690 000
Handover project		853	4 111
Rapid deployment programme		379	3 304
Connectivity		553	4 208
STB Subsidies		1 481 000	-
<b>Balance at 31 March</b>		<b>1 501 075</b>	<b>713 374</b>
<b>13. Related party transactions and balances</b>			
<b>Relationships</b>			
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	-		
<b>Transactions</b>			
<b>Name of entity</b>	<b>Transaction Type</b>		
Department of Communications/ Telecommunications and Postal Services	Revenue appropriation	840 988	285 046
Sentech	Project expenses	6 513	4 070
		<b>847 501</b>	<b>289 116</b>
<b>Balances</b>			
<b>Name of entity</b>	<b>Transaction Type</b>		
Universal Service and Access Agency	Payables	26	-
Sentech	Payables	1 991	1 918
		<b>2 017</b>	<b>1 918</b>

## Notes to the Audited Annual Financial Statements

	2015 R'000	2014 R'000
<b>14. Fruitless and wasteful expenditure</b>		
<b>Reconciliation of fruitless and wasteful expenditure</b>		
Opening balance	-	6 640
Fruitless and wasteful expenditure condoned	-	(6 640)
	-	-
<b>15. Irregular expenditure</b>		
<b>Reconciliation of irregular expenditure</b>		
Opening balance	-	19 458
Irregular expenditure condoned	-	(19 458)
	-	-
<b>16. Investment revenue</b>		
<b>Interest revenue</b>		
Interest on cash and bank deposits	50 942	23 940
<b>17. Prior period errors</b>		
During the 2012/2013 financial year, 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:		
<b>Statement of financial position</b>		
Decrease in Payables	-	21
Increase in Accumulated Surplus	-	(21)
<b>Statement of Financial Performance</b>		
Decrease in Project expenses	-	21
Increase in surplus from operations	-	(21)

## Notes

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The Universal Service and Access Fund

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