Report of the Auditor-General *For the year ended 31 March 2006*

1. Audit Assignment

The financial statements as set out on pages 67 to 92 for the year ended 31 March 2006, have been audited in terms of section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), read with sections 4 and 20 of the Public Audit Act, 2004 (Act No. 25 of 2004) and section 16(1)(b)(iii) of the Independent Communications Authority of South Africa Act, 2000 (Act No. 13 of 2000). These financial statements are the responsibility of the accounting authority. My responsibility is to express an opinion on these financial statements, based on the audit.

2. Scope

The audit was conducted in accordance with the International Standards on Auditing read with General Notice 544 of 2006, issued in Government Gazette no. 28723 of 10 April 2006 and General Notice 808 of 2006, issued in Government Gazette no. 28954 of 23 June 2006. Those standards require that I plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement.

An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements
- assessing the accounting principles used and significant estimates made by management
- evaluating the overall financial statement presentation.

I believe that the audit provides a reasonable basis for my opinion.

3. Basis of Accounting

The entity's policy is to prepare financial statements on the basis of accounting determined by the National Treasury, as described in Note 1 to the financial statements.

4. Qualification

4.1 Deficit from operations and roll-over funds

In terms of section 38 of the PFMA, the accounting officer is required to manage available working capital effectively and economically, however the following was identified:

4.1.1 A deficit from operations of R33 876 809 for the 2005-06 financial year, and a net deficit of R5 883 078 was reported.

4.1.2 Deferred grants amounting to R16 733 579 were released into income in the current year. This was not in compliancewith Treasury Regulation 6.4.1 and IAS20 as R10 171 427 of the funds earmarked for capital projects were utilised to defray operating expenditure. The roll-over of unspent funds could only be authorised by National Treasury to finalise projects or asset acquisitions still in progress.

4.2 Supply Chain Management

Due to irregularities identified in the procurement and tender processes which were contrary to section 76(4)(c) of the PFMA and Treasury Regulation 16A, it was not possible to determine whether goods and services were procured in a fair, transparent, competitive and cost effective manner. The following weaknesses were identified:

(a) The bid specifications were not always approved by the Bid Committee.

(b) A contract was awarded to a company on a monthly basis even though documentation obtained during the tender process clearly indicated that the company was not fully accredited to render the required services.
(c) Contracts subject to the bid process were not always awarded timeously.
(d) A contract of R4 million was awarded without a proper audit trail to support the decision. Furthermore, the contract was not signed and the service level agreement was not entered into with the service provider. Subsequently, the contract was cancelled due to poor service delivery by the service provider after a total cost of R1.2 million was incurred.
(e) Another contract of R500 000 was awarded contrary to the Bid Committee's recommendation. The actual amount spent was R312147.
(f) The Bid Committee did not always document the evaluation process in recommending awarding of contracts.
(g) The required quotations to procure goods and services were not always obtained.

4.3 Control environment

The following issues contributed to a weak control environment:

4.3.1 The CEO was suspended in November 2005 with full pay. To date the case was not finalised. An acting CEO was appointed on 24 November 2005 but resigned on 30 June 2006. A second acting CEO was appointed on 1 July 2006.

The CFO had resigned on 14 November 2005. From November 2005 to year-end two contracted acting CFO's were appointed. To date, the position was not permanently filled.

The senior manager positions of IT and Human Resources were vacant during the year.

Consultants were utilised extensively to make up for the high vacancy rate.

4.3.2 Due to a lack of adequate training of staff on the general ledger system, numerous journals were passed to correct errors.

4.3.3 Internal audit performed many *ad hoc* investigations during the year which suggested further weaknesses in the control environment, as well as irregularities.

5. Qualified Audit Opinion

In my opinion, except for the effect on the financial statements of the matters referred to in paragraph 4, the financial statements present fairly, in all material respects, the financial position of the Independent Communications Authority of South Africa at 31 March 2006 and the results of its operations and its cash flows for the year then ended in accordance with the basis of accounting determined by the National Treasury of South Africa as described in Note 1 to the financial statements, and in the manner required by the Public Finance Management Act, 1999 (Act No. 1 of 1999) as amended (PFMA).

6. Emphasis of Matter

Without further qualifying the audit opinion expressed above, attention is drawn to the following matters:

6.1 Non-compliance with laws and regulations

6.1.1 Ac
the annual financial statements.

6.1.2 An insurance premium amounting to R973 927 (2004-05: R821 957) was paid by ICASA in the year under review contrary to Treasury Regulation 12.1.2, which allows for a maximum of R250 000. Exemption was applied for but not yet approved.

6.2 Human resource management

6.2.1 The performance evaluation system was not implemented properly to measure individual performance against predetermined objectives. This resulted in performance bonuses totaling R2.4 million paid to all staff members in equal proportions.

6.2.2 The budget for employee costs was exceeded mainly due to long-service awards of R2 093 000 paid in comparison to the budget of R39 000, and leave payouts of R1 991 691 million not budgeted for.

6.2.3 Numerous weaknesses were identified in the human resource department including lack of reconciliations and accurate payslips.

6.3 Insurance of assets

While management has started the process to determine the replacement cost of all significant fixed assets, so as to ensure that these assets are insured at the correct value, it appeared that ICASA might be over-insured.

ICASA was insured for R200 747 086 relating to fixed assets, whilst the net book value of fixed assets disclosed in the financial statements was R14 735 607. The assets disclosed in the renewal review of the insurance policy did not agree to the fixed assets register.

6.4 Asset management

Regular reconciliations between the fixed asset register (FAR) and the general ledger were not performed since October 2005, except at year end. As a result the following was found:

(a) A difference of R117 423 existed between the FAR and the general ledger.
(b) Some assets in the fixed asset register had no cost but were depreciated. Consequently these assets had negative carrying amounts of R114 508 at year-end.
(c) Some assets were not recorded on the fixed asset register.
(d) Certain assets disposed of during the year were not removed from the FAR.

6.5 General controls surrounding the information technology environment

Most of the prior year audit recommendations pertaining to change control, password and logical access controls on the operating system and user account management were not yet implemented.

6.6 Administered revenue

6.6.1 ICASA was responsible for the administration and collection of fees on behalf of the National Revenue Fund (NRF). Although in terms of the accounting policy only cash received was disclosed, accountability and disclosure would be enhanced if separate administered revenue annual financial statements were presented. Refer to the accounting officer's report relating to a settlement of a dispute between ICASA and a licencee.

6.6.2 The Frequency Spectrum licence accounting system was not integrated into the general ledger accounting system. This gave rise to problems with the completeness of collection and accounting of revenue.

6.6.3
could not be ascertained due to incomplete records transferred from Independent Broadcasting Authority (IBA) and South African Telecommunications Regulatory Authority (SATRA). A reconciliation on the bank balance was not performed to obtain an explanation as to what this amount related to. The only reconciliation performed during the year was on the movement in the account.

6.6.4 Approved policies and procedures for administered revenue did not exist.

6.7 Performance information

ICASA did not submit performance information in time to the auditors for review. This resulted in non-compliance with section 20(2)(c) of the Public Audit Act, 2004 (Act No. 25 of 2004).

7. Appreciation

The assistance rendered by the staff of ICASA during the audit is sincerely appreciated.

MMA Masemola for Auditor-General
Johannesburg
31 July 2006

AUDITOR-GENERAL