

ANNUAL REPORT

2016 | 2017



USaf

The Universal Service and Access Fund

Connecting South Africa

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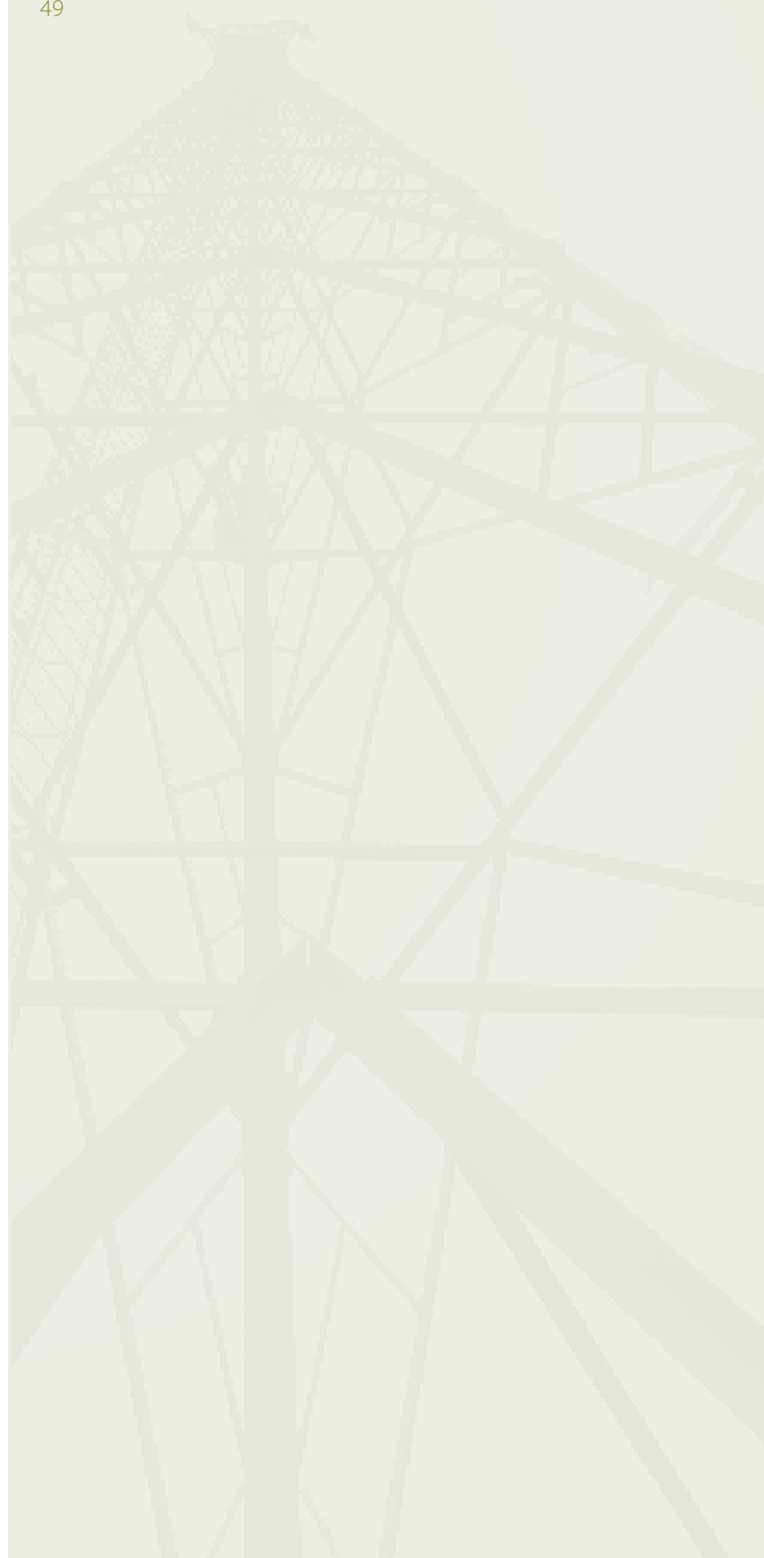
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PART A: GENERAL INFORMATION



GENERAL INFORMATION

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Chief Executive Officer	Lumko Mtimde
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Auditors	Auditor-General South Africa

LIST OF ACRONYMS/ABBREVIATIONS

AGSA	Auditor-General of South Africa
APP	Annual Performance Plan
AT	Assistive Technology
BARC	Board Audit and Risk Committee
B-BBEE	Broad-Based Black Economic Empowerment
BDM	Broadcasting Digital Migration
CAE	Chief Audit Executive
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CPI	Consumer Price Index
DDF	Digital Development Fund
DoC	Department of Communications
DTH	Direct To Home
DTPS	Department of Telecommunications and Postal Services
DTT	Digital Terrestrial Television
EC	Eastern Cape
ECA	Electronic Communications Act
ERP	Enterprise Resource Planning
EXCO	Executive Management Committee
FS	Free State
FMPPI	Framework for Managing Programme Performance Information

GRAP	Generally Recognised Accounting Practice
ICASA	Independent Communications Authority of South Africa
ICT	Information and Communication Technology
ITU	International Telecommunication Union
KPI	Key Performance Indicator
KZN	KwaZulu-Natal
LP	Limpopo
MP	Mpumalanga
MTEF	Medium-Term Expenditure Framework
MTSF	Medium-Term Strategic Framework
NC	Northern Cape
NDP	National Development Plan
NRI	Network Readiness Index
NW	North West
PAA	Public Audit Act of South Africa
PFMA	Public Finance Management Act
REMCO	Human Resources & Remuneration Committee
SA Connect	South Africa Connect
SAP	Systems, Applications and Products
SAPO	South African Post Office
SCM	Supply Chain Management

SIDS	Small Island Developing States
SIP 15	Strategic Integrated Projects 15
SMART	Specific, Measurable Attainable, Realistic and Time-Bound
UNCRPD	United Nations Convention on the Rights of Persons with Disabilities
USAASA	Universal Service and Access Agency of South Africa
USAF	Universal Service and Access Fund
WEF	World Economic Forum
WSP	Work Skills Plan
WTO	World Trade Organisation

FOREWORD BY
CHAIRPERSON OF THE BOARD

Mawethu Cawe



Honourable Minister, on behalf of the Board and team at the Universal Service and Access Agency of South Africa (USAASA), I am honoured to present to you the USAF Annual Report for the 2016-2017 financial year. The report outlines the performance outcomes against the predetermined strategic objectives.

The Universal Service and Access Fund (USAF) is created in terms of Section 87(1) of the Electronic Communications Act of 2005 as amended by Act No.1 of 2014 as a key financing mechanism to spur Information and Communication Technologies (ICTs) and expansion in unserved and underserved areas.

USAF is classified as a Schedule 3A Public Entity and the administration of the USAF by the Universal Service and Access Agency of South Africa (USAASA) is fully subjected to Public Finance Management Act of 1999. Over the years, USAF has transformed from ubiquitous deployment of basic telephone equipment and services into funds that are being used to support ICT/broadband programmes, which include access to personal computers (PCs) and other digital devices, broadband internet connection, and localised content and services.

In South Africa, USAF is used a strategic investment facility to fund the expansion of broadband infrastructure and services in underserved areas and the provisioning of universal access to digital broadcasting by subsidising acquisition of set-top boxes by poor TV-owning households earning a total income of below R3200 a month.

“The BDM programme is one of the major contributing factors towards the poor performance outcomes of USAF as the programme is besotted with legal challenges and policy uncertainty.”

USAF was able to record a 33% overall performance outcomes on the deployment of broadband infrastructure in two underserved areas of Mhlontlo and King Sabata Dalindyebo Municipalities at OR Tambo District Municipality in the Eastern Cape. USAF proved to be a stimulus package for encouraging infrastructure deployment in partnership with private sector using the small, medium and micro enterprises (SMMEs).

Obviously, the Board would have been gratified with a much-improved performance of USAF and hence consequence management was

applied accordingly.

The broadband network, which was deployed by BrightWave Technologies and recently launched by the Deputy President of country, Honourable Cyril Ramaphosa, is notably the recent success story of deployment using the anchor tenancy model as required in terms of the South Africa Connect Policy and the National Development Plan.

USAF's main areas of focus have been assisting the country to meet international conventions, commitments and policies that affect universal service and access by facilitating the connection of villages with ICTs and establishing community access points, connecting primary healthcare facilities with ICTs, and connecting local government departments. All these will continue to be our focus areas during the 2017-2021 planning cycle.

It is worth noting that during the 2015-2016 financial year the procurement processes for the Digital Terrestrial Television (DTT) and Direct to Home (DTH) set-top boxes and antennas occurred by the end of the second quarter. Challenges aside, the implementation of the Broadcasting Digital Migration (BDM) programme is in progress. The Board is addressing the hiccups as it carries out its fiduciary and oversight responsibilities of this mammoth project.

The BDM programme is one of the major contributing factors towards the poor performance outcomes of USAF as the programme is besotted with legal challenges and policy uncertainty.

“USAF is used a strategic investment facility to fund the expansion of broadband infrastructure and services in underserved areas and the provisioning of universal access to digital broadcasting.”

The project, even with outer-year funding allocations, remains grossly underfunded. Funding for the project was originally envisaged at 70%, exclusive of antennae and installation, with the remaining 30% expected to come from beneficiaries. With the economic downturn and the increased number of indigent households across the country,

Cabinet, on the back of public consultation by USAASA, resolved to increase the beneficiation to 100%.

That meant there was a 30%+ deficit in the funding of the project at the outset. Should the situation remain unresolved, this funding challenge will have a negative impact in the rollout and completion of the BDM project.

In addition, focus will also remain on the two key areas of broadband infrastructure and access as well as rapid deployment of broadband services to educational institution and primary healthcare facilities. By connecting educational institutions, we believe that we are connecting communities and bringing South Africa one step closer to achieving its national target of 100% broadband penetration by 2020, and the deployment of a full range of government, educational and informational services by 2030.

The Board wishes to acknowledge the sterling contribution of Malose Kekana who resigned from the Board owing to business commitments. The Board also takes cognisance of the diverse skills and energy injected by the new Board members; Xola Stock, Linda Nene and Jabulile Nkosi.

I would like to express my appreciation to Minister Dr Siyabonga Cwele and the newly-appointed Deputy Minister Stella Ndabeni-Abrahams for their invaluable support. The same message goes to the Director-General Robert Nkuna and his departmental management team for their tireless role on organisation performance oversight.

It is a humbling experience to highlight the constructive, vigilant and impactful role the Parliamentary Portfolio Committee on Telecommunications and Postal Services exercised initially under the Honourable Kensani Kubayi, who was later replaced by the Acting Chairperson, the Honourable Dikeledi Tsotetsi, in ensuring that USAASA achieves its predetermined objectives is recognised and highly appreciated.

Lastly, I would like to convey my appreciation to USAASA management and staff responsible for day-to-day administrative functions of USAF for their commitment to support the Board, even on the face of challenges. It is our values, integrity and service delivery orientation that keeps the organisation as authentic and catalytic as we drive "Inclusive Participation in ICTs".



Mawethu Cawe

Chairperson: USAASA Board of Directors



Minister Dr Siyabonga Cwele



Deputy Minister Stella Ndabeni-Abrahams



Director-General Robert Nkuna



OVERVIEW BY
CHIEF EXECUTIVE OFFICER

Lumko Mtimde

I hereby present the annual performance results for the Universal Service and Access Fund (USAF) reflecting the Fund's pre-determined objectives, key performance indicators and targets for the 2016-2017 performance cycle.

The Agency has acknowledged the non-compliance findings and is implementing corrective measures as well as tightening internal controls and enhancing capacity to ensure good governance and compliance with National Treasury (NT) regulations and SCM policies, systems and processes.

In the year under review, USAF performance has regrettably declined from 67% in 2015-2016 to 33%. This is due to a number of factors including the Annual Performance Plan (APP) not adhering to the SMART principles and the Broadcasting Digital Migration (BDM) project delays and suspension of production. As a result of the regrettable performance, as set out at year end, there remains committed and outstanding activities regarding broadband connectivity, necessitating a roll-over funding request of R15.3-million for connectivity and also R528-million for the BDM.

To address these challenges, we developed a turnaround intervention strategy and plan, planned as a collective and a team USAASA, committed to driving high performance culture going forward and, as a result, we have produced an APP 2017-2018 adhering to SMART principles.

The USAF predetermined objectives, key performance indicators and targets for the 2017-2018 financial year, as outlined in the APP, have been prepared in accordance with the Agency's mandate.

The Fund has a mandate that is expressed in both the Constitution of South Africa (Section 16 of the Bill of Rights) and in the underpinning legislation, the Electronic Communications Act No. 36 of 2006, as amended, which now enables USAASA to collect all the licensed operator levies due to the Universal Service Fund (USAF) from the Independent Communications Authority of South Africa (ICASA). The Constitution of the Republic of South Africa (1996) aims to "... improve the quality of life of all citizens and free the potential of each person" and, in doing so, enables equality in the rights, privileges and benefits of citizenship, including the guarantee of freedom of expression associated with the Bill of Rights in a **digital world**.

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

These plans are further supported by the National Infrastructure Plan formalised through the Infrastructure Development Act No. 23 of 2014, which seeks to achieve 100% access to digital ICTs for all South Africans by 2020 as a driver of new economic opportunities and digital equity as part of the Strategic Integrated Projects (SIP 15).

USAF's role in connecting educational institutions, healthcare facilities and government institutions in underserved areas thus finds expression in these key policies of government as well as the recent Operation Phakisa in Education, which is aimed at addressing the need to train teachers on integrating ICT resources in the teaching and learning environment.

All South Africans should be able to acquire and use knowledge effectively. However, the high domestic cost of broadband internet connectivity is a major hindrance. To this end the NDP emphasises that institutional arrangements to manage the Information and Communication and Technology environment need to be better structured to ensure that South Africa does not fall victim to a "digital divide".

The Universal Service and Access Agency, as an entity mandated through the Electronic Communications Act (ECA) to promote the goal of universal access and universal service, has a crucial role to play in bringing the NDP objective of eliminating the digital divide closer to becoming a reality.

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

The National Integrated Information and Communication

Technologies (ICT) Policy White Paper that was approved by Cabinet on 28 September 2016 makes recommendations with respect to new or amended legislation arising from the White Paper. The most significant proposal with respect to universal service and access relates to the dissolution of USAASA, and the transformation of USAF into the Digital Development Fund (DDF).

The DDF's mandate would exclude the policymaking and regulation-making functions currently with the Agency, and the Fund would be responsible in the main for identifying, awarding and managing projects; providing support for both infrastructure and demand-stimulation projects and programmes, including those relating to digital literacy and awareness, and will be funded through private sector levies, donor funding and new incremental state funding. During the 2016-2017 financial year, the Fund's focus remained on the BDM, rapid deployment and broadband rollout.

The finalisation of the Enterprise Resource Planning (ERP) system that will provide an integrated approach to all business processes has been to the advantage of the Fund. The ERP system was fully implemented (go-live) in the final quarter of 2016-2017 and will make a significant positive impact on our efficiencies and performance as an Agency. USAASA's capacity to administer USAF has improved significantly.

We have reviewed the connectivity conducted by USAF, developed a database and captured the information on SAP. This process will enable USAF to clean its database, identify areas needing intervention and deal with legacy challenges like some areas where infrastructure was rolled out but there is no connectivity.

The 2015-2016 external audit by the Auditor-General resulted in an unqualified audit opinion with findings of non-compliance for USAF. Management has ensured action plans are developed and implemented to address 2015-2016 Auditor-General of SA (AGSA) audit findings and these plans continued to be tracked by the Executive Management Committee (EXCO) and Internal Audit, with progress updates tabled to the Board Audit and Risk Committee (BARC) on a quarterly basis. Efforts continue towards the achievement of a clean audit by the end of the 2017-2018 financial year.

As part of the implementation of AGSA recommendations, we referred identified companies found to have potentially not complied with the Competition Act to the Competition Commission. We filed and deposed the affidavit accordingly.

We tightly managed the supply and delivery agreements with the manufacturers contracted for the BDM project leading to the cancellation of one contract and suspension of production as part of risk management arising from the Supreme Court of Appeal Judgement (May 2016). Some declared a dispute, leading to arbitration and finalisation of the settlements early in the 2017-2018 financial year, as events after reporting date.

The rollout of the project is being fast-tracked, subsequent to the certainties arising from the Constitutional Court Judgement (June 2017). However, USAF, through USAASA, has resolved to lodge an application to the High Court, to take on review the decision taken by USAASA (in 2015) to constitute a panel of service providers in respect of four tenders (STB manufacturers) issued by USAASA and set aside the constitution of the panel, and in terms of the discretion accorded

to the Court in terms of Section 172(1)(b) of the Constitution and Section 8(1) of the Promotion of Administrative Justice Act (PAJA), to suspend the finding of invalidity regarding the constitution of the panel, as well as in respect of the conclusion of certain supply and delivery agreements with the manufacturers and the placing of purchase orders in pursuance thereof.

The application is to be lodged in the financial year 2017-2018. In addition, as part of consequence management, some of the employees involved as part of the supply chain management process are currently facing disciplinary action. These processes are to be concluded in the financial year 2017-2018. USAASA is incurring a huge legal bill, as a result of these corrective actions. These costs are unforeseen and unavoidable, but necessary to ensure that the R2.5-billion investment for the BDM project through USAF is protected.

The Fund continues to face challenges in terms of operating with limited financial resources, which impacts negatively on its ability to stretch its performance targets far beyond what it is currently able to achieve, and thus ensure that USAF projects administered through USAASA have a much broader reach in terms of closing universal service and access gaps in the country.

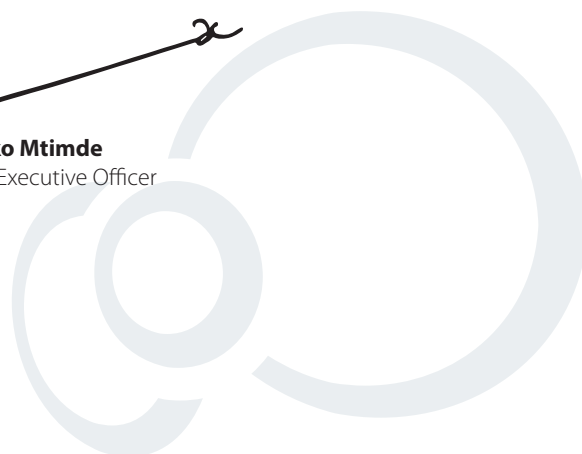
We, however, remain confident that our shareholder will assist the Agency by ensuring its continued financial stability, thereby enabling it to reach more of the targeted underserved communities and ensuring sustainable connectivity.

I wish to convey a word of thanks to the USAASA Board for their commitment and dedication in continuously guiding and supporting the management team of the Agency to fulfil the objectives of USAF.

In conclusion, acknowledgement goes to the entire USAASA team for their resilience and commitment to pursuing the goal of universal service and access to ICTs for all. We thank our partners in pursuit of our mandate.



Lumko Mtimde
Chief Executive Officer



Statement of responsibility and confirmation of accuracy for the annual report

To the best of my knowledge and belief, I confirm the following:

All information and amounts disclosed in the annual report are consistent with the annual financial statements audited by the Auditor General.

The annual report is complete, accurate and is free from any omissions.

The annual report has been prepared in accordance with the guidelines on the annual report as issued by National Treasury.

The Annual Financial Statements (Part E) have been prepared in accordance with the Generally Recognised Accounting Practice (GRAP) standards applicable to the Agency.

The accounting authority is responsible for the preparation of the annual financial statements and for the judgements made in this information.

The accounting authority is responsible for establishing, and implementing a system of internal control which has been designed to provide reasonable assurance as to the integrity and reliability of the performance information, the human resources information and the annual financial statements.

The external auditors are engaged to express an independent opinion on the annual financial statements.

In our opinion, the annual report fairly reflects the operations, the performance information, the human resources information and the financial affairs of the entity for the financial year ended 31 March 2017.

Yours faithfully



Lumko Mtimde
Chief Executive Officer
31 July 2017

STRATEGIC OVERVIEW

VISION

Universal Access and Service to ICT for all.

MISSION

To facilitate the rollout of adequate Information and Communication Technology (ICT) infrastructure to enable universal access to underserved areas in South Africa.

To facilitate ICT service to underserved areas and thereby contributing to the reduction of poverty and unemployment in South Africa.

To promote and pursue the goal of Universal Access and Services and contribute to the sharing and preservation of information in order to build South Africa's sustainable knowledge society.

VALUES

The following values essentially capture what the Agency stands for and they guide USAASA's efforts towards achieving the following strategic objectives

Batho Pele

We believe in providing excellent, efficient and effective service to all customers and stakeholders.

Integrity

We uphold high standards of trust, condemn bribery and corruption, and uphold honesty and respect in all interactions with stakeholders.

Accountability

We foster employee ownership and responsibility in ensuring quality service.

Innovation

We support employee creativity in delivering all our services.

Transparency

We encourage openness in all our activities.

Teamwork

We strive to create a harmonious work environment, where all employees and contributors are respected.



LEGISLATIVE AND OTHER MANDATES

Constitutional 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 underpinning 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.

16. Freedom of expression

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

Figure 1: Freedom of expression

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 right in South Africa. In addition, Section 32 of the Bill of Rights also describes the “Right to information” and, if access is limited due to a lack of ICT resources, facilities and access, this right cannot be fulfilled.

Legislative Mandate

The Universal Service and Access Fund of South Africa (“the Fund” or “USAF”) was established by an Act of Parliament. The existence, functions, duties and mandate of the Fund are governed by Section 88 of the Electronic Communications Act No. 36 of 2005 (“the ECA”), which came into operation on 19 July 2006.

The Fund is financed by contributions from electronic communications licensees. The money in the Fund must be utilised for specific subsidies to needy persons, underserved areas and schools.

In terms of the ECA, the Fund must:

- Utilise the USAF exclusively for the payment of certain subsidies; and
- Provide incentives for network licensees to construct, operate and maintain networks in underserved areas.

The ECA was amended in 2014 and, specifically on USAF, there is a provision that the Minister, acting with the concurrence of the Minister of Finance, may prescribe additional uses of money held in the USAF.

Policy Imperatives

An overview of the alignment between plans and priorities of Government that impact on the USAF’s strategic priorities and delivery is outlined in Figure 2 below.

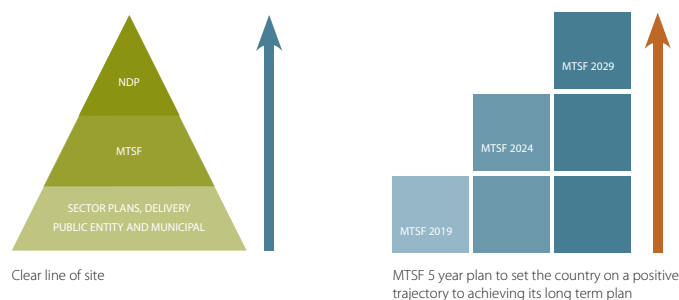


Figure 2. Source: Department of Planning Monitoring and Evaluation, 2015

Medium-Term Strategic Framework

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

- 1) Creation of more jobs, decent work and sustainable livelihoods for inclusive growth;
- 2) Rural development, land reform and food security;
- 3) Education;
- 4) Health; and
- 5) 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.

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, as required in terms of the NDP and South Africa Connect;
- Connect all schools, public health and other government facilities through broadband by 2020, and at least 90% of communities should have substantial and super-fast broadband capacity by 2020 to assist the country in meeting the targets set out in South Africa Connect;
- Support and develop free Wi-Fi areas in cities, towns and rural areas to improve universal access.

National Development Plan

The National Development Plan (NDP) has important implications for USAF, and on how USAF aligns itself to the government policy agenda as is further described in this section.

The NDP aims to eradicate poverty, increase employment and reduce inequality by 2030. The NDP encompasses other critical policy instruments, which are also driving government’s policy agenda. These are:

- The New Growth Path, which focuses on economic development;
- The National Infrastructure Plan, which guides the rollout of infrastructure and includes the Presidential Infrastructure Coordinating Commission-launched Strategic

Industrial Policy Action Plan, which supports the re-industrialisation of the economy.

NDP goals that have an influence on USAF's strategy and work include:

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

New Growth Path Strategies

Jobs Driver 3: Seizing the potential of new economies.

Technological innovation opens the opportunity for substantial employment creation.

The New Growth Path

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

SIP-15: Expanding Access to Communication Technology

The aim is to achieve 100% access to digital ICTs for all South Africans by 2020 as a driver of new economic opportunities and digital equity. Interim implementing agencies include: SENTECH, Broadband Infraco, Telkom, SANRAL, Eskom, Transnet, Universal Services and Access Agency of South Africa (USAASA), and the private sector.

South Africa's Broadband Policy: South Africa Connect

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

SA Connect guides the ICT sector as a whole, and USAASA, in particular in terms of the approach taken to promoting broadband deployment, usage and uptake. It outlines several key objectives that have a direct impact on the strategies and operations of USAF. These are:

- Broadband must reach a critical mass in South Africa;
- Access to broadband must be affordable;
- Demand-side skills must be developed so that 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.

SA Connect is a four-pronged strategy, consisting of four "sub-strategies" that will move the country from the current state to achieving its targets over the next 10 years. The four prongs or "sub-strategies" of SA Connect are:

- Digital readiness
- Digital development
- Digital future
- Digital opportunity

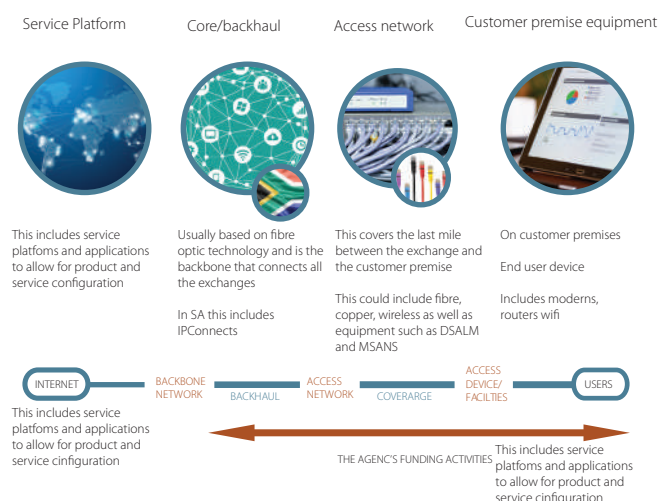
Table 1 on the next page presents a summary of the four SA Connect Pillars and their implications.

In his budget vote of 2015, the Minister of Telecommunications and Postal Services announced the following eight (8) district municipalities as areas of focus over the next three years for the first phase of broadband rollout under the auspices of the South Africa Connect Policy. USAF will be aligning its activities around these municipalities in order to align to the South Africa Connect policy objectives and implementation plans.

District	Number of sites to be connected	
	Original (2015)	Revised (2015/2016)
Dr Kenneth Kaunda (NW)	301	148
Gert Sibande (MP)	754	370
OR. Tambo (EC)	1 401	687
Pixley ka Seme (NC)	689	102
Thabo Mofutsanyane (FS)	709	338
Umgungundlovu (KZN)	709	348
Umkhanyakazi (KZN)	594	291
Vhembe (LP)	1 148	563
TOTAL	5 803	2 847

The Accounting Authority of USAASA approved the National Strategy for Universal Service and Access, which is the response to the NDP, SIP-15 and South Africa Connect 2013, and also an integrated broadband model is also proposed that is depicted below:

Figure 3: Integrated broadband model



The model is the most cost-effective and sustainable broadband programme as it encourages both public and private sector participation in the rollout of broadband in underserved areas. The model has successfully been implemented in a number of local municipalities, namely, Msinga (KwaZulu-Natal); Emalahleni (Eastern Cape), Joe Morolong (Northern Cape), Ratlou (North West), Mutale (Limpopo) and Chief Albert Luthuli Local Municipality (Mpumalanga).

Strategy Intervention	Aspects addressed by the strategy	Intended Outcomes	Indicators
Digital Readiness	<p>Institutional capacity Regulation and administrative bottlenecks Efficiency and effectiveness Data and analysis for monitoring and evaluation and policy reformulation Establishment of the National Broadband Council Rationalisation of SOCs</p>	<ul style="list-style-type: none"> • An enabling regulatory and administrative environment that facilitates broadband rollout • Broader public interest preserved • Level playing fields with fair market conditions • Dedicated council to advise Minister on policy, planning and implementation • Autonomy, accountability and efficiency of regulator • Access price and quality of broadband • Time and cost of the network build approval • Degree of disruption due to network build • Environment impact of network builds • Targets met • Coverage price 	<ul style="list-style-type: none"> • Autonomy, accountability and efficiency of regulator • Access, price and quality of broadband • Time and cost of network build approval • Degree of disruption due to network build • Environmental impact of network builds • Targets met • Coverage price
Digital Development	<p>Pooling of public sector demand Public sector networks Open access to network regulation</p>	<ul style="list-style-type: none"> • High capacity future-proof network capacity procured for key public sector broadband needs at more affordable rates • Government's on-going operational communications expenditure reduced through upfront capital expenditure • Risk of investment in network extensions for operators reduced through anchor tenancy 	<ul style="list-style-type: none"> • Speed, quality and cost of network capacity at Government facilities • Speed of rollout and quality of service • Network reach and price of access • Increased investment by network operators • Take up of services in public sector, schools and clinics
Building the digital future	<p>Mechanisms for sharing of infrastructure Coordination of infrastructure rollout Enhanced use and licensing of spectrum</p>	<ul style="list-style-type: none"> • Where competition is viable this will produce the best outcomes but infrastructure sharing and cooperation to be enabled on network builds to reduce cost • Economies of scale enabled in medium density and low income areas through government investment and guarantees in network extensions 	<ul style="list-style-type: none"> • Network reach • Cost to communicate • Speed, quality and cost of network capacity • Speed of rollout • Increased investment by network operators • Improved penetration
Realising Digital opportunity	<p>Capability and capacity R&D, innovation and entrepreneurship Industry development Local content and applications</p>	<ul style="list-style-type: none"> • Uptake and use enabled through institutional capacity and individual capability and institutional absorption • More equitable access to higher quality government services • Reduce pressure on scarce public sector facilities by moving resources online • The benefits of broadband in terms of economic growth and enhanced quality of life is realised through relevant content and applications • Promote growth through enabling economic infrastructure and associated industrial development 	<ul style="list-style-type: none"> • Demand stimulation through: • Fund local content • Support apps to market • E-government services • ICT start-ups • Registration of ICT related patents • Increase demand side skills: ICT specialists, engineers, lawyers, economists • Number of PhDs in area of ICT • % of GDP spent on R&D • Increase demand-side skills: e-literacy campaign, ICT in school curriculum

Table 1: Summary of the Four SA Connect Pillars and their implications

Integration Project (SIP-15);

In the 2016-2017 financial year, USAF's focus remained on the eight district municipalities announced by the Minister of Telecommunications and Postal Services as the first phase of implementing the National Health Insurance Pilot Phase. Broadband infrastructure and services are to be deployed in the underserved parts of OR Tambo District Municipality in the Eastern Cape.

World Summit on Information Society Commitments

Many international conventions, commitments and policies affect universal service and access. The first is the World Summit on Information Society (WSIS) commitments that South Africa has signed up to; and the second is the United Nations (UN) Convention on the Rights of Persons with Disabilities (UNCPRD), of which South Africa is a signatory. The WSIS commitments include:

- 1) to connect villages with ICTs and establish community access points;
- 2) to connect universities, colleges, secondary and primary schools with ICTs;
- 3) to connect scientific and research centres with ICTs;
- 4) to connect public libraries, cultural centres, museums, post offices and archives with ICTs;
- 5) to connect health centres and hospitals with ICTs;
- 6) to connect all local and central government departments and establish websites and email addresses;
- 7) to adapt all primary and secondary school curricula to meet the challenges of the Information Society, taking into account national circumstances;
- 8) to encourage the development of content and to put in place technical conditions in order to facilitate the presence and use of all world languages on the internet;
- 9) to ensure that more than half of the world's inhabitants have access to ICTs within their reach.

USAF has made great strides in assisting the country to meet these commitments. USAF also keeps cognisance of the value of its contribution to the UNCPRD goals as it is not unusual for funds to be used to support persons with disabilities (PWDs). A number of countries have either used their USAFs for promoting access by PWDs, or have permission in law, explicitly, to do so. These include:

- Australia
- France
- Ireland
- Italy
- Jamaica
- Kenya
- Lithuania
- Malaysia
- New Zealand
- Pakistan
- Poland
- Portugal
- Slovak Republic
- Slovenia
- Sweden
- South Africa
- Thailand
- United Kingdom
- United States

Globally, in an attempt to mainstream ICT access for PWDs, the following specific recommendations have been made for funds. It is suggested that they should engage in:

- Promoting accessible public access facilities;
- Subsidising accessible handsets and/or monthly subscriptions;
- The provision of relay services;
- The purchase of accessible and Assistive Technology (AT) tools;
- Funding customisation of basic AT tools, e.g. in local languages including text-to-speech, voice recognition, captioning applications and screen readers;
- Providing incentives for research and development (R&D) of AT tools e.g. development of speech-to-text engines in the official languages;
- Facilitating the training of persons with disabilities in using accessible ICTs;
- Facilitating the development of curricula and training of information technology professionals on mobile ICT accessibility; and
- Providing accessible set-top boxes (including to persons with disabilities) to facilitate digital migration.

ORGANISATIONAL STRUCTURE

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

COMPOSITION OF THE USAASA BOARD



Mawethu Cawe

Chairperson: Board of Directors

Adv Lungelwa Shandu

Member: Board of Directors

Linda Nene

Member: Board of Directors

Tshegofatso Maloka

Member: Board of Directors



Jabulile Nkosi
Member: Board of Directors

Lumko Mtimde
Chief Executive Officer

Nqabekaya Nqandela
Member: Board of Directors

Xola Stock
Member: Board of Directors

PART B: PERFORMANCE INFORMATION



Statement of Responsibility for Performance Information

STATEMENT OF RESPONSIBILITY BY THE CHIEF EXECUTIVE OFFICER

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

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

In my opinion, the performance information fairly reflects the actual achievements against planned objectives, indicators and targets as per the Strategic and Annual Performance Plans of USAF for the financial year ended 31 March 2017.



Lumko Mtimde
Chief Executive Officer



STATEMENT OF RESPONSIBILITY BY THE CHAIR PERSON: USAASA BOARD OF DIRECTORS

The performance information of the Fund set out on pages 24 to 25 was reviewed by the Board Audit and Risk Committee (BARC) and approved by the Board.

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

The USAF performance information for the year ended 31 March 2017 has also been examined by the AGSA as the external auditors of the Fund and their report is represented on pages 46 to 48.



Mawethu Cawe
Chairperson: USAASA Board of Directors



SITUATIONAL ANALYSIS

Service delivery environment

NATIONAL CONTEXT

The National Development Plan is South Africa's strategy, which aims to eliminate poverty and inequality by 2030. This is in line with the UN Vision 2030 that envisages a world free of hunger, disease, and want, and where all life can thrive.

According to the World Economic Forum (WEF) Report (2016), South Africa is classified as a middle-income country, with a population, which increased from 51,8 million in 2011 to 55,7 million in 2016. The World Economic Forum Network Readiness Index (NRI) measures the country's overall potential to exploit the opportunities presented by the ICT sector, and the impact of the sector on the competitiveness of the country against others.

In ITU Africa continental rankings, South Africa ranks fifth after Mauritius (69), Seychelles (71), Tunisia (84), Morocco (90), and Egypt (91) in the ITU Index (ITU, 2012). In terms of the World Economic Forum (WEF) 2013 Network Readiness Index (NRI), South Africa ranks 70th in the world and 75th in 2015.

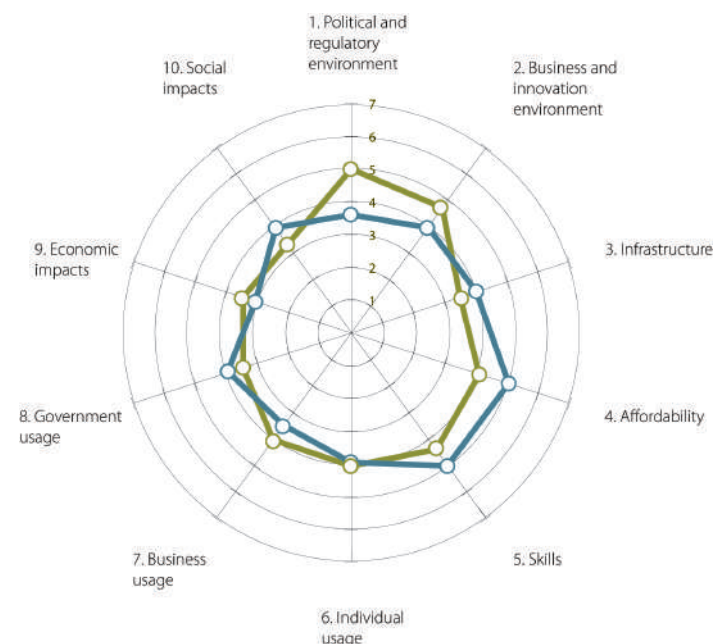
The Readiness Sub-Index measuring infrastructure, affordability and skills measurement values for South Africa fall below the group average of other similar jurisdictions. The three sub-indices indicated above are part of the Agency's mandate to ensure provision of universal affordable access to ICTs and a wide range of online broadband and digital communications services, and to ensure that there is uptake and usage of such services through community skills

capacity-building programmes.

Concisely, the underperformance of the Agency on the three sub-indices mentioned above affect the competitiveness of the country in terms of world rankings. The General Household Survey Report (2015) found that there was high access to telecommunications for households nationally, as only 3,5% of households did not have access to either landlines or cellphone in 2015. By comparison, 85,5% of households had access to at least one cellphone, while 10,9% of households had access to both a landline and a cellular phone. Only 0,1% of households had only a landline. Internet access at both household and individual levels stood at 19.7% and 33.7%, respectively.



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



The ITU Busan Resolution 200 of 2014 reviewed the WSIS Goals targets and came out with Connect 2020 Vision, which envisions “An information society, empowered by the interconnected world, where telecommunications/ICT enable and accelerate social, economic and environmentally sustainable growth and development for everyone.” A number of goals have been set as per the table below:

Connect 2020 Global Goals and Targets

Goal 1: Growth - Enable and foster access to and increased use of ICTs.			
55% of households should have access to the internet	60% of individuals should be using the internet	40% - ICTs should be 40% more affordable	
Goal 2: Inclusiveness – Bridge the digital divide and provide broadband for all			
50% of houses should have access to the internet in the developing world; 15% in the least developed countries	50% of individuals should be using the internet in the developing world; 20% in the least developed countries	40% - Affordability gap between developed and developing countries should be reduced by 40%	5% - Broadband services should cost no more than 5% of average monthly income in the developing countries
90% of the rural population should be covered by broadband services	Gender equality among internet users should be reached	Enabling environments ensuring accessible ICTs for persons with disabilities should be established in all countries	
Goal 3: Sustainability – Manage challenges resulting from the ICT development			
40% Improvement in cyber security readiness	50% Reduction in volume of redundant e-waste	30% Decrease in Green House Gas emissions per device generated by the ICT sector	
Goal 4: Innovation & partnership – Lead, improve and adapt to the changing ICT environment			
ICT environment conducive to innovation		Effective partnerships of stakeholders in the ICT environment	

Source: ITU website

As indicated in the previous sections of this document, South Africa has a Vision 2030, which is derived from the National Development Plan presented and accepted by Parliament in 2012 before the ITU’s Vision of Connect 2020, which was endorsed in 2014 in Busan. The NDP’s Vision for the ICT sector is stated as follows: “... by 2030 ICT is expected to underpin the development of an inclusive dynamic information society and knowledge economy.”

The same plan stated the medium-term target from 2015-2020 as achieving 100% broadband penetration by 2020, and changed the definition of broadband from 256 kbps to at least 2 mbps (NPC, 2011). The short-term target was to develop a comprehensive and integrated e-strategy that reflects the cross-cutting nature of ICTs. The Connect 2020 targets of the ITU are in line with the mandate of USAF of promoting the goals of universal affordable access to a wide a range of ICT services, including broadband.

INTERNATIONAL CONTEXT

Globally, the Digital Economy is the future and the Fourth Industrial Revolution - driven by the increased use of and adaptation of ICT tools in all human activities - is the focus. Technological developments have now made machine-to-machine (M2M) communications, robots and autonomous systems able to operate with or without human interventions in all spheres of human activity.

The Fourth Industrial Revolution is a focus of attention, as it contains within it the possibilities of profoundly disrupting current economic

and social structures over the next 20 to 50 years.

South Africa is a signatory to the General Agreement on Trade in Services (GATS), entered into by members of the World Trade Organisation (WTO) and binds the members to the agreed rules and regulations. The jurisdiction of the agreements affects domestic legislation and rules of trade, as these should never contravene the WTO commitments and obligations without authorisation. The commitment obligation within the GATS relate to, within the ICT sector, providers of electronic communication services, electronic communication network services and broadcasting services.

The spread of information and communications technology and global interconnectedness has great potential to accelerate human progress, to bridge the digital divide and to develop knowledge societies, as does scientific and technological innovation across areas as diverse as medicine and energy.

Sustainable Development Goal 9 states “Enhance scientific research, upgrade the technological capabilities of industrial sectors in all countries, in particular developing countries, including, by 2020 and 2030”.

Text Box 1: Sustainable Development Goals

- 9.a Facilitate sustainable and resilient infrastructure development in developing countries through enhanced financial, technological and technical support to African countries, least-developed countries, landlocked developing countries and small island developing states.
- 9.b Support domestic technology development, research and innovation in developing countries, by ensuring a conducive policy environment for, inter alia, industrial diversification and value addition to commodities.
- 9.c Significantly increase access to information and communications technology and strive to provide affordable universal access to the internet in least-developed countries by 2020.

Based on internationally-agreed development goals, including those in the Sustainable Development Goals, which are premised on international cooperation, indicative targets may serve as global references for improving connectivity and access to the use of ICT in promoting the objectives of the WSIS Plan.

The ITU Busan Resolution of 2014 reviewed the WSIS Goals targets and came out with Connect 2020 Vision, which envisions “An information society, empowered by the interconnected world, where telecommunications/ICT enable and accelerate social, economic and environmentally sustainable growth and development for everyone.” A number of goals have been set as outlined in the table below:

GOAL	TARGETS
Goal 1: Growth - enable and foster access to and increased use of ICTs.	<ul style="list-style-type: none"> • 55% of households should have access to the internet • 60% of individuals should be using the internet • 40% ICTs should be 40% more affordable
Goal 2: Inclusiveness – bridge the digital divide and provide broadband for all	<ul style="list-style-type: none"> • 50% of houses should have access to the internet in the developing world; • 15% in the least developed countries • 50% of individuals should be using the internet in the developing world; • 20% in the least developed countries • 40% affordability gap between developed and developing countries should be reduced by 40% • 5% broadband services should cost no more than 5% of average monthly income in the developing countries • 90% of the rural population should be covered by broadband services • Gender equality among internet users should be reached • Enabling environments ensuring accessible ICTs for persons with disabilities should be established in all countries
Goal 3: Sustainability – Manage challenges resulting from the ICT development	<ul style="list-style-type: none"> • 40% improvement in cybersecurity readiness • 50% reduction in volume of redundant e-waste • 30% decrease in Green House Gas emissions per device generated by the ICT sector
Goal 4: Innovation & partnership – Lead, improve & adapt to the changing ICT environment	<ul style="list-style-type: none"> • ICT environment conducive to innovation • Effective partnerships of stakeholders in the ICT environment

The Connect 2020 targets of the ITU are in line with the mandate of the Universal Service and Access Fund of promoting the goals of universal affordable access to a wide a range of ICT services, including broadband.

ORGANISATIONAL ENVIRONMENT

The National Broadband Policy (South Africa Connect, 2013) shapes the USAF mandate. This policy places universal access and service obligations high on the agenda for building an inclusive and connected South Africa. SA Connect guides the ICT sector as a whole, and USAF in particular, in terms of the approach taken to promote broadband deployment, usage and uptake.

Delivery against the Fund's mandate has been compromised by a limited budget that has hindered its ability to stretch its projects far beyond what it is currently able to achieve, In order to ensure a ensuring a much broader reach in terms of closing universal service and access

gaps in the country.

USAF reflection on its organisational environment, in particular its project delivery, has resulted in identification of the Fund's strengths, weaknesses, opportunities and threats (SWOT). The National Integrated Information and Communication Technologies (ICT) Policy White Paper that was approved by Cabinet on 28 September 2016 makes recommendations with respect to new or amended legislation arising from the White Paper.

The most significant proposal with respect to universal service and access relates to the creation of an Digital Development Fund, which would replace USAASA and USAF. It would exclude the policymaking and regulation-making functions currently with the Agency, and the Fund would be responsible in the main for identifying, awarding and managing projects.

USAF STRATEGIC OUTCOME-ORIENTED GOALS

The strategic goals pursued through USAF during the 2016-2017 financial year, with the aim of effecting changes for the benefit of the Fund's beneficiaries and key stakeholders, are outlined below:

USAF STRATEGIC GOAL	Current under-serviced areas connected through affordable, available, sustainable and qualitative broadband
Strategic Objective	Accessible broadband network coverage in identified underserved areas
Key Performance Indicators	Two under-serviced local municipality broadband projects initiated & completed in OR Tambo District Municipality in the Eastern Cape

USAF STRATEGIC GOAL	Innovative ICT offerings that respond to the needs of education, primary health care and government institutions in under-serviced areas Provided
Strategic Objective	Number of existing broadband network connections maintained in educational institutions, primary health care facilities and traditional ICT centres
Key Performance Indicators	Maintain broadband network connectivity in 127 schools, 93 clinics and 38 traditional ICT centres

USAF STRATEGIC GOAL	Digital access to TV provided to 5.2 million needy households
Strategic Objective	Number of set-top boxes & antennas procured and installed for qualifying needy TV-owning households
Key Performance Indicators	58 460 set-Top Boxes & related accessories procured and installed for qualifying needy TV-owning households



Minister Ayanda Dlodlo
Department of Communications
and
Lumko Mtimde
Chief Executive Officer of USAASA

USAASA Board Session

USAF'S PERFORMANCE INFORMATION

Broadband

Strategic Objective	Performance Indicator	2016-2017 Annual Target	Actual Achievement 2016-2017	Deviation from planned target to Actual Achievement for 2016-2017	Comments on deviations
To provide access to ICT services in six identified underserved areas by 2021 as part of implementing the South Africa Connect digital development strategic pillar in support of the National Development Plan	Accessible broadband network coverage in identified underserved areas	Two under-served local municipality broadband projects initiated & completed in the OR Tambo District Municipality in Eastern Cape	<p>The planned target was fully achieved.</p> <p>The backhaul towers and base stations have been constructed at King Sabata Dalindyebo and Mhlontlo Local Municipalities as planned.</p> <p>The accessible Wifi access points in primary health facilities and public schools were installed and operational as planned.</p>	Not applicable	Not applicable

Rapid Deployment and Maintenance

Strategic Objective	Performance Indicator	2016-2017 Annual Target	Actual Achievement 2016-2017	Deviation from planned target to Actual Achievement for 2016-2017	Comments on deviations
Facilitate the broadband connectivity of educational institutions, primary healthcare facilities and government institutions by 2021	Number of existing broadband network connections maintained in educational institutions, primary healthcare facilities and traditional ICT centres	Maintain broadband network connectivity in 127 schools, 93 clinics and 38 traditional ICT centres in compliance with Section 88 of the Electronic Communications Act	The planned target of 258 sites was not fully achieved. Only 68 sites were connected for the financial year	Connectivity of the 258 sites was not achieved by the Agency as planned and the corrective measures will be implemented and the responsible programme indicator manager will be held accountable for not ensuring maintained connectivity to planned sites	<p>Non-achievement is due to poor planning and execution leading to failure to conclude the SLA for connectivity at the deployed sites within schedule.</p> <p>The reconnection of sites is scheduled to take place during Quarter 2 (Q2) of the 2017-2018 Financial Year.</p> <p>The corrective measure include better planning, procuring and contracting to be inclusive of connectivity</p>

Broadcasting Digital Migration

Strategic Objective	Performance Indicator	2016/2017 Annual Target	Actual Achievement	Variation from planned target	Comments on deviations
To fund digital television access equipment for qualifying TV-owning needy households by 2021	Number of set-top boxes & antennas procured and installed for qualifying needy TV-owning households	58 460 set-top boxes & antennas procured and installed for qualifying needy TV-owning households	The target was not fully achieved as planned. Only 43 272 set-top boxes and antennas out of the 58 460 planned set-top boxes were installed as the end of the financial year.	The Agency did not complete 58 460 planned set-top boxes owing to legal challenges and also the installations were only confined to Square Kilometre Array and border lines.	<p>Non-achievement is due to the dependencies of the BDM project to roleplayers in the ecosystem. The delivery model requires installers to only install on the approved allocations by SAPO, after awareness campaign by DoC and registrations by SAPO.</p> <p>A new strategy which is approved by the DoC and implemented by the PMO is to have bulk installations, where installers are allocated a bulk of equipment to effect bulk installations. This will be done in Quarter 1 of the 2017-2018 financial year.</p> <p>Awareness campaign has increased and yielded more registrations, this will ensure increased installations.</p>



O R TAMBO
MUNICI
WI-FI PR



Liked by 8954 others **BrightvWave**
TamboWiFiProject #ORTamboDistric
#BrightwaveTechnologies #M
Wifi #Internet #SouthAfr

O R TAMBO DISTRICT MUNICIPALITY WI-FI PROJECT



Liked by 8954 others **BrightWave** USAQASA
 ORTamboWiFiProject #ORTamboDistrictMunicipality
 AASA #BrightwaveTechnologies #Mthatha
 and #Wifi #Internet #SouthAfrica

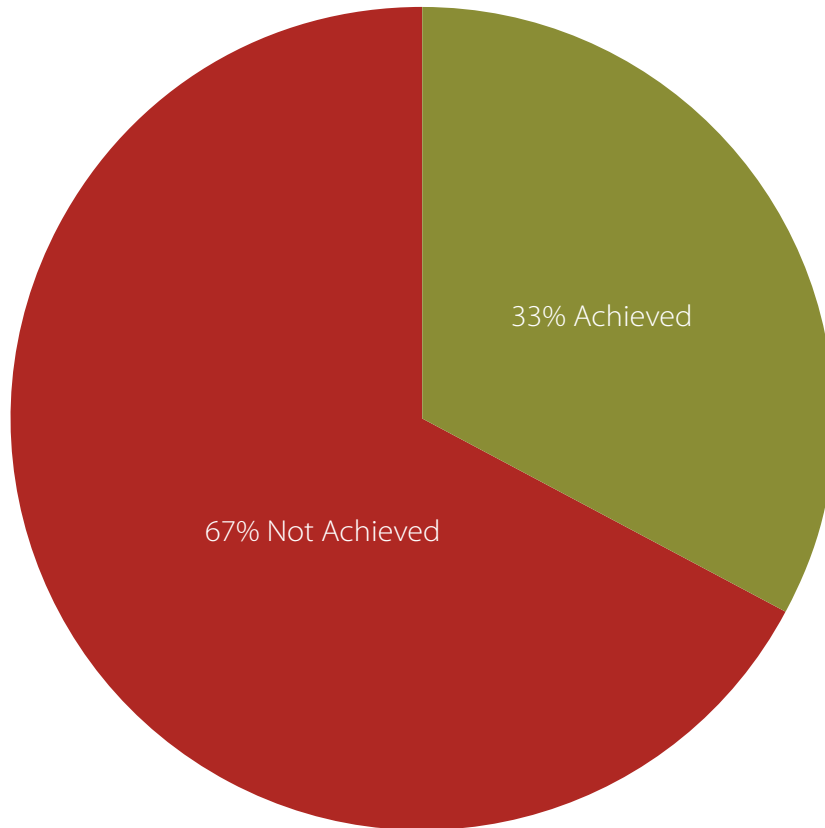


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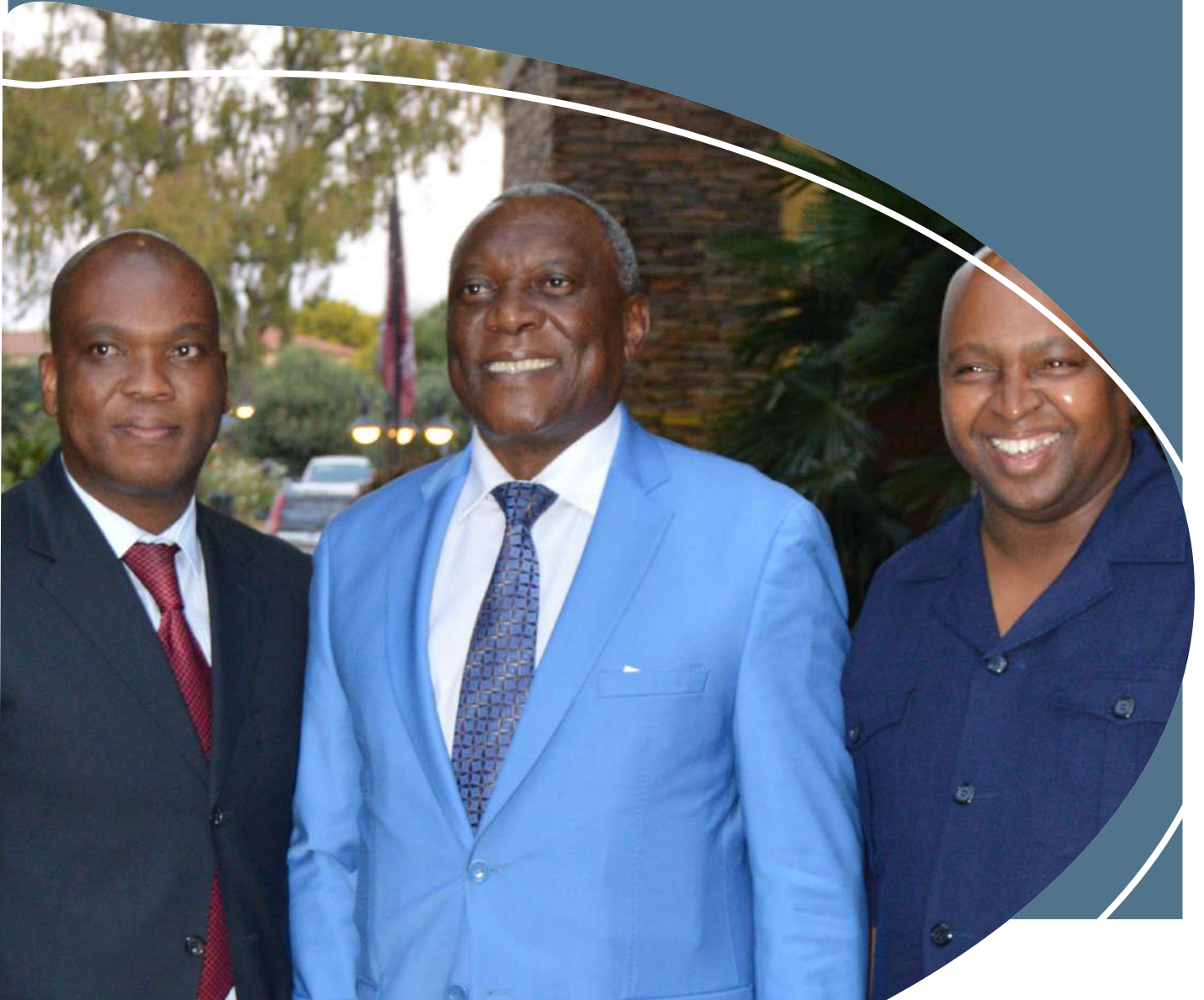
SUMMARY OF USAF 2016-2017 PERFORMANCE

The graph below depicts the Fund's achieved annual performance against the planned annual targets in the 2016-2017 approved Annual Performance Plan. One (1) of the three (3) planned targets was achieved, being 33% of the total planned targets, and two (2) of the three (3) planned targets were not achieved, being 67% of the total planned annual targets.



USAF 2016-2017 annual performance

PART C: GOVERNANCE



GOVERNANCE

THE BOARD OF DIRECTORS

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

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

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

All Board Committees and the Board are guided by the principles of the King IV Report on Corporate Governance, Public Finance Management Act (1999) and the Companies Act (2008) that are embedded in the approved USAASA Board Charter.

PORTFOLIO COMMITTEES

Portfolio Committee engagements for the 2016-2017 financial year are outlined in the table below:

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

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

projects implemented through USAF.

DATE	MEETING / ACTIVITY
12 April 2016	Briefing to Portfolio Committee on USAASA and USAF Strategic Plans and APP
11 May 2016	Briefing to Select Committee on Communications and Public Enterprises
23 August	Briefing to Portfolio Committee on USAASA and USAF Quarter 1 Performance
18 October	Briefing to Portfolio Committee on USAASA and USAF Annual Report 2015-2016
21 February 2017	Briefing to Portfolio Committee on USAASA & USAF Quarter 2 Performance

EXECUTIVE AUTHORITY

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

THE BOARD AS THE ACCOUNTING AUTHORITY

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

The Board remains committed to applying the principles of integrity, fairness, transparency and accountability as set out in the King Report on Corporate Governance Practices and Conduct Act, 2016 (King IV). USAASA and USAF are legally bound to comply with all laws, rules and regulations applicable to it. The Board Audit and Risk Committee ensures that USAASA has the necessary checks and balances in place to ensure that there is compliance with pertinent laws and regulations. The Board places strong emphasis on achieving the highest standards of reporting.

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

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

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

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

- Represented the Agency before the Minister and Parliament of the Republic of South Africa;
- Provided strategic direction to the Agency;
- Reviewed, approved and monitored strategic plans for the Agency
- Monitored fundamental financial business strategies,
- Approved and monitored major actions such as organisational development;
- Identified and regularly monitored key risk areas and key performance indicators of the Agency;
- Ensured that the Agency communicates with shareholders and relevant stakeholders transparently and promptly;

The role of the Board requires the respective individual members to maintain the highest standards of ethics, integrity and values, and represent the interests 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.

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

The Board Charter outlines the following:

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



COMPOSITION OF THE USAASA BOARD

NAME	POSITION	DATE OF APPOINTMENT	EXPIRY OF TERM	QUALIFICATIONS	AREA OF EXPERTISE	BOARD DIRECTORSHIPS	OTHER COMMITTEES
Mawethu Cawe	Chairperson: Board of Directors	01 September 2015	31 August 2018	<ul style="list-style-type: none"> University of Fort Hare: Bachelor of Arts (BA) in Communication University of Witwatersrand: Certificate in Industrial Relations (CPIR), University of South Africa (UNISA): Advanced Diploma in Labour Law University of Witwatersrand: Post Graduate Diploma (Human Resources) University of Witwatersrand: Masters in Management University of Witwatersrand: Certificate in Executive Coaching and Mentoring, 2009 	<ul style="list-style-type: none"> Human Resources Management Labour relations Leadership Strategy 	Mawethu Farm (Director) Mawethu Investment (Director)	N/A
Adv Lungelwa Shandu	Member: Board of Directors	01 September 2015	31 August 2018	<ul style="list-style-type: none"> University of Durban Westville: Post Graduate Qualification-Bachelor of Laws (LLB) Graduate Qualification-Baccalaureus Procurator is (B Pros) Kettering Foundation, Dayton-Ohio, USA Certificate Deliberative Democracy Voice Clinic Certificate-Voice training for public speaking CCMA-Certificate- Substantive Law, Conciliation, Jurisdictional Ruling, Managing Dismissals and Arbitration¹ & 2 	<ul style="list-style-type: none"> Legal Labour Relations Business Alignment with Government Policy & Regulations Contracts Leadership Governance 	Firearms Appeal Board Ministry of Police Firearms Appeal Board Ministry of Police	Operations Committee (Chairperson) Human Resources & Remuneration Committee Social & Ethics Committee

COMPOSITION OF THE USAASA BOARD							
NAME	POSITION	DATE OF APPOINTMENT	EXPIRY OF TERM	QUALIFICATIONS	AREA OF EXPERTISE	BOARD DIRECTORSHIPS	OTHER COMMITTEES
Malose Kekana	Member: Board of Directors	1 September 2015	Resigned with effect 01 October 2016	<ul style="list-style-type: none"> University of Witwatersrand: BCom Accounting University of South Africa: BCom Honours (one course outstanding) University of Pennsylvania: Wharton Business School: Executive Development Programme (Finance) Morgan State University: Executive Management Programme South African Futures Exchange (SAFEX) Markets Exams – Completed level 1 and 2 of SAFEX Exams on Financial Markets (futures and options trading) Aspen Institute: Colorado, USA-Executive Leadership 	<ul style="list-style-type: none"> Corporate Finance Strategy Leadership Governance 	Ithala (Pty) Ltd (Chairman) Tri-Star through Ba-Akhi Construction (Non-executive Director) Belelani Investment Managers (Director) Belelani Capital (Director) Belelani Group (Director)	Human Resources & Remuneration Committee Social & Ethics Committee (Chairperson)
Nqabekaya Ngandela	Member: Board of Directors	1 September 2015	31 August 2018	<ul style="list-style-type: none"> Cape Peninsula University: National Diploma: Electrical Engineering Milpark Business School: Master in Business Administration (MBA) University of Witwatersrand: Certificate in Convergence and New Media in the Information Society University of Witwatersrand: Certificate in Telecommunication Policy, Regulation and Management University of Pretoria: Programme in Project Management 	<ul style="list-style-type: none"> ICT Policy and Regulation Strategic planning 	North-West University (Member of Council) Eastcape Midlands College (Member of Council) Amazotsho Investment Holding (Executive Chairman) Schloss Consulting (Director)	Human Resources & Remuneration Committee (Chairperson) Operations Committee

COMPOSITION OF THE USAASA BOARD							
NAME	POSITION	DATE OF APPOINTMENT	EXPIRY OF TERM	QUALIFICATIONS	AREA OF EXPERTISE	BOARD DIRECTORSHIPS	OTHER COMMITTEES
Tshegofatso Maloka	Member: Board of Directors	01 September 2015	31 August 2018	<ul style="list-style-type: none">University of Witwatersrand: BCom AccountingUniversity of Natal: BCom Honours CA (SA)	Finance and Accounting Auditing Risk Management Governance	Bothale 304 Services (Pty) Ltd (Director)	Board Audit & Risk Committee
						Ponagatsoya Bothale (Director)	HR and Remuneration Committee
						Tshoganyetso (Director)	
Linda Nene	Member: Board of Directors	12 December 2016	11 December 2019	<ul style="list-style-type: none">University of Cape Town: BCom (Accounting)Monash University: Post Graduate Diploma in Management (specialising in Corporate Governance)The Institute of Internal Auditors:CCSA (Certification in Control Self-Assessment)GIA (SA) (General Internal Auditor-SA)FIASA (Fellow of the Institute of Internal Auditors SA)CRMA (Certification in Risk Management)Assurance) Compliance Institute of South Africa (CISA)CCP (Certified Compliance Professional of the Compliance Institute of South Africa)CPrac (SA): (Compliance Practitioner Southern Business School: Risk Management Strategies in the Public Sector)Institute for International Research: Management Diploma	Finance Auditing Risk Management Governance	Izithenjwa Investments (Director) Onjengaye Investments (Director) Work Dynamics (Pty) Ltd Petro SA Soc Ltd	Board Audit & Risk Committee (Chairperson) Operations Committee

COMPOSITION OF THE USAASA BOARD

NAME	POSITION	DATE OF APPOINTMENT	EXPIRY OF TERM	QUALIFICATIONS	AREA OF EXPERTISE	BOARD DIRECTORSHIPS	OTHER COMMITTEES
Xola Stock	Member: Board of Directors	12 December 2016	11 December 2019	<ul style="list-style-type: none"> B Com Accounting and Economics (UCT); PGDA (CTA) M Com International Accounting; M Com from Univ of Johannesburg; CA (SA) 	<ul style="list-style-type: none"> Auditing Finance Organisation governance Strategy implementation HR 	Makhulong A Matala Trust (Board member) SAICA (Board member)	Board Audit and Risk Committee HR and Remuneration Committee
Jabulile Nkosi	Member: Board of Directors	12 December 2016	11 December 2019	<ul style="list-style-type: none"> B Compt (Accountancy) Higher Diploma Computer Auditing Certified Internal Auditor Certified Information Systems Auditor International Internal quality Assessment/validation course 	<ul style="list-style-type: none"> Auditing Accounting Information Technology Corporate Governance Risk Management 		Board Audit and Risk Committee Operations Committee
Lumko Mtimde (E.Inst. D)	Member: Board of Directors and Chief Executive Officer	23 May 2016	30 May 2019	<ul style="list-style-type: none"> BSc Biochemistry and Physiology (Univ. of Western Cape) Post-Graduate Diploma in Telecommunications and Information Policy (Unisa) 	<ul style="list-style-type: none"> ICT & Broadcasting Policy and Regulation; Corporate Governance; Leadership; Strategic and Executive Management; Strategic Planning and implementation; People management 	SENTECH Non-Executive Director National Student Financial Aid Scheme (NSFAS) Board Member Media Advertising Information and Communication Technology Sector Education & Training Agency (MICT SETA)	Board Audit and Risk Committee Operations Committee HR and Remuneration Committee

REMUNERATION OF THE BOARD

NAME	POSITION	COMMENTS	TOTAL REMUNERATION R 000
Mawethu Cawe	Chairperson : Board of Directors	Appointed 01 September 2015	451
Nqabekaya Nqandela	Member: Board of Directors	Appointed 01 September 2015	177
Malose Kekana	Member: Board of Directors	Appointed 01 September 2015	52
Adv Lungelwa Shandu	Member: Board of Directors	Appointed 01 September 2015	162
Tshegofatso Maloka	Member: Board of Directors	Appointed 01 September 2015	121
Linda Nene	Member: Board of Directors	Appointed 12 December 2016	31
Xola Stock	Member: Board of Directors	Appointed 12 December 2016	26
Jabulile Nkosi	Member: Board of Directors	Appointed 12 December 2016	34

MEETING ATTENDANCE BY BOARD

Board Members	01/04/16	25/04/16	25/05/16	15/06/16	28/07/16	26/08/16	30/09/16	26/10/16	23/11/16	30/01/17	14/03/17
Mawethu Cawe	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Adv Lungelwa Shandu	✓	✗	✗	✓	✓	✓	✓	✓	✓	✓	✓
Tshegofatso Maloka	✓	✓	✗	✓	✓	✓	✓	✓	✗	✗	✗
Malose Kekana	✓	✓	✓	✗	✗	✓	✓	N/A	N/A	N/A	N/A
Nqabekaya Nqandela	N/A	N/A	N/A	✓	✓	✓	✓	✓	✓	✓	✓
Linda Nene	N/A	N/A	N/A	N/A	✓	✓	✓	✓	✓	✓	✓
Jabulile Nkosi	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	✓	✓	✓
Xola Stock	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	✓	✓	✓

BOARD COMMITTEES

COMPOSITION OF THE BOARD COMMITTEES

COMMITTEE	NUMBER OF MEETING HELD	NUMBER OF MEMBERS	NAMES OF MEMBERS
Board Audit & Risk Committee (BARC)	4	4	Linda Nene (chairperson) Jabulile Nkosi (member) Tshegofatso Maloka (member) Xola Stock (member) Duncan Ntuli (term expired on 31 August 2016) Fortunate Mdanda (term expired on 31 August 2016)
Operations Committee (OPSCO)	5	4	Adv Lungelwa Shandu (chairperson) Linda Nene (member) Jabulile Nkosi (member) Nqaba Nqandela (member)
Human Resources and Remuneration Committee (REMCO)	4	4	Nqaba Nqandela (chairperson) Adv Lungelwa Shandu (member) Tshegofatso Maloka (member) Xola Stock (member) Malose Kekana (resigned in October 2016)

BOARD AUDIT AND RISK COMMITTEE (BARC)

The BARC, which is chaired by Linda Nene, comprises four members of the USAF Board.

The Chairperson and members of the BARC were appointed on contract for three years and remunerated in accordance with the daily tariffs approved by the Minister of the Department of Telecommunications and Postal Services.

HUMAN RESOURCES AND REMUNERATION COMMITTEE (REMCO)

The Human Resources and Remuneration Committee, which is chaired by Nqabekaya Nqandela, comprises three independent non-executive members, including the Chairperson. The key roles and responsibilities of this committee include:

- Ensuring the human resources division supports the Agency's vision, mission and concomitant activities.
- Ensuring the organisational structure supports activities to be undertaken by the Agency.
- Promoting and guiding human resource activities and policies relevant to USAASA within a framework of best practice and government.

OPERATIONS COMMITTEE (OPSCO)

The Operations Committee is chaired by Adv Lungelwa Shandu and comprises four independent non-executive members.

The overall responsibilities of the Committee include the following:

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



Report of the Board Audit and Risk Committee

LINDA NENE

Chairperson: Board Audit and Risk Committee

Approved Policies/Strategies

The policies, strategies, frameworks, plans and procedures approved in USAASA are for the effective management of USAF. Nonetheless, the following assurance coverage strategy was approved by BARC within its mandate specifically for USAF:

- The Auditor-General's Audit Strategy for USAF 2016-2017.

Management of Risks

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

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

Internal Audit

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

- BDM Annual Inventory Audit; and
- Broadband project in OR Tambo Local Municipality.

Based on the audits listed above, the following key control breakdowns were noted:

- Broadband project target was not "SMART" compliant;
- BDM inventory listing not complete with minor adjustments; and
- Failure by the SAPO system to account for inventory returns.

The activities of Internal Audit Activity as stipulated in the Internal

Report of the Board Audit and Risk Committee (BARC)

We are pleased to present USAF's Board Audit and Risk Committee Report for the financial year ended 31 March 2017.

Audit Committee Responsibility

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

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

The Effectiveness of Internal Control

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

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

Audit Charter, approved by the BARC, require that Internal Audit:

- should have unlimited access to the information, records, property and personnel of the Agency;
- should have full and free access to Board Audit and Risk Committee and the Chairperson of the USAASA Board;
- should obtain cooperation of personnel from all divisions of the organisation where they perform their duties as well as other specialised services from within or outside the organisation;
- must have adequate financial, human and technological resources and support of the Board Audit and Risk Committee; and
- must report administratively to the CEO and functionally to the Board Audit and Risk Committee.

In the financial year under review, Internal Audit Activity had to deliver on two annual targets in accordance with the approved Strategic and Annual Performance Plan of USAF, namely:

- Completion of two internal audit assignments; and
- Development of the Three-Year Rolling Strategic Plan, where the first year serves as the Annual Audit Plan for the current year-end.

All planned two internal audit assignments for USAF were completed. Completed internal audit reports were presented to BARC on a quarterly basis. While the completion of the IA plan was achieved, it should be noted that internal audit could not review all emerging risks resulting from SAP implementation due to limited skills set and insufficient IA staff capacity. To augment capacity, a fixed-term contract appointment of an Internal Auditor, effective from February 2017 was insourced.

Financial Reporting

BARC monitored the integrity of the financial statements of the organisation, including its annual report and any other formal announcement relating to its financial performance, reviewing significant financial reporting issues and judgements which they contain. The Committee also reviewed summary financial statements, significant financial returns to regulators and any financial information contained in such documents.

Compliance with Laws, Regulations and Ethics

BARC ensured that USAF management had the necessary checks and balances in place to ensure compliance with pertinent laws and regulations, that it is conducting its affairs ethically, and that it is maintaining effective controls against possible conflicts of interest and fraud.

The specific steps involved in carrying out this responsibility include the following:

- Reviewing policy documents incorporating:
 - compliance with laws, regulations and ethics; and
 - policies and rules regarding conflicts of interest.
- Monitoring compliance with laws, regulations and

policies;

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

BARC shall continue to review arrangements for the effective management of USAF mechanisms deployed for USAASA's employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters pertaining to USAF. The Board Audit and Risk Committee ensures that these arrangements allow proportionate and independent investigation of such matters and appropriate follow-up action.

In-Year Management: Monthly/Quarterly Reporting

The Committee has consistently reviewed USAF financial and non-financial management and reporting practices in the financial year under review and ensured that monthly and quarterly reporting has been done in accordance with requirements of the Public Finance and Management Act (PFMA) and the Electronic Communications Act (ECA).

Integrated Reporting

The Committee, in its oversight role, reviewed USAF's value-add on its mandate. The Agency continues to provide Broadband Infrastructure in various underserved communities and ICT equipment to various schools and clinics. However, there is still insufficient monitoring of usage thereof and continued access to ICT beyond the initial 24-month connectivity contract.

Combined Assurance

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

The Combined Assurance Model is currently in place and is monitored biannually by BARC. As at year-end, two progress reports on the Implementation of the Combined Assurance were served before the Committee. These reports indicated assurance coverage and integrated efforts from various assurance providers within USAF, including Internal Audit Activity and the Auditor-General. In the current financial year, these reports reflect the assurance coverage from the USAF's shareholder, Performance and Monitoring, Legal Services.

Expertise and experience of the finance function

The expertise and experience of the finance function in USAASA are utilised for the effective and efficient management of USAF. In the year under review, USAASA employed a number of staff on an acting capacity to occupy critical vacant finance positions. These positions were occupied towards the end of the financial year, and this included the appointment of a permanent Chief Financial Officer (CFO) and a Senior Manager: Financial Management. Other positions in the finance division were undergoing the recruitment process as at reporting date.

Information Technology Governance

USAASA engaged the services of a service provider for the implementation of SAP ERP system. SAP ERP system is intended to assist USAF in the roll-out of the Digital Migration from Analogue to Digital. The IT Steering Committee continued in the financial year under review to provide support for the Implementation of the SAP ERP system and addressed all teething problems resulting from implementation phase.

The Board Audit and Risk Committee is aware of the absence of an agreement with the service providers on the SAP system support and maintenance due to unavailability of funding. Exacerbating matters and the Committee's concern is the absence of internal SAP skills to plough and manage the gap. The Board Audit and Risk Committee will closely monitor these issues in the new financial year.

Ethics and Compliance

Ensuring that a robust ethics and compliance program is introduced by USAF to keep abreast of new vulnerabilities to fraud and misconduct will remain on the radar for the new financial year. In this regard, the Board Audit and Risk Committee registers the following matters:

- Non-availability of a dedicated Compliance Officer and Champion; and
- Absence of a Regulatory Compliance Universe.

The matters referred to above are receiving the Committee's attention and will be resolved in the second quarter of the new financial year.

In the period under review, there were no reports of suspected / alleged unethical conduct by the employees of the Agency from the Department of Telecommunications and Postal Services hotline and the Public Service hotline, save for the BDM litigations not resolved as at 31 March 2017.

In the period under review an investigation that was conducted by the Special Investigation Unit, as a proclamation by the Honourable President of the Republic of South Africa, prompted by the open letter from one of the political parties, has been concluded.

Fraud and Forensic

In the period under review there was an investigation initiated by the Board and conducted by Makhubela Attorneys. The intention of which was to recover possible double payments to one of the service providers involved in the procurement of the set-top boxes. The investigation was still in progress as at the 31 March 2017, and the result of which will be shared in the new financial year.

Evaluation of Financial Statements

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

Auditor's Report

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

We have reviewed the entity's implementation plan for audit issues raised by the Auditor General of South Africa in the prior year and we are satisfied with the progress made by management towards ensuring the AG matters are adequately resolved. The final assessment of the AG implementation action plans will be conducted in the second quarter of the new financial year, post receipt of the final AG Management and Audit Reports.

The Board Audit and Risk Committee concurs and accepts the conclusions of the Auditor-General of South Africa on the 2016/17 Annual Financial Statements and is of the opinion that the audited USAF financial statements be accepted and read together with the report of the Auditor-General.

Conclusion

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

- The internal controls of USAF were in all material aspect effective 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 2017, we are of the opinion that they in all material respects comply with the relevant provisions of the PFMA, ECA and the International Reporting Standards, Generally Recognised Accounting Practice and fairly present the results of the operations, cash flow and financial position of the USAF.

The Committee is satisfied that it has complied with its legal, regulatory and other responsibilities, in all material respect. The Committee will continuously monitor the impact of the SAP Implementation on the completeness, validity and correctness of financial records of USAF in the new financial year.

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

On behalf of the Board Audit and Risk Committee



Linda Nene

Chairperson: Board Audit and Risk Committee

MEETING ATTENDANCE BY THE BARC

BARC Members	20/05/16	23/07/16	21/10/16	23/01/17
L Nene	✓	✓	✓	✓
T N Ntuli	✓	✓	N/A	N/A
F Mdanda	✓	✓	N/A	N/A
T Maloka	✓	✗	✓	✓
J Nkosi	N/A	N/A	N/A	✓
X Stock	N/A	N/A	N/A	✗

PART D: HUMAN RESOURCE MANAGEMENT





INTRODUCTION

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

PART E: FINANCIAL INFORMATION





Mahomed Chowan

Report of the Chief Financial Officer

Report of the Chief Financial Officer

We are pleased with the continued commitment from the Department of Telecommunications and Postal Services in ensuring USAF received the total budget allocations of R644,5-million for the 2016-2017 financial year.

This has enabled USAF to, among other activities, bring information and communication technology (ICT) services closer to the under-served communities of the Mhlontlo and King Sabata Dalindyebo Local Municipalities and enhanced the quality of education and health services available to these communities by deploying broadband connectivity to educational institutions and primary health care facilities in these areas.

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

The USAF 2016-2017 budget allocation of R644,5-million was for the delivery of projects pertaining directly to Broadcasting Digital Migration, the rollout of broadband infrastructure and services in under-served areas in South Africa, and ICT rapid deployment and connectivity.

USAF has realised a surplus for the year of R656,8-million as a result of the slow rollout of the BDM devices during the course of the year. The result is that at the end of the financial year there is R662-million of BDM inventory.

USAF cash reserves totalled R1,87-billion as at the end of the year and approximately 80% of this amount was held in relation to the BDM project commitments totalling R1,5-billion.

USAF has recorded irregular expenditure of R536,5-million (2016: R184,7-million). R530,5-million is in relation to the BDM tender that was found to be irregular in the previous financial year. The Agency will be

approaching the courts to set aside the panel of suppliers and have instituted disciplinary procedures against an official.

R3,3-million is in relation to scope variation above 15%. This is mainly in relation to broadband connectivity suppliers. R2,8-million is in relation to a supplier that constructed a broadband network and provided connectivity on that network. However, a purchase order was not issued prior to services commencing. This was an administrative error.

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

I would also like to thank the Auditor-General team that has worked tirelessly with us under extreme pressure and stringent timelines, for their guidance and support towards the successful conclusion of the 2016-2017 USAF external audit processes.



Mahomed Chowan
Chief Financial Officer

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT UNIVERSAL SERVICE ACCESS FUND

Report on the audit of the financial statements

Opinion

I have audited the financial statements of the Universal Service Access Fund set out on pages 49 to 65, statement of financial position as at 31 March 2017, and the statement of financial performance, statement of changes in net assets, and cash flow statement and the statement of comparison of budget information with actual information for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Universal Service Access Fund (USAF) as at 31 March 2017, and its financial performance and cash flows for the year then ended in accordance with Standards of Generally Recognised Accounting Practice (GRAP) and the requirements of the Public Finance Management Act of South Africa, 1999 (Act 1 of 1999) (PFMA).

Basis for opinion

Conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of my report.

I am independent of the department in accordance with the International Ethics Standards Board for Accountants' Code of ethics for professional accountants (IESBA code) together with the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.

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

Emphasis of matters

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

Restatement of corresponding figures

As disclosed in note 16 to the financial statements, the corresponding figures for 31 March 2016 have been restated as a result of an error in the financial statements of the public entity at, and for the year ended, 31 March 2017.

Other matter

I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited supplementary schedules

The supplementary information set out on pages 20 to 22 does not form part of the financial statements and is presented as additional information. I have not audited this schedule and, accordingly, I do not express an opinion thereon.

Responsibilities of accounting authority

The board of directors, which constitutes the accounting authority, is responsible for the preparation and fair presentation of the financial statements in accordance with GRAP and the requirements of the 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.

In preparing the separate financial statements, the accounting authority is responsible for assessing the public entity's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the accounting authority either intends to liquidate the public entity or to cease operations, or has no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of my responsibilities for the audit of the financial statements is included in the annexure to the auditor's report.

Report on the audit of the annual performance report

Introduction and scope

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 material findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.

My procedures address the reported performance information, which must be based on the approved performance planning documents of the public entity. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.

I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected objectives presented in the annual performance report of the public entity for the year ended 31 March 2017

Strategic Objectives	Pages in the annual performance report
Strategic objective 1 – To provide access to ICT services in 6 identified under-serviced areas by 2021 as part of implementing the South Africa Connect digital development strategic pillar in support of the National Development Plan	24
Strategic objective 2 - To facilitate the broadband connectivity of educational institutions, primary health care facilities and government institutions by 2021	24
Strategic objective 3 - To fund digital television access equipment for qualifying TV -owning needy households by 2021.	250

I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

The material findings in respect of the usefulness and reliability of the selected objectives are as follows:

Strategic objective 1 – To provide access to ICT services in 6 identified under-serviced areas by 2021 as part of implementing the South Africa Connect digital development strategic pillar in support of the National Development Plan

Indicator: Accessible broadband network coverage in identified underserved areas .

The source of information and method of calculation for the achievement of the planned indicator was not clearly defined, as required by the FMPPi.

The target for this indicator was also not specific in clearly identifying

the nature and required level of performance during the planning process, as required by the FMPPi.

I was unable to obtain sufficient appropriate audit evidence for the reported achievement of projects initiated and completed in the 2 under-serviced areas. This was due to limitations placed on the scope of my work. I was unable to confirm the reported achievement by alternative means.

Strategic objective 2 - To facilitate the broadband connectivity of educational institutions, primary health care facilities and government institutions by 2021

Indicator: Number of existing broadband network connections maintained in educational institutions, primary health care facilities and traditional ICT centres.

The FMPPi requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure reliable reporting of actual achievements against planned objectives, indicators and targets. The reported achievements against planned targets of important indicators were not reliable when compared to the annual performance report.

I did not identify any material findings on the usefulness and reliability of the reported performance information for the following objectives:

Strategic objective 3 - To fund digital television access equipment for qualifying TV -owning needy households by 2021 objective/development priority.

Other matters

I draw attention to the matter below.

Achievement of planned targets

Refer to the annual performance report on pages 24 to 25 for information on the achievement of planned targets for the year and explanations provided for the under/overachievement of a significant number of targets.

Report on audit of compliance with legislation

Introduction and scope

In accordance with the PAA and the general notice issued in terms thereof I have a responsibility to report material findings on the compliance of the public entity with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

The material findings in respect of the compliance criteria for the applicable subject matters are as follows:

Annual financial statements, performance and annual reports

The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework and supported by full and proper records as required by section 55(1)(a) and (b) of the PFMA. Material misstatements of commitments identified by the auditors in the submitted financial statement were corrected and the supporting records were provided subsequently, resulting in the financial statements receiving an unqualified audit opinion.

Expenditure management

Effective steps were not taken to prevent irregular expenditure, as required by section 51(1)(b)(ii) of the PFMA.

Payments were made before receipt of goods or services, in contravention of treasury regulation 15.10.1.2

Other information

The Universal Service Access Fund authority is responsible for the other information. The other information comprises the information included in the annual report which includes the Chairman's report, the audit committee's report. The other information does not include the financial statements, the auditor's report thereon and those selected objectives presented in the annual performance report that have been specifically reported on in the auditor's report.

My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.

In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work I have performed on the other information obtained prior to the date of this auditor's report, I conclude that there is a material misstatement of this other information, I am required to report that fact.

Internal control deficiencies

I considered internal control relevant to our audit of the financial statements, annual performance report and compliance with legislation, however the objective is not to express any form of assurance thereon. The matters reported below are limited to the significant internal control deficiencies that resulted in opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

Leadership

The public entity did not have documented and approved internal policies and procedures to address the process of collecting, processing and reporting performance information. The leadership did not establish adequate mechanisms to communicate and hold individuals accountable for non-performance of internal control responsibilities.

Financial and performance management

The annual performance report contained material misstatements due to lack of review of supporting schedules.

Auditor-General

Pretoria

31 July 2017





AUDITED USAF **ANNUAL FINANCIAL STATEMENTS** FOR THE YEAR ENDED 31 March 2017

Universal Service and Access Fund

Audited Annual Financial Statements for the year ended 31 March 2017

Statement of Financial Performance

	Note(s)	2017 R'000	2016 R'000
Revenue			
Transfers and subsidies	20	644,540	233,540
Finance income		108,696	98,440
Other income		-	12
Total revenue		753,236	331,992
Expenditure			
Project Expenses	2	(94,951)	(65,658)
Audit Fees	3	(1,497)	(1,077)
Administrative Expenses	5	(21)	(3)
Total expenditure		(96,469)	(66,738)
Operating surplus/deficit		-	-
Surplus before taxation		656,767	265,254
Taxation		-	-
Surplus for the year		656,767	265,254

The comparative figures have been adjusted accordingly to reflect correction of prior period errors.

Universal Service and Access Fund

Audited Annual Financial Statements for the year ended 31 March 2017

Statement of Financial Position

	Note(s)	2017 R'000	2016 R'000
Assets			
Current Assets			
Receivables from exchange transactions	6	25,266	1
Inventories - DTT/ DTH	19	662,050	169,616
Other receivables	8	-	135
Cash and cash equivalents	7	1,867,015	1,798,672
		2,554,331	1,968,424
Current Assets		2,554,331	1,968,424
Total Assets		2,554,331	1,968,424
Liabilities			
Current Liabilities			
Payables from exchange transactions	9	104,660	175,444
Bank overdraft	7	-	76
		104,660	175,520
Non-Current Liabilities			
Current Liabilities		104,660	175,520
Total Liabilities		104,660	175,520
Assets		2,554,331	1,968,424
Liabilities		(104,660)	(175,520)
Net Assets		2,449,671	1,792,904
Net Assets			
Accumulated surplus		2,449,671	1,792,904

The comparative figures have been adjusted accordingly to reflect correction of prior period errors.

Universal Service and Access Fund

Audited Annual Financial Statements for the year ended 31 March 2017

Statement of Changes in Net Assets

		Accumulated surplus R'000	Total net assets R'000
Balance at 01 April 2015		1,578,595	1,578,595
Changes in net assets			
Surplus for the period		270,558	270,558
Transfer of income surplus to National Revenue Fund		(50,942)	(50,942)
Total revenue		219,616	219,616
Adjustments			
Prior year adjustments (Refer to note 17)		(5,307)	(5,307)
Balance at 01 April 2016		1,792,904	1,792,904
Changes in net assets			
Surplus for the period		656,767	656,767
Total changes		656,767	656,767
Balance at 31 March 2017		2,449,671	2,449,671

The comparative figures have been adjusted accordingly to reflect correction of prior period errors.

Universal Service and Access Fund

Audited Annual Financial Statements for the year ended 31 March 2017

Statement of Cash Flows

	Note(s)	2017 R'000	2016 R'000
Cash flows from operating activities			
Receipts			
Grants		644,540	233,540
Payments			
Suppliers		(684,952)	(130,968)
Total receipts		644,540	233,540
Total payments		(684,952)	(130,968)
Net cash flows from operating activities	10	(40,412)	102,572
Cash flows from investing activities			
Interest Income		108,696	98,440
Cash flows from financing activities			
Repayment of inter-entity loan		135	(161)
Net cash from financing activities		135	(161)
Net increase/(decrease) in cash and cash equivalents		68,419	200,851
Cash at the beginning of the period		1,798,596	1,597,745
Net increase in cash and cash equivalents	7	1,867,015	1,798,596

Universal Service and Access Fund

Audited Annual Financial Statements for the year ended 31 March 2017

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
	R'000	R'000	R'000	R'000	R'000	
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Interest received	-	-	-	108,696	108,696	
Revenue from non-exchange transactions						
Transfer revenue						
Government grants & subsidies	644,540	-	644,540	644,540	-	
'Total revenue from exchange transactions'	-	-	-	108,696	108,696	
'Total revenue from non-exchange transactions'	644,540	-	644,540	644,540	-	
Total revenue	644,540	-	644,540	753,236	108,696	
Expenditure						
Project expenses	(643,544)	-	(643,544)	(94,951)	548,593	Significant part of the unspent funds relates to the subsidisation of set-top boxes
Audit fees	(950)	-	(950)	(1,497)	(547)	Overspending is due to the extended audit scope on DTT project
Administrative expenses	(46)	-	(46)	(21)	25	
Total expenditure	(644,540)	-	(644,540)	(96,469)	548,071	
Surplus from operations				656,767	656,767	
Surplus before taxation				655,142	655,142	
Taxation				-	-	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	-	-	-	655,142	655,142	

Universal Service and Access Fund

Audited Annual Financial Statements for the year ended 31 March 2017

Accounting Policies

1. Statement of compliance

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

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

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

1.1 Significant judgements

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

Loans and receivables

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

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

Fair value estimation

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

Impairment testing

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

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

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

Effective interest rate

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

Provision for impairment of financial instruments

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

1.2 Revenue from non-exchange transactions

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

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

Universal Service and Access Fund

Audited Annual Financial Statements for the year ended 31 March 2017

Accounting Policies

1.3 Revenue from exchange transactions

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

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

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

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

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

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

1.4 Fruitless and wasteful expenditure

Fruitless expenditure as defined in section 1 of the PFMA "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 13.

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 14.

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.

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 No. 89 of 1991 as amended and is not required to register for VAT (Value Added Tax). The USAF is also exempt from paying Skills Development 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

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

Class	Category
Universal Service and Access Agency of South Africa	Financial asset measured at amortised cost
The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:	
Class	Category
Trade and other payables	Financial liability measured at amortised cost
Loans from Shareholders	Financial liability measured at amortised cost

Initial recognition

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

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

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

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

Subsequent measurement of financial assets and financial liabilities

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

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

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

Fair value measurement considerations

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

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

Gains and losses

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

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.

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 assets 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.

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.

1.12 Inventories - DTT/ DTH

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

Subsequently inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

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

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

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

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

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

1.13 Share capital/contributed capital

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

1.14 Budget information

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

The approved budget is prepared on an accruals basis and covers the period from 01/04/2016 to 31/03/2017.

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

Comparative information is not required.

1.15 Related Parties

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

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

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

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

The entity operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Management 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 12 to the financial statements.

1.16 Events after the reporting date

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

Universal Service and Access Fund

Audited Annual Financial Statements for the year ended 31 March 2017

Notes to the Audited Annual Financial Statements

	2017 R'000	2016 R'000
2. Project expenses		
Broadband Infrastructure	17,796	44,502
ICT Rapid deployment programme	1,464	1,886
Digital Terrestrial Television	65,287	4,343
Subsidies: Connectivity Programmes	10,404	14,927
	94,951	65,658
3. Auditors' fees		
Statutory audit	1,497	1,077
4. Revenue		
Department of Telecommunications and Postal Services	644,540	233,540
Interest on cash and bank deposits	108,696	98,440
Other income	-	12
	753,236	331,992
The amount included in revenue arising from exchanges of goods or services are as follows:		
Other income	-	12
Interest on cash and bank deposits	108,696	98,440
	108,696	98,452
The amount included in revenue arising from non-exchange transactions is as follows:		
Transfer revenue		
Department of Telecommunications and Postal Services	644,540	233,540
5. Administrative expenses		
Bank charges	21	3
6. Receivables from exchange transactions		
Other receivables	25,266	1

Universal Service and Access Fund

Audited Annual Financial Statements for the year ended 31 March 2017

Notes to the Audited Annual Financial Statements

	2017 R'000	2016 R'000
7. Cash and cash equivalents		
Cash and balances with banks	758	-
Short-term deposits	1,866,257	1,798,672
Bank overdraft	-	(76)
Current assets	1,867,015	1,798,596
Current liabilities	-	(76)
	1,867,015	1,798,596

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

8. Loans to (from) other entities		
Amount receivable - USAASA	-	135

At 31 March 2016, the Fund was owed R135 000 by the Agency in respect of expenses paid by the fund incurred on behalf of the Agency. This was settled in the period under review.

9. Payables from exchange transactions		
Trade creditors	2,114	29,433
Other payables	50,942	50,942
Accruals	51,604	95,069
	104,660	175,444

10. Cash generated from /(used in) operations		
Surplus / (deficit) before taxation	656,767	265,254
Adjustments for:		
Interest income	(108,696)	(98,440)
Changes in working capital:		
Inventories - DTT/ DTH	(492,434)	(169,616)
Receivables from exchange transactions	(25,265)	(1)
Payables from exchange transactions	(70,784)	105,375
	(40,412)	102,572

11. Risk management

Liquidity risk

Liquidity risk is the risk that the Fund 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.

Exchange rate risk

The exchange rate risk is managed by the Fund by stipulating in the contracts it enters into that suppliers will take appropriate measures to manage their foreign exchange exposure and that the Fund will not be liable for any foreign exchange losses.

Universal Service and Access Fund

Audited Annual Financial Statements for the year ended 31 March 2017

Notes to the Audited Annual Financial Statements

2017
R'000

2016
R'000

11. Risk management (continued)

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.

Credit risk

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

12. Related party transactions and balances

Relationships

Department of Telecommunications and Postal Services -
Administrative arm of shareholder
Universal Service and Access Agency of South Africa - Fund
administrator
Sentech - Entity controlled by the same shareholder

Transactions

Name of entity	Transaction Type		
Department of Telecommunications and Postal Services		644,540	233,540
Sentech	Project expenses	3,350	46
Sentech	Repayment of the 2014/15 Liabilities	-	1,310
		647,890	234,896

Balances

Name of entity	Transaction Type		
Universal Service and Access Agency		-	135
Sentech		(1,418)	(1,418)
		(1,418)	(1,283)

13. Fruitless and wasteful expenditure

Reconciliation of fruitless and wasteful expenditure

Fruitless and wasteful expenditure – current year

1

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Universal Service and Access Fund

Audited Annual Financial Statements for the year ended 31 March 2017

Notes to the Audited Annual Financial Statements

	2017 R'000	2016 R'000
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13. Fruitless and wasteful expenditure (continued)

Analysis of fruitless and wasteful expenditure

Incident	Management response		
1. Interest charges due to overdraft balance	USAF incurred interest charges of R205.83 on the overdraft balance at 31 March 2016 due to challenges of changing bank signatories.	-	-
2. Additional fees on late Travel amendments	USAF incurred additional travel charges of R1,192.01 for late travel amendments. When there are travel amendments under the new requirements, employees are obliged to go through the Travel Agency and this incurs a service fee.	1	-
		1	-

Universal Service and Access Fund

Audited Annual Financial Statements for the year ended 31 March 2017

Notes to the Audited Annual Financial Statements

Figures in Rand thousand	2017 R'000	2016 R'000
14. Irregular expenditure		
Reconciliation of irregular expenditure		
Opening balance	184,745	-
Irregular expenditure - current year	536,553	184,745
	721,298	184,745

The Irregular expenditure amount for 2015/16 relating to Non-compliance with Legislation on unapproved scope variation of R9.418 million was incorrectly calculated. An adjustment of R4.034 million was done and the prior year disclosure adjusted to R5.384 million in 2016/17. The total amount for irregular expenditure initially disclosed was R188.779 million and the corrected amount is R184,745 million.

Analysis of Irregular expenditure

Incident	Management response/ Comments		
1. Bidding processes were not complied with.	Bidding process not complied with in relation to Broadcasting Digital Migration tender. USAASA will be approaching the Courts to set aside the Panel of Suppliers. The Agency's Disciplinary Procedure is underway against responsible officials.	530,478	171,796
2. Non-compliance with legislation - unapproved scope variation	Scope variation above 15% limit without National Treasury approval.	3,262	5,384
3. Non-compliance with legislation	Highest scoring bidder not appointed.	-	6,860
4. Bidding processes were not complied with.	Bidding processes not complied. Purchase order not issued. The matter to be investigated	2,813	705
		536,553	184,745
Reconciliation of irregular expenditure			
Opening balance		184,745	-
Add: Irregular Expenditure – current year		536,553	184,745
Less: Amounts condoned		-	-
Less: Amounts recoverable (not condoned)		-	-
Irregular Expenditure awaiting condonation		721,298	184,745
Analysis of expenditure awaiting condonation per age classification			
Current year		536,553	184,745
Prior years		184,745	-
Total		721,298	184,745

Universal Service and Access Fund

Audited Annual Financial Statements for the year ended 31 March 2017

Notes to the Audited Annual Financial Statements

	2017 R'000	2016 R'000
15. Investment revenue		
Interest revenue		
Interest on cash and bank deposits	108,696	98,440

16. Prior period errors

During 2016/17, the entity experienced problems with regards to verification of the percentage of projects completed. This led to error in the following areas presented:

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

Statement of financial position		
Increase in Payables	-	(5,307)
Decrease in Accumulated Surplus	-	5,307
Statement of financial performance		
Increase in Project expenses	-	5,307
Decrease in surplus from operations	-	(5,307)

17. New standards and interpretations

17.1 Standards and Interpretations early adopted

The Fund has chosen to early adopt the following standards and interpretations:

GRAP 20: 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
- Key management personnel, and close members of the family of key management personnel

The effective date of the standard is for the years beginning on or after 01 April 2017.

The entity has adopted the standard in the 2017 Annual Financial Statements with no material impact

18. Commitments

Authorised operational expenditure

This committed expenditure relates to USAF contracts that will be financed by available bank facilities.

Service Contracts

At the reporting date, the entity had outstanding commitments due to contracts with suppliers which fall due as follows:

- within one year	1,510,086	2,081,882
- in second to fifth year inclusive	6,190	1,034
	1,516,276	2,082,916

These commitments are future payments on project expenses. Payable upon verification of deliverables entailed in the contracts.

19. Inventories - DTT/ DTH

Inventories - BDM	662,050	169,616
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20. Transfers and subsidies received

Department of Telecommunications and Postal Services	644,540	233,540
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Notes

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